

# Chat – Google’s last attempt at getting the conversation right

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In April, Google announced plans to revamp the default texting services on its operating system (OS) Android. The new service, “Chat”, will replace Short Message Service (SMS) and will allow Android users to send messages in rich format with emojis and gifs, like WhatsApp and iMessage. Unlike other Google messaging products, Chat will remain a carrier-based service built on an interoperable standard called the “Universal Profile for Rich Communication Services (RCS)”, with features such as desktop client, read receipts, typing indicators, full-resolution images and videos and group texts.

Contrary to SMS, Chat will consume a user’s data plan. However, if the recipient’s device does not support Chat, the message will revert to SMS (like Apple’s iMessage). Chat already has the support of 55 major carriers, 11 OEMs and two OS– Microsoft and Google, which together have around 86% of the global smartphone OS market<sup>1</sup>. Chat is also likely to pass regulators’

scrutiny as the service will not have end-to-end encryption (E2EE), allowing for greater control and surveillance on user activities. Apple, which has high market share in developed markets, does not support RCS, however its stance on Chat is unknown.

## **Google’s messaging services: Much effort, minimal success**

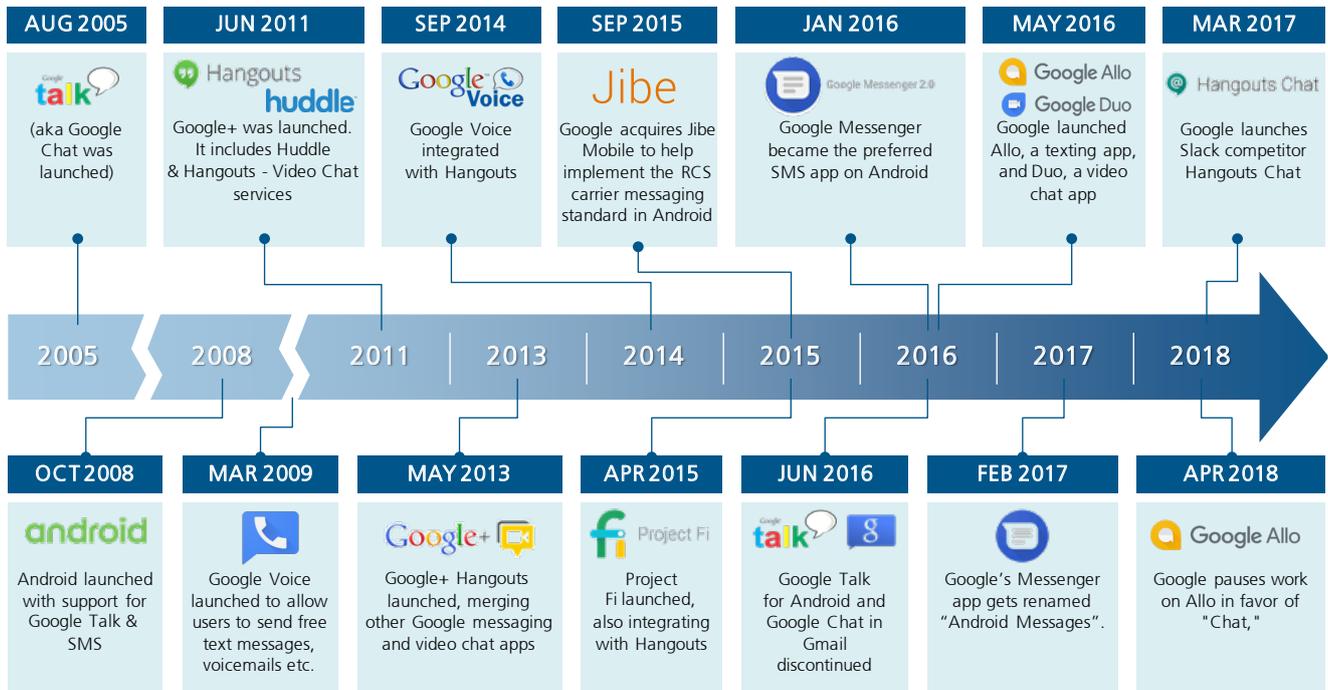
Google witnessed its first messaging success with Google Talk, a service launched in 2005. It had 7.5 million active users until it morphed into Hangout in 2011. Hangout and Huddle were part of Google+, a service forced on all Google users and a failed attempt to compete with Facebook. While Hangout became an enterprise communication tool to compete with Slack, a new attempt to enter the messaging space occurred in 2016, when Google launched Duo and Allo. Duo is an emerging video

<sup>1</sup> Gartner

chat app and has seen relative success so far with ~500 million downloads today, while Allo is a texting app with many interactive features with fewer than 50 million downloads. Android Messages, another

texting app by Google, has only 100 million monthly active users. Support for Allo has now been halted as Google turned its attention to Chat.

Exhibit 1: Google's attempts to enter the messaging space<sup>2,3</sup>



Despite the success of many instant messaging apps, SMS remains the only universal and default messaging platform available on all devices. Around 8 trillion SMSs are sent annually<sup>4</sup>. As a legacy service untouched by any recent innovation, SMS is now creating an opportunity for Google to innovate, leaving total control to carriers.

### With P2P opportunity captured by OTT providers, Chat can help address the A2P opportunity

Revenues from traditional telecom services have been under pressure for several years, so operators have attempted to explore other opportunities to compensate for squeezed margins and declining revenues. As digital lifestyles, enhanced customer experience, new technologies and data-centricity gain greater importance, operators have made significant

investment to jump on the innovation and digitisation bandwagon. With more focus on media and content partnerships, IoT, analytics, digital experience and others, SMS is an untapped opportunity for telcos, which explains the increased support for Google's recent move to push for Chat.

The declining use of SMS is expected to continue throughout 2022 because of a 9% drop (2018-2022 CAGR) in the number of P2P messages. The decline will be offset by A2P message growth (3% CAGR between 2018 and 2022)<sup>5</sup>, which is unsurprising, given that businesses still rely on SMS as a tool to reach a wider audience. However, in an age of conversational commerce, digital lifestyles and increased focus on customer experience, SMS with its limitations (such as plain 160-character text), will not cut it. Hence, RCS looks like a final attempt to capture the B2C messaging opportunity. If this Google-led effort gains traction, it can become a service offered by operators to enterprises to increase their

<sup>2</sup> The Verge – Chat is Google's next big fix for Android's messaging mess, Delta Partners analysis

<sup>3</sup> Delta Partners analysis

<sup>4</sup> Medium – RCS and the future of messaging

<sup>5</sup> Ovum

engagement with their customers by using leading technologies such as chatbots for better customer experience. Many features that are present in most successful OTT apps nowadays will be available in Chat such as pictures and video sharing, AI/chatbot support, location-based services and payments. Moreover, interactions with multiple brands can be consolidated under Chat's umbrella, reducing the number of applications that users must deal with to complete different tasks. Operators can then offer RCS to enterprises and charge a premium for the enhanced service. This can help boost declining SMS revenues, which are expected to drop by 7% over the next four years<sup>6</sup>.

RCS, however, is not new to operators. It has been launched by 50 service providers in 39 countries so far and the number is expected to increase to around 90 service providers to introduce RCS globally<sup>7</sup>. Some operators have also trialed some A2P use cases under the new standard (see Exhibit 2 below). These launches, however, were based on independent efforts by operators adopting different RCS standards, which was an issue for the service interoperability even between operators in the same country. This will not be a problem with RCS's Universal Profile, which will ensure interoperability between all deployments.

## Chat is likely to gain regulatory backing

Unlike some OTT apps currently in use, Chat will not support end-to-end encryption of messages because it is an evolution of SMS, which was never encrypted. While some might think that this would compromise service uptake due to privacy concerns, a closer look at some of the biggest OTT messaging apps reveals that the lack of E2EE did not necessarily negatively impact service adoption or lead to churn. In fact, many messaging apps do not feature E2EE as a default setting or do not support E2EE at all.

The lack of encryption, while jeopardizing users' privacy and posing some security concerns, may be good news for governments who have worked relentlessly on having access to subscribers' data and tried implementing different laws to gain greater control of it to help prevent terrorism. For instance, France and Germany have recently collaborated to force internet companies to decrypt their messages. In fact, France, the U.K. and Brazil are against messages encryption as a practice.

Other more restrictive practices are found in China and Russia and have implemented laws (like anti-terrorism, minimum six-month data storage, mandate to store data in the country) and means to have access to users' communications (encryption keys, hardware and software for surveillance), and India, which forces users and service providers to decrypt messages or face jail.

Exhibit 2: Operators' announced RCS trials and initiatives<sup>8</sup>

### Operators' announced RCS initiatives and trials

Operator	RCS Initiative
	Customer service Mitobot's support for RCS
	Ezy Park - parking payment
	Campaigns for new products (V-Pet, Secure Net)
	Campaigns with 1-800-Flowers.com, Booking.com, Subway, SnapTravel, 1-800 Contacts
	5 Piso, Broxel, DHL Mexico and Secretaria de Salud

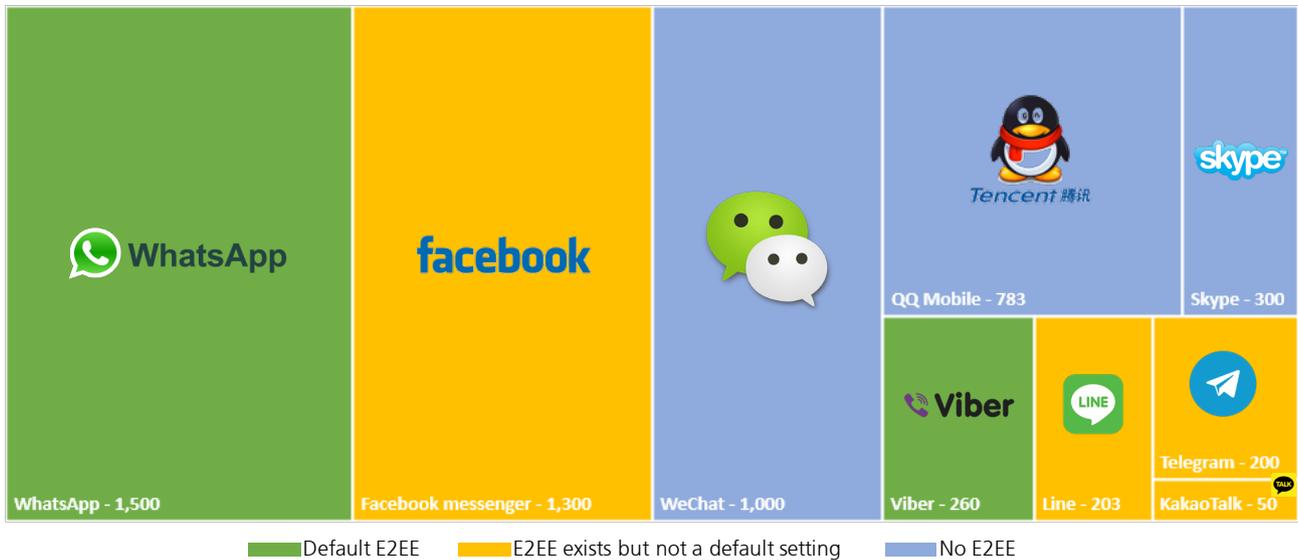
<sup>6</sup> Ovum

<sup>7</sup> GSMA

<sup>8</sup> GSMA

Exhibit 3: Top OTT messaging Apps users (millions) and E2EE setting<sup>9,10</sup>

## Top OTT messaging Apps users and E2EE settings (millions)



It is expected that Chat will be welcome in such countries and others which might not necessarily have strict encryption regulations. However, operators and regulators should work on securing such services from cybersecurity threats and access from unwarranted parties<sup>11</sup>.

### Drivers for consumers' adoption of the service

As a late entrant to the messaging arena, Chat will combine features available in leading OTT messaging apps such as WhatsApp, LINE and Messenger. It will also consolidate users' interactions with different brands (service booking, food delivery, and customer support) under one interface, hence improving users' experience with less apps to manage. While users will get apps-within-an-app experience, the success of Chat is dependent on the creation of an ecosystem of user-business interactions within the service. Given the huge scale of OTT messaging providers, Chat is not positioned as a competing app but rather an upgrade of the existing universal messaging service. Chat will mostly be free for users with a data plan with the opportunity for monetization mainly coming from the enterprise.

### Risks and threats looming in the horizon

Chat is not branded as "Google Chat" because it remains a carrier service. In early success for Google, 55 carriers have already joined the initiative. However, it will be an uphill task for Google to convince more telcos to offer Chat because of their apprehension for previous RCS initiatives lead to limited uptake. Chat's success will also be dependent on how quickly it can garner support from all major regulators and device manufacturers. Apple, which controls a large share in developed markets, and already offers a similar service through iMessage, still does not have a clear stance on Chat. The lack of support from Apple might be an immediate short-term challenge for Google in the US and some European markets.

Another key challenge for Chat's growth in these markets will be the government's approval for partnerships between Google and Chinese device makers. Amid a US-China trade war and data privacy concerns, the US congress recently questioned Google's RCS partnership with Huawei, the world's third largest device manufacturer. If this scrutiny gains any further momentum, it will be expanded to all Chinese smartphone manufacturers including Xiaomi, Oppo and ZTE.

<sup>9</sup> Press clippings

<sup>10</sup> Messaging providers websites

<sup>11</sup> Center for Strategic and International Studies – The effect of encryption on lawful access to communications and data, February 2017



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