WHITE PAPER

A BUYERS GUIDE

The UK Text Messaging Market Place

By Tim King

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Overview

This document seeks to explain the UK market for text messaging services for business customers. It will explain how the market is structured, what type of players there are, and how to choose a supplier.

It will use the experience of 2sms, who purchases messages in bulk from many of the suppliers in the market place. It will offer guidance on how to avoid the pitfalls, reveal common 'marketing' tricks, and explain why a humble text message is not a commodity item.

2sms is a provider of text messaging services. The author is the CEO of 2sms. 2sms therefore declares an interest in the subject matter. Is so declaring, 2sms strives in this document to remain as independent and objective as possible.

Setting the Scene

Having identified a requirement to send text messages to your staff, your suppliers, your customers or other stakeholders, here are some interesting stats you may already have considered.

For every Smartphone or PDA, with mobile email and internet capabilities, there are 30 devices that cannot do emails.

Smartphones are in the hands of senior people, professional workers, and people who have large responsibilities in the working lives. The income of these uses will be upper quartile.

Regular mobile phones are in the hands of the majority.

Most organisations provide only 10%-15% of their staff with mobile phones. All remaining staff use personal mobile phones.

Most organisations do not give company email addresses to all members of staff.
Most people spend most of their day away from their desk. They have their keys, their wallet, and a mobile phone - at home, in the car, on the train, even in the WC.
Calling 20 people takes one hour. Texting them takes one minute.

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How to Send an SMS

You can connect into the SMS network in a number of ways

1. Using your mobile phone
2. Connecting to a mobile phone operators SMS platform directly
3. Connecting to a SMS wholesaler (usually called an Aggregator)
4. Connecting to a specialist SMS provider
5. Using a free web based service.

Note : Only one organisation can deliver a text message to your mobile phone. The mobile phone operator you subscribe to.

Note : If you are abroad, you mobile phone operator will pass on the message to the mobile phone operator you are roaming with. (for an additional fee)

The following table lists some of the attributes of the different types of suppliers in the market place. Using this table should give you a fast track guide to the type of supplier most likely to meet your needs.

Lists of suppliers are found later in this document.

	Msg/min	Min msgs/month	Max msgs/month	Cost / msg	Monthly fees
Your phone	45	0	2000	Bundle price	£0
Mobile phone operator	1,000,000	500,000	Unlimited	3p-5p	£1,000+
Aggregators	10,000	20,000	Unlimited	4p-8p	£250-£1,000
Specialist SMS provider	5,000	100	Unlimited	5p-10p	£0
Free web based service	10	0	40? 50? 100?	0p	£0
Skype	60	0	Unlimited	5p	£0

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The SMS Interconnect Fee

In the UK, mobile phone operators pay each other and charge international networks, 3 UK pence per message to send a message to a handset on their network. This fee was introduced in 2001 to address a growing problem where international carriers were sending more messages into the UK than they were receiving out from the UK. Before the interconnect fee was in place, it was possible to gain free access for SMS delivery by connecting to a foreign network for a low or near zero cost.

The interconnect fee prevented this loophole from being exploited, while allowing access to those who valued the service. The figure of 3p is therefore a starting point in any pricing negotiation.

The Baseline Wholesale Price

The baseline price is below 3p. Why?

Let's say you have a connection with Vodafone to deliver your SMS messages. Let's further assume that your traffic is evenly split between the 4 main UK networks. Vodafone can take all your traffic. They will deliver 25% of your traffic destined for their handsets at near zero marginal cost. The other 75% is passed to o2, Orange and T-mobile in return for the 3p interconnect fee per message.

The cost to Vodafone is (25% * 0p) + (75% * 3p) = 2.25p

If Vodafone charges you anything more than 2.25p, they make money and in text messaging, where monthly volumes are measured in billions, 1/10th of a penny per message can add up to a lot of money.

The price you are quoted will include a margin to cover a wide range of additional benefits, that represent value, or if you prefer the non marketing version, the higher price reflects the cost of the suppliers operation in supplying you with the SMS product.

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Why do Prices Vary?

Prices vary for five reasons:

1. The cost price of SMS faced by the supplier, e.g. how much the supplier pays it's suppliers for SMS delivery.
2. The cost base of the core business of the supplier, e.g. the cost of people, premises, and operations.
3. The additional items chosen by the supplier to improve service, e.g. two technology platform sites not one, or two firewalls not one.
4. Additional services offered, e.g. customer support, software, hosting services, data retention, ISO27001 certification.
5. The volume of messages you wish to send. Large volume customers need less support per 100,000 messages sent than small ones. In addition, large volume customers drive down the cost price in (1) above for the supplier.

What is the Price Range

Expect to pay between 3.x pence for 1,000,000 messages a month up to 10 pence if your volumes are in the 10's per month. The table below should give you some guide.

Messages per month Up to	Min price	Max price
10	-	10p
1000	8.0p	10p
10,000	6.0p	8.0p
100,000	4.0p	6.5p
1,000,000	3.0p	4.5p

Use this table as a guide, and understand that there are usually good reasons for why the price can vary by too much. Focussing on price alone is an easy mistake to make, and with text messaging, the old adage of 'buy cheap, buy twice' is very relevant. We experience many customers coming to 2sms after exiting a 12 month deal done at a cheap price, looking for the benefits of additional service levels, and aware that a higher price needs to be paid.

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Pricing 'Tricks'

As a major customer of several SMS providers, and a supplier to the market itself, 2sms comes across some interesting techniques for presenting a 'value proposition' to the customer, or in non marketing speak, 'masking the true cost'. This section seeks to identify some of the things to look out for.

Item	Description
Set up fees	A setup fee can be used to claw back a low headline price or pay for Sales commissions
Monthly or annual account fees	Account fees provide regular and certain income for suppliers, irrespective of customer usage. The supplier has to maintain expensive computer equipment, pay its staff and cover its overheads.
Per user fees	A small per user fee per month, for each customer user, soon adds up. If a customer overestimates how many active users it will have, it will pay for service not used.
Per recipient fee	This is my favourite. Very low message costs, but a monthly fee for every mobile phone you send a message to.
Customer service fees	A fee for access to a customer's tech support or customer support teams.
Enhanced customer service fees	A fee for premium customer support, e.g. outside office hours. Or a fee to have your trouble ticket given a higher priority.
Premium rate support lines	You need support for a product or service that does not work, and you have to pay for the privilege of getting help. SMS providers support phone lines range from free phone (toll free) to £1/min. Remember, as the purchaser, you may not call the support line, but your users might.
Software license fees	A supplier may offer additional software, but with a one time or monthly/annual software license fee.
Customisation fees	Perhaps you want an additional feature, a new bell or whistle. Some companies will charge for this, some will not.
Monthly minimums	Being required to commit to monthly minimums is a good method for raising the headline price. If you commit to 10,000 messages, but only send 8,000, you lose your balance.
Monthly overages	A twist on monthly minimums. You are quoted a price for an agreed volume, but buried in the small print is a clause that charges you a penal rate should you exceed your agreed volume.
Charging for delivery receipts	You send a text message, and the mobile phone operators then
Charging for message reporting	You send a message, and then later on, you want to run a report to determine if a message has been delivered. Some suppliers offer this, some do not.
Message credits	You purchase a message credit for a very low fee, but it requires more than one message credit to send a message. Examples of messages credits at 3p, and 2 message credits

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	required to send a message can confuse a purchaser who may believe that they are buying a 3p message.
International pricing	Charging for delivery of international messages where no wholesale premium exists. Not strictly a trick, but be aware some international destinations cost less at wholesale prices than domestic UK messages!

In summary, I will never forget a new customer who said 'The thing that really upset me was that my first message sent using your competitor cost me £8,000 – which I was not expecting.'

Caveat Emptor!

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The Effects of the Extras on Pricing

So you are offered a price of 3.5p per message for a commitment to 50,000 messages per month. Sounds great, but then there are some additional fees.

- £1,000 setup fee
- £250 monthly account fee
- £100 monthly fee to access customer service 24/7
-

Let's model these prices in a spreadsheet. (to make it easy on the eye, I have left out April – Sept from the table below, but include their numbers in the annual totals.)

	Jan	Feb	Mar	Oct	Nov	Dec	Full Year
Messages Sent	50,000	50,000	50,000	50,000	50,000	50,000	300,000
Per Message Fee £	0.035	0.035	0.035	0.035	0.035	0.035	
Message Cost £	1,750	1,750	1,750	1,750	1,750	1,750	10,500
							0
Setup Fee	1,000						1,000
Monthly Fee	250	250	250	250	250	250	1,500
Customer Service Fee	100	100	100	100	100	100	600
							0
Total Cost	3,100	2,100	2,100	2,100	2,100	2,100	13,600
Average Message Cost £	0.0437						
Average Message Cost Pence	4.37						

50,000 messages at 3.5p per message costs £1,750 per month, or £21,000 per annum. The additional fees add £5,200 to the bill, turning the 3.5p message into a 4.37p message.

Now let's take this one stage further. Let's assume that you sign a contract to send 50,000 messages, but your monthly usage falls short. You are still billed for 50,000 messages.

	Jan	Feb	Mar	Sept	Oct	Nov	Dec	Full Year
Messages Sent	43,000	25,000	48,000	48,000	50,000	37,000	42,000	293,000
Per Message Fee £	0.035	0.035	0.035	0.035	0.035	0.035	0.035	
Message Cost £	1,505	875	1,680	1,680	1,750	1,295	1,470	10,255
								0
Setup Fee	1,000							1,000
Monthly Fee	250	250	250	250	250	250	250	1,750
Customer Service Fee	100	100	100	100	100	100	100	700
								0
Total Cost	2,855	1,225	2,030	2,030	2,100	1,645	1,820	13,705
Average Message Cost £	0.0535							
Average Message Cost Pence	5.35							

In this example, you send a total of 490,000 messages per month, but are billed for the contracted 12 * 50,000 = 600,000 messages. The result of 'losing' the messages you do not 'use' is to put the price up to 5.35p per message.

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Other Price Drivers

Core Platform

Setting up a service to send text messages can be done using a £1,000 server, a broadband connection and a free database. Add some web pages on a hosted web site and a connection to a bank of GSM modems, and you have a service from your bedroom office.

At the other end of the scale, multiple redundant web and database server farms sitting behind multiple firewalls, with enterprise software and remote monitoring using multiple leased lines and multiple connections to SMS suppliers will provide the same 'visible' service as the bedroom. The difference is in scalability, speed, reliability, resilience, fail-over and information security.

There is a wide range of choices within the supplier market of SMS services. Some surprises have cropped up as 2sms looks for suppliers. Some use free open sources databases and free operating systems; some have no protection to SQL injection attacks (A common way for hackers to gain access to databases.)

Value Adds

Are you looking for a simple SMS service, confident that your IT team can master the underlying SMS language, SMPP, or are you looking for a supplier who can provide software to join your IT systems to the SMS network. Your choice over how much of the SMS technology you want to learn and how much you are happy to outsource, will drive the price you pay for service.

Certifications

Does your supplier have industry Certifications? If your supplier can point to membership of Partner programs, e.g. Microsoft, IBM, Oracle, and can demonstrate that their solutions have been certified by those partners, then you will have reassurance that you are dealing with an organisation you can trust.

Information Security

This document is written on the day that the Information Commissioner has written to HM Revenue and Customs (HMRC) requiring them to provide information on their Information Security Management System. This follows the posting of two CD's (I suspect DVD's) full of the financial information of every UK subject who has children below the age of 16, some 25 million people.

HMRC will need to become ISO27001 certified. This standard is the definitive standard for Information Security, superseding ISO1799 and BS1799.

ISO27001 is not cheap to implement, and not cheap to maintain. It requires a complete re-think on how to handle information. All SMS suppliers handle sensitive information for customers. Are they in control of that information? Ask if your supplier is ISO27001 certified. (Tip... Certified, not registered!) Ask for their certificate to prove it.

Hackers

The SMS networks are a natural target for hackers, because access to the SMS networks allows for mass spamming to mobile phones. The good news is that the SMS industry is very good and preventing hackers.

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I would recommend you ask your potential supplier to demonstrate that they have paid for an independent third party penetration test and ask to view the report.

Contingency Planning

'We apologise for the loss of service due (owing) to unforeseen circumstances.' How many times in business life do we come across this?

Power outages happen, leased lines go down, servers fail. How much contingency has your supplier built in to their process? 2sms has experienced suppliers at all levels who lose service for the most unlikely of reasons. Does your supplier publically declare its outages? Do you have access to that information?

2sms receives updates from its suppliers when outages occur. In aggregate, this is a weekly; almost daily; occurrence across the suppliers we use. What protection do you have if your supplier has an outage? What if you have an incident when they have an outage?

Almost all planned maintenance is done on the small hours of the weekend. Depending on the time zone of your supplier, this may not be at a time convenient to you. I have had one supplier's CEO claim no outages in 18 months – despite our records showing contradictory information.
Please use your due diligence process to quantify this issue and get your risk management people and your internal control people involved. You will experience supplier outages and however small these might be, they may occur at times that impact your business.

Business Resumption

Does your supplier have a business resumption plan? Has it been tested independently? Some will have a plan, some will not. When working at Citibank, our UK contingency site was destroyed by an IRA bomb. A couple of weeks later, the Aldwych bus bomb took off the front door of our main office. Lightning does strike twice.

What is the Right Price?

The right price is the price you believe represents value for the service you are receiving.

As with all suppliers of services, the Marketing departments will creatively explain why their offering adds value. Determine the value point you seek using the following flowchart.

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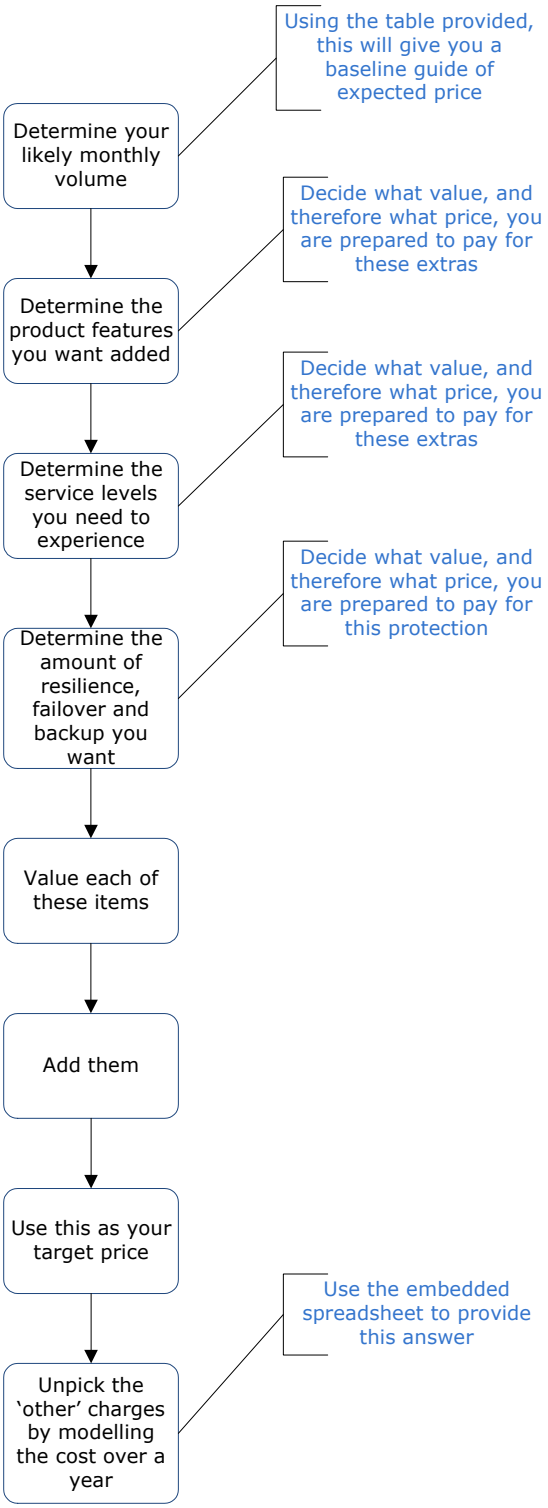

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Due Diligence Questions

Below is the range of due diligence questions we have been asked over the years. This list will not be exhaustive, and we have only included questions that are relevant to a customer seeking the supply of generic SMS services. It is a personal project of the author to make these questions available as an XML document, in an attempt to submit into the public domain a document that will assist customers in composing their due diligence questions.

Visit the 2sms blog at www.2sms.blogspot.com for news on this project.

Service Overview

Please use this section to give a brief overview of your service. Your description should include the key areas you believe give differentiation.

Delivery

- What options are there for 2sms customers to deliver messages to 2sms, either directly or via a third party, for onward distribution e.g. leased lines?
- For each option, who will arrange, maintain and pay for the delivery channel?
- What protocol options are available eg SMPP?

Security

How do you ensure the security of customer's data? Please state with reference to data integrity, confidentiality and availability.

- Physical security
- Server construction
- Web server
- Anti virus
- PC lockdown
- Server management
- Secure connection
- Firewall
- Restrictive access
- Database
- Data backup
- Code generation
- Unauthorised access
- Privacy of data
- What security accreditations do you hold?
- Has your service experienced any security breaches?

Performance / Service Level Agreement (SLA)

- Speed of use and consistency of performance are important considerations. Please describe the mechanisms put in place to guarantee continuity of service. As a minimum this should include details of contingency, resilience, redundancy (to include details of physical location of hosting centres) and back-up arrangements.
- What are your committed service levels? Your answer would be strengthened if you can supply data (3rd party audited if possible) to substantiate your SLA claims.
- Please state any restrictions upon us conducting an audit of the service (including your and 3rd party premises) prior and subsequent to launch.

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Project Implementation

- Assuming no dependencies on the customer side, please state indicative time scales from start of project through to testing and subsequent launch.
- Could the customer launch the service today?
- Please list the key milestones in the project implementation (with elapsed time/'man days' of effort for each stage).
- If possible give evidence of this project timeline from other implementations.
- Describe briefly the project team structure your organisation would put in place to support the implementation. Please include details of technical, testing, legal and project management resource.

Management Information

- What information are you able to provide for customers to monitor customer service and performance against service levels?

Track Record and Scope for Growth

- Please state the number of companies to which you currently supply SMS distribution services and the total volume of SMS messages distributed. Do your arrangements with these companies differ to the proposals stated within this document and if so, how?
- 2sms customers are often global organisations. Please state your capabilities for this service to be extended to customers resident outside the UK.
- How many messages are you able to deliver for us per month? If you are expecting this capacity to change over the next 12 months then please provide details.

Pricing

- Please state all costs for implementing and operating this service. Indicate which costs are one off up-front/set up costs and those that recur.
- If message costs vary by network operator then please explicitly state these costs.
- What is the minimum contract period your organisation operates?
- Please indicate your support charges. What do these support charges cover?

Support

- Describe what your capabilities are for telephone and email support.
- Do you operate these support services yourself?
- What are the operating hours of your support services?
- Please provide SLA commitments for fault and question resolution,

Certifications

Please state all recognised certifications held by the company and any which are currently being worked towards.

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Summary

You are looking for a supplier for text messaging services.

- You can expect to pay between 3p and 10p per message.
- Beyond the text message transmission, there are services you may or may not want to purchase.
- Pricing can be complex.
- Cheap SMS has it's risks.
- Do not commit to annual contracts.
- Understand what you are purchasing.
- Undertake due diligence.
- Try a supplier out before you buy. All should offer free trial accounts.

Top 10 Questions Checklist

1. Can I, the customer, test the service, with full features, at no cost and with no obligation?
2. Are software solutions, integration tools and sample code provided? Is there a charge for this?
3. Can I start sending messages through any of these methods, straight away, without having to talk to a Sales person?
4. When I do want help, do you offer 24/7 technical support and customer service with no charge? Is your phone number a freephone number?
5. If your message price is below 3p, how are you making money?
6. If you require me to buy messages 'up-front', do I have to use them in the current month, or do they stay on my account until used?
7. Do you provide delivery reports for all messages sent? Does this cost extra?
8. How long have you been in business? Do you belong to any industry or trade associations?
9. Can you give an example of your customer list, with references?
10. Can you provide evidence of your ISO27001 certificate for Information Security?

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List of SMS Providers

Supplier	Contact information
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Mobile phone operator	Web site
O2	www.o2.co.uk
Orange	www.orange.co.uk
T-mobile	www.t-mobile.co.uk
Vodafone	www.vodafone.co.uk

Aggregator	Web site
2ergo	www.2ergo.com
Clickatel	www.clickatel.com
Connection Software	www.csoft.co.uk
HSL	www.hsl.co.uk
mBlox	www.mblox.com
MX Telecom	www.mxtelecom.com
Sybase365	www.sybase365.com
Win	www.winplc.com

Specialist suppliers	Web site
Mediaburst	www.mediaburst.co.uk
Pageone	www.pageone.co.uk
Text-Anywhere	www.text-anywhere.co.uk

Capabilities Matrix

2sms accepts no responsibility for the accuracy of this information and will gladly correct any errors found by the reader. Send corrections to support-uk@2sms.com. The SMS marketplace constantly changes, so services offered should be checked with the supplier for accuracy. The list of vendors below included organisations that partner with each other. Where a partner's capabilities are provided under another's brand, a Y is given to the capability of both partners. Where partner A does not supply a capability in the brand of partner B, only partner A is flagged as a Y. A blank entry means the author cannot verify the information.

	Operator	Aggregator	Large vol	Mid vol	Small vol	Send from web site	Software	24/7 support	ISO27001
2sms	N	N	Y	Y	Y	Y	Y	Y	Y
O2	Y	N	Y	Y	N	Y	N		N
Orange	Y	N	Y	Y	N	N	N		N
T-mobile	Y	N	Y	Y	N	N	N		N
Vodafone	Y	N	Y	Y	N	N	N		N
2ergo	N	Y	Y	Y	N	N	N		N
Clickatel	N	Y	Y	Y	Y	N	Y		N
Connection Software	N	Y	Y	Y	Y	Y	Y		N
HSL	N	Y	Y	Y	N	N	N		N
mBlox	N	Y	Y	Y	N	N	N	Fee	N
MX Telecom	N	Y	Y	Y	N	N	N		N
Sybase365	N	Y	Y	Y	N	N	N		N
Win	N	Y	Y	Y	N	N	N		N
Mediaburst	N	Y	Y	Y	Y	Y	Y		N
Pageone	N	Y	Y	Y	N	N	Y		N
Text-Anywhere	N	N	Y	Y	Y	Y	Y		N

	XML gateway	Online message reporting	Message data held > 1 month	Minimum dual site platform	< 3 suppliers	Outages listed online	Online service availability		
2sms	Y	Y	Y	Y	Y	Y	Y		
O2				Y	N				
Orange				Y	N				
T-mobile				Y	N				
Vodafone				Y	N				
2ergo	Y			Y	N				
Clickatel	Y			Y	Y				
Connection Software	Y	Y		Y	Y				
HSL									
mBlox	Y	N		Y					
MX Telecom	Y			Y					
Sybase365	Y	Y		Y					
Win	Y			Y					
Mediaburst	Y	Y		Y					
Pageone	Y			Y					
Text-Anywhere	Y	Y		Y					

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