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**Wednesday June 27, 11:14 am Eastern Time**

## Simple messages are key to unlocking wireless Web

By Lucas van Grinsven

LONDON, June 27 (Reuters) - Forget high-tech video services on mobile telephones, for despite tens of billions of euros in investment, the future of high-speed mobile Internet networks is likely to be more mundane -- the humble text message.

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One year after European operators paid 120 billion euros (\$104 billion) for licences for third generation cellphones, the industry thinks the mobile Web will be mainly used for beefed up Short Messaging Services (SMS) -- a laborious, five-year-old text messaging system whose success caught the market unawares.

``The success of SMS has really taken us by surprise," said Vipul Mehrotra, manager of third generation business development at Finnish cellphone giant Nokia .

Despite prime-time commercials envisioning streaming video to high-powered executives and to climbers clinging to mountain summits, Mehrotra cited text messaging as the key to the future success of fast Internet phones.

``The initial third generation services will be multimedia messaging, which integrates audio, pictures and graphics with messages," he said.

David Wood, executive vice president for technical consulting at mobile software maker Symbian (quote from Yahoo! UK & Ireland: [PON.I](#)), agreed that communications, rather than calendar and diary services, would remain the key driver to mobile phone growth.

``Communications is what a phone was designed for initially, and the success of SMS has

shown it again," he said.

Some 50 billion text messages were sent worldwide in the first three months of 2001. As more countries with GSM phone networks are installing SMS servers, the pace is increasing.

According to U.S.-based NetInformer, some 25.3 billion SMS text messages were sent in the first 27 days of June, compared with just one billion in April 1999.

### SMS MEANS BUSINESS

At a cost of 10 pence to 50p (14-71 U.S. cents) for a 160 character message, SMS has rapidly become a key revenue driver for mobile operators.

Global income from text and messages in 2001 is expected to reach \$18.9 billion on total mobile phone revenues of \$400 billion, according to research group Ovum.

But Arthur Andersen and JP Morgan forecast that SMS revenues per user per year will rise to a peak of 35 pounds in 2005 from 21 pounds in 2000.

This is why operators are creating new messaging services to boost data traffic and, hopefully, subsequent prices.

Both cellphone giant Vodafone Group Plc (*quote from Yahoo! UK & Ireland:* [VOD.L](#)) and British Telecommunications Plc's BT Cellnet (*quote from Yahoo! UK & Ireland:* [BT.L](#)) mobile arm say they plan to push corporate e-mail on to mobile devices this year.

Sending snapshots to friends from a cellphone with a built-in camera could also prove popular -- and profitable.

``It's a natural extension of messaging. People immediately understand the concept," says Goran Rassmuson, technology strategist at Swedish telecoms supplier Ericsson .

``At the moment, I use my mobile phone to keep in touch with my wife when we go shopping. But with a videophone I can send a picture of something I want to buy. It's about colour coordination," notes Symbian's Wood.

Niklas Savander, vice president of mobile Internet applications at Nokia, said earlier this year that operators had indicated the cost of sending the new multi-media messages (MMS) could be between 0.50 and 2.0 euros (42 cents to \$1.72) each.

### WILL SMS CONTINUE TO MAKE SO MUCH MONEY?

The question remains whether jazzed-up messaging alone can deliver the operator's interest payments on the \$300 billion that will be sunk into European licences and equipment.

With a rate of seven percent, operators need to earn \$21 billion a year just to pay interest -- before even accounting for depreciation charges.

Ovum forecasts that by 2006, European messaging sales could reach \$16.7 billion on total mobile revenues of \$166 billion.

Additional data revenues of some \$12 billion are expected, but experts warn price erosion of messages may eat into margins.

Current SMS messages have gross profit margins of some 90 percent, because the messages are tiny and run on spare capacity of the network.

Transferring one megabyte of SMS messages can yield thousands of pounds. But the same amount of data travelling over a next-generation GPRS network would sell for just 4.0 pounds by operators such as BT Cellnet, said Chris Bray, mobile e-business executive at IBM.

``It don't think any operator has sorted the pricing out yet. They have to get the right balance between voice, downloading of content and messaging," Bray said.

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