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The Application Store Phenomenon

SurfKitchen's CTO, Dave Evans Looks at the Prospects for Mobile Operators, Handset Manufacturers and OS Vendors in The Rapidly Expanding Mobile Applications Market

The iPhone and Apple's Application Store have fundamentally changed the game for the mobile industry. By combining an intuitive user interface with a world of clever, entertaining and useful applications, Apple created a compelling proposition for mobile data services that is now the benchmark for the mobile industry.

If there are any questions as to the power of this combination, a quick look at the stats that Apple released at the recent preview of its new OS, iPhone 3.0, speak for themselves. Since Apple launched the App Store in July 2008, iPhone applications have been downloaded more than 800 million times and there are now more than 25,000 iPhone apps available in the iTunes store.

In the wake of Apple's overwhelming success, handset manufacturers and mobile operators are now following suit in an attempt to replicate Apple's success and capitalise on the growing consumer demand for mobile Internet services. This was demonstrated at MWC 2009, when handset and OS vendors including Nokia, RIM, Samsung and Microsoft underlined their intentions by launching offerings similar to the App Store.

Compounding the interest in mobile applications stores is a clear desire by consumers to use their phones for more than just talking. ComScore Inc. recently reported that the number of people using their mobile device to access news and information on the Internet more than doubled from January 2008 to January 2009. Among the audience of 63.2 million people who accessed news and information on their mobile devices in January 2009, 22.4 million (35 percent) did so daily; more than double the size of the audience last year.

But as handset and OS vendors move into this space, there are question marks over whether they are best placed to deliver the compelling proposition that Apple has so successfully created. There are some who suggest that Apple simply has a green thumb when it comes to consumer business and that handset and OS vendors will struggle to replicate the model.

Analysts Eden Zoller and Michele Mackenzie at research firm Ovum clearly explained the challenges they will face, when they pointed out that deploying an app store is about creating a whole ecosystem to support, develop and provision apps both online and at the device level, including discovery. For traditional handset and OS vendors, this would require a significant shift in their business model.

So if handset and OS vendors face an uphill struggle as they try to reinvent their business models, then who within the mobile value chain is best placed to capitalise on consumer demand for mobile Internet services and applications? One could argue, mobile operators themselves -- as from one perspective, they have no choice. By not offering value-added services and a rich and personalised environment for their customers, they cede the revenue-generating potential it offers to other providers, so commoditise themselves as bit pipes.

But more importantly, mobile operators have the background to do it. They already define the devices that are sold and have unique insight into their customers. They have built the billing infrastructure, they have a direct relationship with customers, and they're the only industry players who can manage the customer lifecycle covering acquisition of device, acquisition of services, payment, removal of services and migration to a new device.

So, theoretically mobile operators are in the perfect position to deliver applications stores. But with mobile operators driving, will they simply create a Walled Garden 2.0? Unlikely. The concept of apps stores invites developers to compete to deliver the coolest, most useful apps and as Apple has shown, this variety and personalisation is central to mobile applications.

That said, for mobile operators' application stores to be successful, they will need to deliver an intuitive, compelling, and consistent user experience.

Again, this plays to the mobile operators' advantage. With influence over device specifications in many markets, mobile operators can ensure that their application store has great discoverability. This could take the form of idle/homescreen access or be delivered via a softkey, but either way it is a critical element of the overall user experience. A recent Forrester Research report confirmed the discoverability and usability challenges currently faced by the industry when it found that only 23 percent of mobile Internet users in North America agree that it's easy to find sites on the mobile Internet, and that only 21 percent agree that mobile Internet sites are easy to navigate. By influencing the device specifications, mobile operators will be able to significantly improve these figures with their mobile application stores and in turn, enhance the user experience.

Mobile operators are also in the optimum position to deliver excellent personalisation and recommendation services. With a wealth of customer data that is unrivalled by any other constituent within the mobile value chain, they can fulfill increasing consumer demand for customised services that is so clearly demonstrated by the incredible number of applications available in Apple's App Store. By leveraging CRM data, the mobile operator has the opportunity to take this vast array of choice to the next level by providing compelling recommendations to customers.

Also, to ensure that the rapidly expanding range of mobile applications/services and access methods don't start to overwhelm consumers, the industry is also going to have to take a careful look at how a consistent user experience can be achieved across all devices. Right now there are eight major platforms vying for mind share among mobile consumers: Microsoft, Apple iPhone, Nokia-Symbian, Java, BREW (Qualcomm), LiMo, RIM (Blackberry) and let's not forget Google Android. To compound the fragmentation, these platforms run across an incredible range of devices, many of which are less well supported by third party developers.

In most retail environments there is a wide variety of choice – from the high street and shopping malls, to Web browsers where the competition is only a click away. The models that work on the mobile device are yet to be determined, but there are parallels with traditional retailers on the high street.

So, just like the high street, there will be Application Stores that focus on a single device or platform with a strong retail brand – Apple is a good example, as is GAP on the high street. Other App Stores may provide branded sections or franchises to offer differentiated services to the main store. Another model would be multiple Application Stores on a device – potentially offering the same applications, but with different brand values – Pricing, Position, Promotion etc. This will be the default position for an operator – offering a broader brand wrap around the application than a device OEM can provide.

Only the mobile operator is in a position to offer consumers the choice of any of these environments across the plethora of devices and platforms available today. This is a powerful proposition, as by being able to consistently provide an intuitive and compelling user experience mobile operators can not only eliminate any complexity by bridging the platform divide but also build brand loyalty and encourage service creation.

The last point is very important to the breadth of choice available to consumers, as a cross-platform world provides a greater incentive for developers, as they know that their designs will quickly reach the broadest possible audience. One way that operators can achieve this is through a platform independent widget framework that enables them to offer services across devices which are less well supported by third party developers and in turn, expand the target market for developers.

Finally, from a more practical standpoint, the mobile operators' billing and network infrastructure should not be overlooked. By integrating this infrastructure with its app store, the mobile operator will be able to carefully manage the user experience by leveraging insightful business intelligence into the mobile applications and services available to their subscriber base. This intelligence coupled with a simplified and integrated payment infrastructure that takes the complexity out of monetising mobile services, provides the mobile operator with yet another important advantage.

Conclusion

So, while the winners and losers have yet to be determined, it is clear that the next wave of mobile functionality is here with research firm In-Stat predicting that there will be more than 100 million app store users by 2014. What's more, as the competitive field shapes up with new and established players, mobile operators realise that they can compete and differentiate their proposition building on consumer demand for a broad choice of applications and a compelling experience on their devices. By leveraging all their assets of brand, pricing, customer service and device range, mobile operators can provide a compelling mobile application store experience to their subscribers and compete with the device OEM's and platform vendors.

SurfKitchen Whitepaper - 1st April 2009