

A World of Apps

This whitepaper is an extract from:

Mobile App Stores
Business Models, Strategies & Market Segmentation
2010-2015



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I. Introduction

Over the past 12 months, the global market for applications – fuelled by the astonishing and unprecedented activity experienced on Apple’s App Store and iPhone – has continued its stellar levels of growth. At the end of April 2009, Apple had confirmed that downloads from the store (to iPhone and iPod Touch combined) had just passed 1 billion; by early-April 2010, this number had exceeded 4 billion. The scale of this success becomes even more apparent when one considers that iPhones accounted for less than 1% of the installed base of mobile handsets in 2009, yet around 35% of application downloads to mobiles: indeed, the extent to which it has galvanized the marketplace can be illustrated by the fact that in 2007, the total number of games downloaded to handsets (overwhelmingly Java and BREW) stood at just over 1.1 billion; by 2009, annual downloads had risen to more than 3.7 billion.

However, the impact of the App Store can be demonstrated in more than just raw data. Operators, the traditional gatekeepers to the end-user, have felt obliged to reconsider their strategies for selling mobile content; as download rates to iPhones have continued to accelerate, so an increasing proportion of operators have become convinced that the development of their own applications storefront is the optimal method of moving forwards. Likewise, handset vendors, fearful that Apple will continue to erode their share of the smartphone market, have moved to develop own-brand apps stores. In addition, several content aggregators perceive an opportunity to create platform-agnostic stores.

The App Store was not the first app store, but it is certainly the most high profile, and the most successful. One of the major achievements of the App Store has been to deliver mass downloads of applications in areas which were previously, at best, of niche interest: for while games – historically the most popular form of rich media content – account for around 50% of downloads from the store, that still leaves more than 2 billion downloads across areas such as entertainment, lifestyle, health and fitness, education and personal finance.

That said, the industry’s near-obsession with Apple’s achievements brings with it attendant dangers. As noted above, the iPhone accounts for less than 1% of the global installed handset base; despite this, many developers (and indeed retailers) have sought to focus almost exclusively on creating content for this device. Regardless of the scale of downloads from iPhone users, ignoring users of other platforms/handsets could ultimately prove

counterproductive. This is particularly true in developing markets, where the user base of iPhones (and indeed smartphones per se) is extremely low; thus, if the mobile industry wishes to introduce a model based on applications, then it must ensure that those applications are accessible by a wide range of handsets ranging from smartphones to mass market devices.

2. Challenges of an App Store-centric Ecosystem

Prior to the launch of Apple's App Store, there were just a handful of relatively unheralded mobile storefronts selling applications, although three of these stores (Motricity, Getjar and Handango) offered portfolios of several tens of thousands of applications (and were achieving annual download levels in the tens of millions). However, as vendors, OS providers, aggregators and operators sought to emulate the success of Apple, the past 18 months have seen several dozen rival apps stores launched in the hope that they too can achieve an uplift in their download volumes.

Table 1: Selected Key Challenges of An App Store-Centric Ecosystem

Challenge	Why Is It A Challenge?
The Need for Scale	Apple has three key advantages over its rivals: developers are building for a single handset/OS; it has a good UI/simple purchase process; and, consumers now buy the iPhone because of the easy access to apps! The upshot is that while the addressable market for some Tier 1 operators and vendors may appear to be markedly higher than that for Apple, the reality is that – certainly as far as the operators are concerned – the potential opportunity will in all likelihood be substantially lower – and spread across a variety of operating systems and handsets.
Monetising the Mass Market	Even in many developed markets, smartphones account for a relatively small proportion of the installed handset base. Leading app stores such as the App Store and Android Market are, by definition of the OS they serve, geared to a segment of this minority addressable base. Even though the distinction between smartphones and feature phones is blurring – meaning that more mid-range devices have at least some of the characteristics traditionally associated with smartphones – a large section of the marketplace does not (and, for the foreseeable future, will not have) access to such phones, primarily due to device costs.
App Store Overload	Even if a potential storefront player believes that their current/potential addressable user base will be of sufficient scale to sustain an app store, the fact remains that its app store will be competing in an increasingly crowded marketplace. With operators, vendors, OS providers and aggregators all launching storefronts, the end-user faces a proliferation of choice for his or her custom. And in most instances, that user will purchase/download apps from a single storefront.

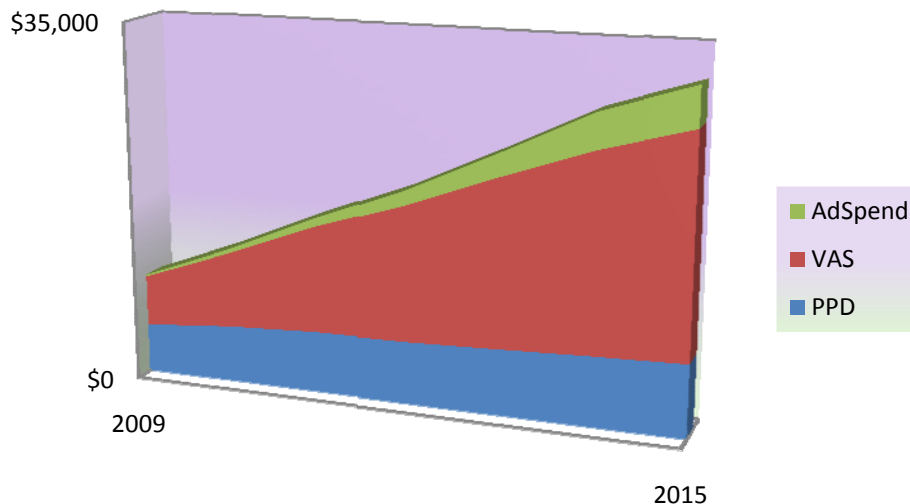
Source: Juniper Research

However, to what extent can an app-store centric model deliver an uplift in revenues to the various participants across its value chain(s)? The following table highlights a number of the key challenges facing storefront managers (be they operator, vendor or OS) and content providers as they seek to extract value from this increasingly predominant model.

3. The Market for Mobile Apps

The levels of downloads generated through the App Store have been of such magnitude that they have obliged Apple's rivals throughout the mobile ecosystem to re-evaluate how they distribute, and monetise, mobile entertainment services. As our forecasts reveal, the combined revenues from apps funded by pay-per-download (PPD), value-added services (VAS, including freemium and subscription) and advertising is expected to rise from just under \$10 billion in 2009 to \$32 billion in 2015.

Figure 1: Total Market for Mobile Apps, Retail and VAS Revenues (\$m) 2009 & 2015



Source: Juniper Research

Juniper Research also believes that in 2009, revenues from value-added services (primarily offstore subscriptions at the present time) eclipsed those of pay-per-download. Content subscriptions have been popular in a number of markets for several years – most notably Japan and South Korea – and as the freemium model proliferates, with more and more stores offering in-app billing options, then such revenues will comprise a greater and greater proportion of total app revenues.

Order the Full Report

This whitepaper is taken from Juniper Research's report entitled "**Mobile App Stores: Business Models, Strategies & Market Segmentation 2010-2015**". This highly

anticipated mobile apps report examines the deployments of storefronts in the wake of the App Store launch as well as considering the likely prospects and possible future strategies for storefronts which preceded it. It provides detailed forecasts up until 2015 for six categories of App for both on-store and off-store delivery, all split by 8 key regions and by content monetization model.

It explores the business models that have been utilized in the mobile apps market, ranging from traditional pay-per-download through the evolution of the freemium model, to the possibilities offered by ad-funded applications. This report analyses the download vs browser debate, considers the challenges inherent in a browser-based model, and explores the likelihood of a future in which the thin client plays an ever more important role.

This strategic report looks at the most popular categories of consumer application, and assesses the relative demand for each. It also explores the possibilities of the app as marketing tool as, with mobile increasingly viewed as a key means of enabling engagement with consumers, apps are being perceived as means both of promoting brand awareness (as with iPint) and (as with Ocado) of directly enabling/facilitating the purchase of physical goods – a model within which the app is a storefront-in-itself.

Key Questions the report answers:

- How has the growing prevalence of app stores impacted upon the mobile value chain?
- What are the primary models for monetising applications, and what are the advantages/disadvantages of each?
- What are the key drivers behind an App Store-centric model?
- What are the prospects for apps as marketing tools and retail mechanisms?
- How much will mobile apps be worth by 2015, and which categories of mobile application will generate the largest revenues?
- What are the opportunities for browser-based applications?

For more details on this report visit the website www.juniperresearch.com or phone +44 (0)1256 830002.

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Author: Windsor Holden

For more information, please contact:

Michele Ince, General Manager michele.ince@juniperresearch.com

Juniper Research Limited, Church Cottage House, Church Square, Basingstoke, Hampshire RG21 7QW UK

Tel: +44 (0)1256 830002/475656

Fax: +44(0)1256 830093

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