



THE SMS ADVANTAGE

How enterprises can leverage the power of SMS

Sponsored by SAP

September 2014





EXECUTIVE SUMMARY

The SMS Advantage survey highlights consumer benefits and challenges in relation to mobile apps, SMS and other mobile interactions between service providers and customers. There is cause for reflection and optimism for SMS services and the burgeoning world of mobile apps. The data shows mobile users' app consumption is maturing and that customers have discerning preferences for how they communicate with brands, subject to need.

The smartphone user has grown up, which in turn means that brands and services need to grow up with them. Businesses now communicate with customers across multiple channels from many different sources within the organization. Smartphones are consumer engagement tools, supporting ongoing interactions and offering high value tracking and notification services.

SAP Mobile Services, a division of SAP, has sponsored Loudhouse Research to understand how consumers are responding to this evolving approach to consumer engagement.

The survey looks at how consumers respond to mobile engagement and which mobile technologies are seen as most effective across the three elements of customer interaction: Acquisition, Activation and Assurance.

- **Acquisition:** gaining new customers
- **Activation & Engagement:** encouraging use of the service
- **Assurance:** providing/increasing security of the service

20% check
their smartphones
every ten minutes or
more often

74% of respondents
say they should
uninstall apps they
don't use



The research should inform future mobile engagement strategies for companies focused on the mobile environment as a transactional channel for customers, based on four key areas of the research data:

SMARTPHONE 24/7

Consumers are acclimatized to frequent, habitual interaction with smartphones. 68% of respondents check handsets at least every hour, with 20% checking phones every ten minutes or more often.

ICON OVERLOAD

74% of respondents state they should uninstall apps they don't use, with 68% stating they have apps they don't need. 81% believe sometimes a simple SMS is preferable to mobile app use.

SMS IMPACT

Three quarters of respondents state that SMS serves to improve the overall brand experience when communicating with businesses. 76% feel that SMS makes them feel in control of a service when interacting with transport businesses, 81% with logistics businesses and 78% with banks.

SMS IMPROVES SERVICES

64% of consumers believe that businesses should use SMS to interact with customers more often than they do currently.

Consumers have the greatest appetite to use SMS more in future for services aligned to assurance needs, such as identity and security. Specifically, this was associated most strongly with receiving 'peace of mind' about their identity and data (39%) and receiving a quality service (36%).

The research concludes that the rise of the smartphone and mobile apps has changed how brands and enterprises engage with consumers. The survey demonstrates that consumers have clear opinions on what and how they want to communicate. Organizations must take this into account and use it as an opportunity to increase loyalty, customer experience and value.

Three-quarters of respondents state that SMS serves to improve the overall brand experience when communicating with businesses

METHODOLOGY

The research interviewed smartphone users aged between 18 and 65 years old in the USA, UK, France, Germany, Spain, Italy, Australia, Hong Kong, China, Malaysia, Singapore, and UAE. Online interviews were conducted in June/July 2014.

The research focused on customer experience within four industries: Transport, logistics/shipment, social media & online communities, and financial services.



SMARTPHONE 24/7

Some consumers are using smartphones to obsessive levels. In the 18-24 year old age group 37% of respondents check their handsets at least every 10 minutes. Only 9% of respondents in the 55-64 year old age group do the same.

On average, 68% of users check their smartphone at least once an hour

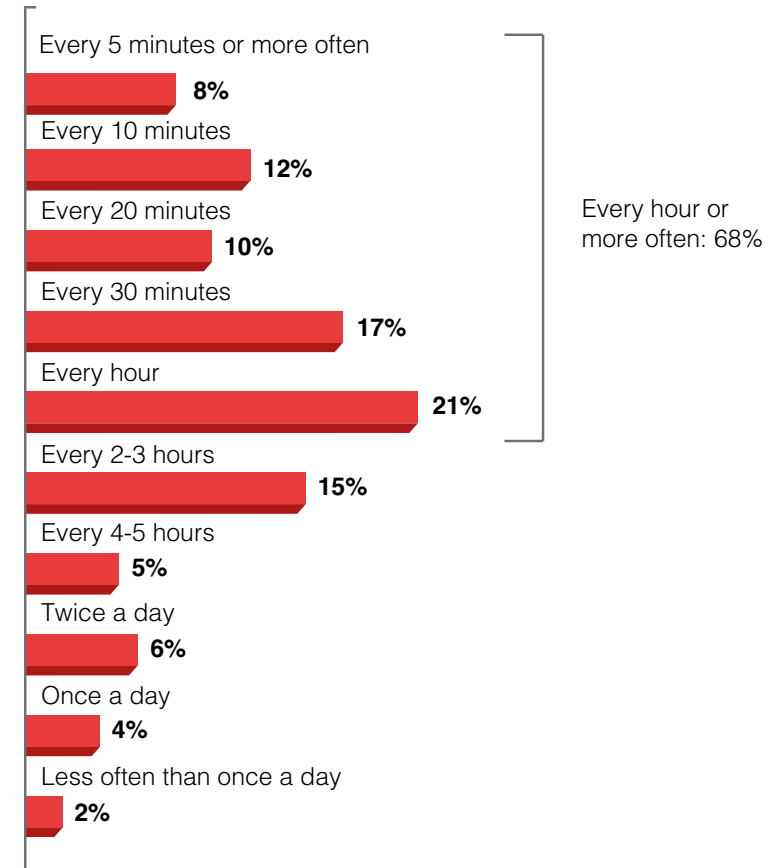
These patterns of frequency are consistent across the regions focused on in the study with the EMEA region showing 65%, North America 72% and APAC 70% of users checking their smartphone at least every 60 minutes. This aligns to the volume of messages sent each week, with North America averaging the highest number of messages (124), EMEA with 60 messages and APAC with 80 messages per week.

On average 16% of these SMS exchanges are with businesses. This figure shows some region differences. In APAC (22%) the ratio is over one in five of all SMS sent in a week, while in the US (12%) the ratio is one in eight messages, with EMEA averaging closer to one in seven messages (15%).

Therefore, consumers are wholly 'integrated' with their handsets and interact with brands on a one-to-one basis via SMS many times a day. It seems that, while the smartphone is a very powerful and multi-functional device, there is a recognition that SMS — a technology that pre-dates the smartphone by decades — is welcomed and embraced as a communication channel.

That is not to say that the other principle channels are less popular; in-app messages and email are also widely used via smartphone handsets. This is much more a case of consumers relating specific channels to specific needs and using them accordingly.

FREQUENCY OF CHECKING SMARTPHONE FOR NEW MESSAGES OR ACTIVITY IN A TYPICAL DAY





ICON OVERLOAD

Mobile applications have formed a huge part of consumer activity, spend and preferences over the past 5 years. Gartner estimates* global mobile application downloads in 2013 to have been around \$102 billion, generating \$26bn in sales. In the US, Nielsen published** data in July 2014 suggesting that the average US Android and iPhone user used 26.8 applications per month.

However, a key finding from the data in this study points towards application use maturing following a pervasive wave of applications use. Consumers are taking stock of the 'icon overload' on devices.

74% of respondents agree that they should uninstall a number of apps on their phones due to lack of use. APAC reports the highest figure regionally with 79%, North America 74% and EMEA 69%. 68% globally also agree that they have more apps on their smartphones than they need.

65% of respondents agree that managing apps, specifically updates and permissions, can be difficult and takes effort

There are two considerations that point towards reasons for reviewing app use, aside from the sheer volume of activity in the market today, namely complexity and time.

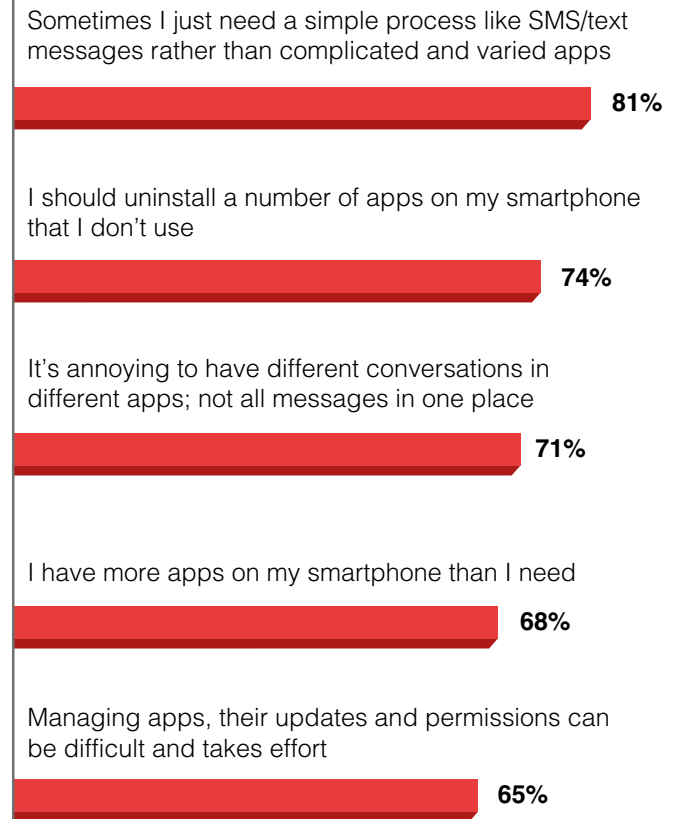
81% also agree with the statement that 'sometimes I just need a simple text message rather than complicated and varied apps'. APAC (85%) shows the highest level of agreement on this point.

*(Source: Gartner Symposium/Expo 2013)

***(Source: Nielsen Mobile App Usage 2014)

ATTITUDES TO ICON OVERLOAD

(% OF RESPONDENTS AGREEING SHOWN)





SMS IMPACT

Consumers are alive to the benefits of SMS use. Evidently, SMS has been superseded by mobile apps and social channels in many regards. However, it remains highly relevant and useful for consumers.

Perhaps one of the more surprising associations made by consumers regarding SMS is the degree to which it serves to improve overall brand experience. Brand is an attribute of business synonymous with 'richer' user environments, such as online or physical stores / locations. It appears the functionality of SMS has a role to play, too.

Over 70% say that SMS improved their experience of the organization overall

Respondents were asked to consider how their experience of a service was influenced by SMS — looking at four particular sectors: Transport, Logistics, Banking, and Social Networks. These sectors were selected for their high yield of customer interactions via SMS.

74% of respondents agreed that SMS customer interactions improved their overall

experience of the business when interfacing with the Transport sector, 81% in the Logistics sector, 78% in the Banking sector and 71% when dealing with Social Networks. Customers also stated that SMS services helped them to 'feel that they are cared about' and 'feel in control' of the services they received.

With each sector, the rationale for using SMS is different, as are the implications for the customer. Purchase tracking, alerts and notifications, as well as monetary transactions via SMS, are all high value and important aspects of a service or overall brand. Evidently, simple messages with key information at critical times are very important for consumers and have positive implications for businesses if those interactions are managed well.

AGREEMENT WITH STATEMENTS ABOUT SENDING/RECEIVING SMS WITH COMPANY TYPES (% OF RESPONDENTS AGREEING SHOWN)



Legend:
Transport
Logistics
Banks
Social Networks



SMS IMPROVES SERVICES

SMS services are considered important by customers. While they are popular and a welcome means of interaction with a business, there is still room for improvement cited by the majority of respondents.

64% of consumers believe that businesses should use SMS to interact with customers more often than they do currently. APAC respondents (70%) feel most strongly about this issue, with North America (62%) and EMEA (60%) responding accordingly. It is notable that APAC also has the highest penetration of consumer-to-business interactions as a ratio of overall messages sent per week. Clearly there is an appetite for more interactions still.

64% say businesses should use SMS more often to interact with customers

The survey posed questions around three key areas of customer interaction with brands. The Acquisition phase — gaining new customers, the Activation phase — encouraging use of service, and the Assurance phase — providing or increasing the security of a service.

Each of these phases reflects different stages or elements of the customer

relationship. While acquiring and activating customers are more marketing-led, Assurance is more aligned to aspects of customer service and quality of service.

Overall, 78% of consumers that interact with Transport, Logistics or Banking organizations believe that communications with these businesses could be improved. This was 74% in the case of Social Media brands.

From a regional perspective, improvements in how customers are communicated to are quite consistent, with APAC having somewhat higher expectations — 81% of APAC respondents seek an improvement, with 75% in both North America and EMEA.

ATTITUDES TO USING SMS TO COMMUNICATE WITH ORGANIZATIONS





CONCLUSION: CREATING A MOBILE ADVANTAGE

It is clearly not the case that consumers are cooling off about application use. The levels of adoption are significant and growing. This is not mobile 'apathy'. However, there is a clear sentiment towards consumers becoming smarter, leaner mobile app users.

Consumers are becoming more discerning about how they want to interact with brands and the best channels to suit their needs. The enthusiasm for SMS and the sensitivity from consumers regarding where it best fits as a tool for brand interaction attest to this view.

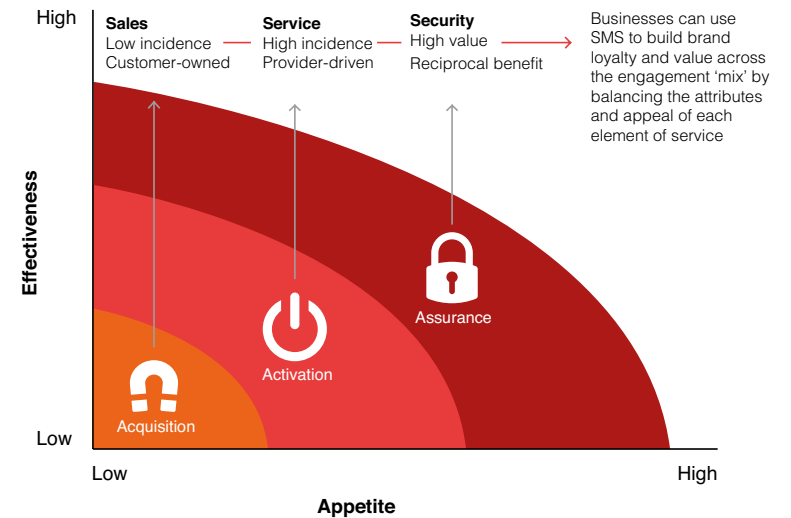
In the survey, only 17% of respondents consider company-based SMS messages to be intrusive. There is also an appetite for more contact via SMS and a particular preference for services focused on security, identification and assurance-related purposes.

Businesses should take note of the significant consensus shown towards mobile interaction and also the subtleties of consumer preference. Ultimately, all directions point towards a more considered and strategic approach to customer interaction.

Every interaction on a smartphone directly with a customer is an opportunity to build brand, add value to the customer experience or buy and sell to a smartphone user.

Only 17% of respondents consider company-based SMS messages to be intrusive

RECOMMENDATION: BALANCING SECURITY, SERVICE & SALES





THE SMARTPHONE DESTINATION

To maximize the impact of smartphone user interactions, the routes to the customer via a smartphone need to be joined-up. Looking at a customer relationship on the basis of Acquisition, Activation and Assurance helps to break down the points at which a business needs to account for its smartphone transactions with customers.

Often these transactions, financial or otherwise, will be owned by different stakeholders in an organization. The channel to market is also an issue when third parties are part of the 'SMS supply chain', for example where retailers are reliant on logistics businesses for the last mile of customer service.

Consumers are taking a collective breath to consider what apps work best, where and when, removing icons as they do so. They are also asking for better interactions via their smartphones. It appears this is a great opportunity for businesses serving customers with smart devices to do the same.

Customer expectations will be met by interactions based on timeliness, ease of use and simplicity. With so many channel options in the hands of the consumer and the brands that serve them, achieving this goal is far from simple. Unravelling the customer experience, from the smartphone, back to the business or brand, is the starting point to achieving the customer advantage that all businesses so desperately seek.

Often transactions will be owned by different stakeholders in an organization

Consumers are taking a collective breath to consider what apps work best, where and when, removing icons as they do so



INDUSTRY SUMMARIES – VERTICAL SNAPSHOTS

FINANCIAL SERVICES

The financial services sector has endured a turbulent few years so focusing on ways to enhance the customer experience and building on the trust relationship that consumers have with their banks are evident in how banks are using SMS to add value to customer relationships.

The entire finance industry is well suited to using SMS as a means of communicating with its customer and prospect base, with SMS messages suitable for many purposes such as facilitating small value purchases, payments, money transfers, donations and digital content. Furthermore, with concerns about fraud on the increase, SMS provides the ideal medium for distributing time-sensitive information to an individual or a broad audience because customers can react immediately to any irregularities in their accounts.

The finance sector is the most prolific in its use of SMS communication, with three-quarters of customers having received some kind of SMS contact. The top three things that people currently use SMS for with regard to financial services are signing in / proving ID (45%), receiving service reminders (33%) and receiving order confirmation (33%). Assurance and Activation are the key SMS applications being used by finance customers at this time, with little perceived activity in the Acquisition field by customers.

With the security of money and data paramount for customers and fraud threats often well publicized, it is clear that it is in the area of Assurance that finance customers are currently reaping the most benefit, with 42% saying that SMS is very effective for these kinds of activities. This view is highlighted by the fact that 78% of customers say they feel financial institutions care about the security of their data, identity and money by using SMS, and a similar proportion saying their data and identity will be safe (74%). Furthermore, 82% consider that SMS is effective in acting as secure service through SMS confirmation of PIN numbers, passwords and so on.

Although complementary service offerings, such as mobile payments, will continue to evolve, ultimately none match the simplicity and style of the SMS message as a tool for routine communications between financial institutions and their customers. The SMS message will therefore maintain its role as a low cost tool that cuts through other communication noise for both urgent and more routine contact needs.

DASHBOARD SUMMARY: FINANCIAL SERVICES

| | |
|--|---------------------------------------|
| TOP 3 THINGS CURRENTLY DONE VIA SMS | Sign in or Prove ID 45% |
| | Receive service reminders 33% |
| | Receive order confirmation 33% |
| | None 24% |
| SMS VERY EFFECTIVE FOR TASKS: | |
| Acquisition | 33% |
| Activation | 27% |
| Assurance | 42% |
| Excellent SMS experience for receiving service information | 26% |
| Agree "I feel that they care about the security of my data, identity and money" by using SMS | 78% |

Legend:

- Acquisition
- Activation
- Assurance





LOGISTICS

With online retail showing no signs of slowing down, and home or office delivery remaining a popular delivery choice for online shoppers, last mile logistics is a fundamental challenge for both logistics companies and online traders.

The goal of transporting packages to the end customer within tight timeframes, at competitive prices, while taking into account environmental constraints is becoming all the more difficult as consumers are reluctant to spend half a day at home waiting to receive their order and now want, and even expect, to be informed of a precise delivery window. With recent hype around the possible use of drones to deliver packages to consumers and what that ultimately means for customers and the logistics industry more widely, the time is ripe for logistics companies to reassess how they serve customers and to consider the role of SMS communication in their toolkit.

Almost three-quarters of consumers have received some form of SMS contact from a logistics provider. Typically, the main forms of communication fall under the Activation umbrella, ranging from viewing order status (49%), receiving order confirmation (46%), to changing order status (40%). Despite much of the activity taking place in terms of Activation, this is the area of the lowest satisfaction for customers (25%) compared to Acquisition or Assurance. Specifically, 40% of consumers rate the SMS experience as excellent for receiving confirmation of order dispatch and similarly 38% rate receiving an estimated delivery time through SMS as an excellent experience. It appears, therefore, that creating excellence in a field that consumers increasingly consider to take for granted is something of a challenge.

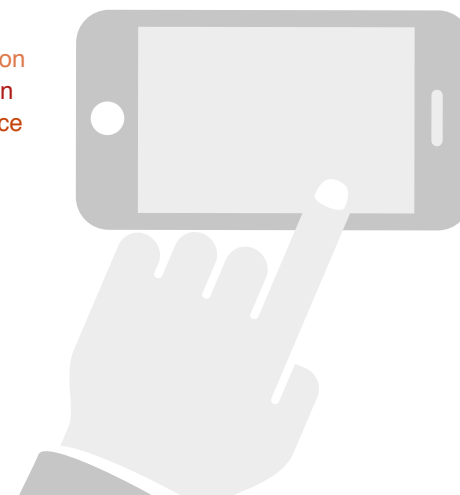
Ultimately the logistics industry needs to explore how to make SMS communications relevant to customers, efficient as a contact channel and therefore worth the intrusiveness. Encouragingly, the use of SMS is serving to enhance customer relationships with 83% of consumers saying that its use makes them feel as if “they care about my delivery / parcel” and 81% saying it improved their experience of the organisation overall. While complex and extended supply chain networks are instrumental in getting a product delivered, it is only really the last mile logistics where the end customer has a vested interest, and the speed, reach and flexibility of SMS can really come into its own.

DASHBOARD SUMMARY: LOGISTICS

| | |
|--|---------------------------------------|
| TOP 3 THINGS CURRENTLY DONE VIA SMS | View order status 49% |
| | Receive order confirmation 46% |
| | Change order status 40% |
| | None 26% |
| SMS VERY EFFECTIVE FOR TASKS: | |
| Acquisition | 30% |
| Activation | 25% |
| Assurance | 32% |
| Excellent SMS experience for receiving service information | 24% |
| Excellent SMS experience for: | |
| • Receiving confirmation of order dispatch | 40% |
| • Receiving an estimated delivery time | 38% |

Legend:

- Acquisition
- Activation
- Assurance





TRANSPORT

Transportation is an important activity in our everyday lives, but also one that is subject to last minute changes and disruption.

In this situation, SMS provides the fastest way to communicate with customers wherever they happen to be. It also provides a better option than a phone call for information such as flight or train departure or arrival times as these can be shared via SMS too, reducing the chances of miscommunication. Other SMS applications relate to sending booking confirmations, ensuring customers have a record of their reference number and the comfort of knowing the booking has been received.

Transport is currently the area of lowest SMS use amongst consumers — with 39% not doing anything with SMS in this area. SMS use currently focuses on Activation and Assurance activities - 25% receive service reminders via SMS, 25% receive news, and 21% use SMS to sign in / prove their identity. The transport sector is using SMS to best effect with respect to Assurance, where 36% describe SMS as being very effective for these kinds of tasks. In contrast, just 26% consider SMS to be effective in Activation tasks, such as receiving service reminders.

Consumers see the benefit of SMS from the travel sector, particularly when it comes to Assurance, with 77% saying they feel transport companies care about them staying safe and getting to their destination on time through the use of SMS. It is in the area of transport where SMS is competing against multiple apps for consumer attention but this is also an area in which SMS has the clear advantage of not being reliant on web connectivity, and offering a useful and reliable form of communication to provide alerts, notifications and reminders to passengers.

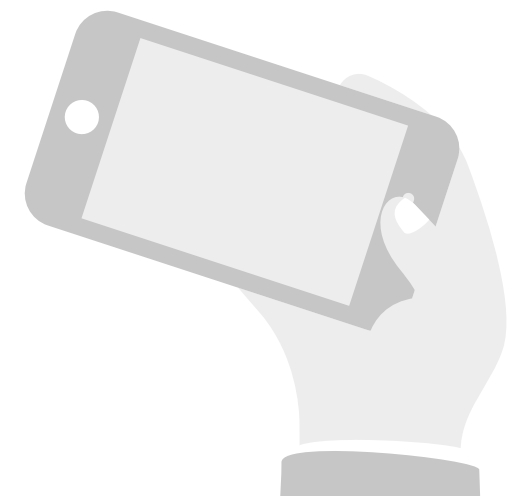
People always like to get a good deal when it comes to booking flights and hotels, but the use of SMS to offer promotions and special offers to customers does not appear to have gained much traction yet. However, as customer relationships develop and people start to request communication via their mobile phone, this is an area with much potential for transport and travel companies. While apps have their place, the use of push notifications has limitations, excluding everyone who either doesn't own a smartphone or doesn't have the necessary app installed. For transport businesses wanting to reach more users, increase personalization and create a more engaging user experience, while providing time-sensitive information to customers on-the-go, SMS provides an option worth considering.

DASHBOARD SUMMARY: TRANSPORT

| | |
|---|--------------------------------------|
| TOP 3 THINGS CURRENTLY DONE VIA SMS | Receive service reminders 25% |
| | Receive news 25% |
| | Sign in or prove ID 21% |
| | None 39% |
| SMS VERY EFFECTIVE FOR TASKS: | |
| Acquisition | 31% |
| Activation | 26% |
| Assurance | 36% |
| Excellent SMS experience for receiving service information | 24% |
| Agree "I feel that they care about me staying safe and getting to my destination on time when traveling" by using SMS | 77% |

Legend:

- Acquisition
- Activation
- Assurance





SOCIAL NETWORKS

Social networks are now an ingrained part of the lives of people across different demographic groups and while people may move from one social platform to another, few appear to be deserting social networks in their entirety.

Teenagers reportedly moving from Facebook as their parents and even grandparents join the platform is testament to the fickle approach people have to social networks in developed countries today. Against the background of ever-changing customer preferences and a proliferation of new players in the market, social networks are keen to differentiate themselves.

Social networks are inherently app-based and so have to work harder to present SMS as a core communication channel. This is evident in the fact that consumers have relatively low levels of use of SMS when it comes to social networks — 38% have used this to sign in / prove ID, 36% have received news via SMS, 30% have created events and 30% have signed up to new services via SMS. Across all tasks — whether Acquisition, Activation or Assurance — the proportion of consumers who describe SMS as very effective remains under 30%. Consumers are increasingly aware of the need to protect personal information when using social networks and this too is an area where SMS can help by alerting consumers to any unusual social media activity or if their social network account appears to have been compromised.

Consumers do think that SMS can help social networks improve the way they communicate with them (74%), and 67% say SMS can help differentiate one social network from another. Driving people to a social network is often a key challenge and the use of SMS can help here whether through the promotion of competitions and sharing of relevant content. Ultimately, customers use multiple channels in their interactions and businesses, even social networks, therefore need to use mixed media to try to reach their target audience. Social networks and app developers need to work out a strategy to increase engagement, not just drive downloads and membership. Text messaging with its simplicity and pervasiveness is arguably the world's leading data communication tool and can serve to complement other channels such as social networks, rather than compete.

DASHBOARD SUMMARY: SOCIAL NETWORKS

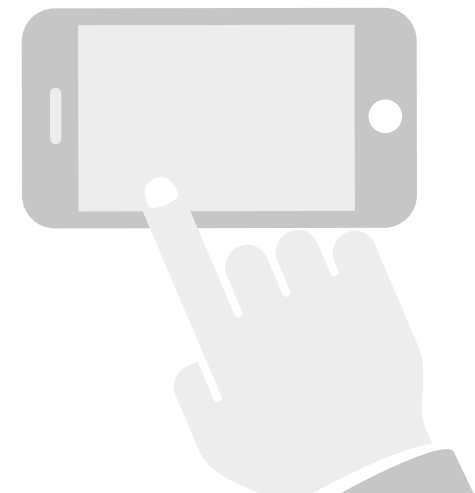
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| Excellent SMS experience for receiving service information | 23% |
| Agree “I feel that they care about me staying safe and getting to my destination on time when traveling” by using SMS | 31% |

Legend:

Acquisition

Activation

Assurance



ABOUT LOUDHOUSE

Loudhouse is an independent consultancy based in the UK, specialising in research and analysis in the technology and business services sectors.

ABOUT SAP MOBILE SERVICES

SAP Mobile Services, a division of SAP is the global leader in enabling mobile information services for mobile operators, financial institutions and enterprises. It provides customers the widest offering in SMS, MMS, GRX, IPX Interoperability and innovative mobile consumer engagement services. SAP Mobile Services processes more than 1.8 billion messages per day reaching more than 1040 operators and 6.1 billion mobile devices around the world visit www.sap.com

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