

WhatsApp storms to lead in online-messaging race

May 8 2013, by Peter Delevett And Brandon Bailey

Its chief executive claims it has more users than Twitter. It's rumored to have just rebuffed a \$1 billion buyout offer from Google. So what's up with WhatsApp? And how has a San Francisco startup that many Americans still have never heard of come to lead a fast-growing field of mobile messaging services that are shaking up the phone and Internet industries?

Easy, says Andreas Sanchez, a junior at San Francisco State University who has used a number of such services. "I can text, I can send pictures, I can call, all through Wi-Fi," he said. "They make it fun for people my age - and, I guess, any age."

The [popularity](#) of online messaging, especially among younger [Internet users](#), has sparked a boom in apps - such as WhatsApp, WeChat, TicToc and Tango - that operate on a mix of advertising and subscription models. By [sending messages](#) over the Internet, often via Wi-Fi or mobile data networks, these services let users avoid paying the SMS text-messaging fees charged by telecommunications carriers like [Verizon](#) or AT&T.

And WhatsApp, by many measures, is at the head of the class.

The company was launched in 2009 by two former Yahoo executives who, unlike the founders of other recent sensations like Facebook and Pinterest, wouldn't be carded at the local bar. Jan Koum, 36, and Brian Acton, 40, remember not only the dot-com boom but how it went bust.

People who know both men say it's a big part of why they've tried to build the 40-worker company with a minimum of hype.

In a rare interview, Koum and Acton told the San Jose Mercury News via email that traditional text messaging is a 20-year-old technology. "We are in the middle of the smartphone revolution," they wrote, "and it is just beginning."

CEO Koum, at a New York conference in April, said the service has surpassed 200 million daily users who together send more than 20 billion messages a day.

Greg Woock, head of San Jose, Calif.-based competitor Pinger, looks on such numbers with envy, considering his own startup carries as many messages in a month as WhatsApp claims to in a day.

But, Woock said, Koum has yet to figure out how best to turn that traffic into dollars.

"His business model is, you pay me once a year, 99 cents," Woock said of Koum, whom he considers a friend. But that's only true of iPhone users; WhatsApp is currently free for owners of Android phones, at least in most countries. "I'd argue," Woock said, "that the vast majority of his users will never pay."

Sanchez, the college student, illustrates the point.

During a recent trip to Barcelona, he downloaded WhatsApp to stay in touch with friends and family. But he quickly dropped it in favor of a competing service, Viber.

The reason? "They both do the exact same thing, but Viber's free," said Sanchez, who at home is a heavy user of Facebook Messenger and

Apple's iChat. He says he only uses email to communicate with "my older relatives."

Pinger also is free but earns money by showing ads to customers. Woock said if Koum would use Pinger's advertising engine, "I could make him \$1 million a day. With that kind of reach, that company's worth \$5 billion."

Koum and Acton, though, say they're confident in their business model.

"Nothing comes free in this world," they wrote in their email. "Services that claim to be free collect user data and target ads or promote games." The founders say such "gimmicks" clutter the user experience.

Macquarie Securities, in a recent survey of WhatsApp users, found deep passion for the product. While popular features include group texting and the ability to send photos and videos, the greatest appeal is in avoiding texting and roaming charges, especially outside the United States.

Woock - who said Pinger's user traffic actually outstrips WhatsApp's domestically - noted that overseas is where the messaging battle is being fought most fiercely. "It's so expensive everywhere else in the world," he said of text messaging.

Despite its popularity, WhatsApp's record on privacy and security has come under fire. Earlier this year, Canadian and Dutch authorities accused the company of violating international privacy laws because it required users to upload their entire phone book contact lists - whether or not those contacts use the app.

WhatsApp now allows customers to opt out of that requirement. Koum and Acton, via email, said they're "unusually protective of our user

experience" and don't share user data with outside marketers.

Wooch and others predict the market for mobile messaging ultimately could outstrip that of social networking, which is built on users' "graph" of connections.

"Let's call it 3 billion people in the world who use mobile," Wooch said. "Mobile is the real graph - that's who your friends really are - and that's why Facebook and [Google](#) are so interested in this."

THE FIELD:

A host of fast-growing mobile [messaging services](#) are taking a big bite out of phone carriers' text-messaging revenues - as well as old-school communication platforms such as email.

-**Just.me**: Launched in April by former TechCrunch CEO Keith Teare and funded by Google's investment arm.

-**KakaoTalk**: Based in Korea, it makes money from advertising and promoting mobile games.

-**Kik**: Canadian company's application is popular with teens but has been criticized by parents concerned that it lets users message anonymously.

-**Line**: Especially popular in Japan, it offers cartoonlike characters along with games and the ability to "follow" celebrities.

-**MessageMe**: Launched this year, it has drawn notice for features that let users create and send artistic "doodles" to their friends.

-Pinger: San Jose company offers ad-supported free texting and phone calls.

-SnapChat: A photo-sharing app whose images self-destruct.

-Tango: Lets users send text messages and play games but also offers free voice and video calling.

-TicToc: Another Korea-based messaging service that offers unlimited calls and messages and group chat.

-Viber: Claims 175 million users; recently signed a deal with an Indonesian telecom carrier to be its preferred messaging app.

-WeChat: With more than 300 million [users](#), it's owned by the Chinese Internet conglomerate Tencent.

-WhatsApp: Fast-growing but low-profile San Francisco startup claims its user base now outstrips [Twitter](#)'s.

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