



About Lenati

Lenati is a professional services firm offering strategic methods for clients to have meaningful connection with their customers in order to elevate performance, revenue, and market share. Lenati offers a variety of solutions to help companies effectively develop products and experiences that are valuable to their customers. Based in the Pacific Northwest, Lenati is well-known for intellectual rigor, practiced expertise, and an uncanny ability to perceive and meet clients' needs.



About the Author

Kirk Johnson is a Principal with Lenati and the leader of our Mobility Solutions practice. He brings over 14 years of experience in business and wireless related projects. His specialties include business and channel strategy, sales and service optimization, online advertising and implementing the strategies he helps define.

App Stores: If You Build It, They May Not Come

Apple's iPhone App Store has succeeded where the wireless carriers have failed in the past. They have created a mobile content ecosystem that benefits many mobile subscribers, some select developers, AT&T, and of course, themselves. As of July 2009 there were over 65,000 applications available in the App Store and over 1.5 Billion downloads had occurred. This success has spawned many imitators from nearly every mobile OS/OEM vendor—Google, RIM, MSFT (forthcoming), Nokia & Palm—and encouraged thousands of developers to jump on the iPhone platform in hopes of striking it rich.

THE CHALLENGE

This exciting new ecosystem, reminiscent of the early days of the internet, had many developers believing that "if you build it, they will come". However, given the growing volume in the *app store concept*, this will inevitably change. It is becoming increasingly difficult for developers to target their market, as well as consumers awash in a sea of apps to find what they want quickly and easily.

Not even Apple has cracked this nut and while they have taken rudimentary steps to help showcase top apps and provide categories and search functionality, most apps go undiscovered with very few downloads. The time has come to put some marketing muscle behind an application to build awareness and connection with mobile subscribers.

In addition, the new *app stores* pose a threat to the wireless carriers. They undermine existing carrier *app stores*, cut the carrier out of the application revenue model and relegate them to being a "dumb pipe" supporting the mobile device. Certainly the carriers benefit from incremental data plan revenue, but the long-term revenue potential should drive the carriers to re-evaluate their place in the ecosystem and strive for a new revenue stream.

THE OPPORTUNITY

Mobile carriers are uniquely positioned to help developers market their applications as well as provide an enhanced, valuable experience to their subscribers which would get them back into the Mobile Application game. I'll outline how in a moment but first it's important to understand what brought us to this point.



Lenati Point Of View

Key Takeaways

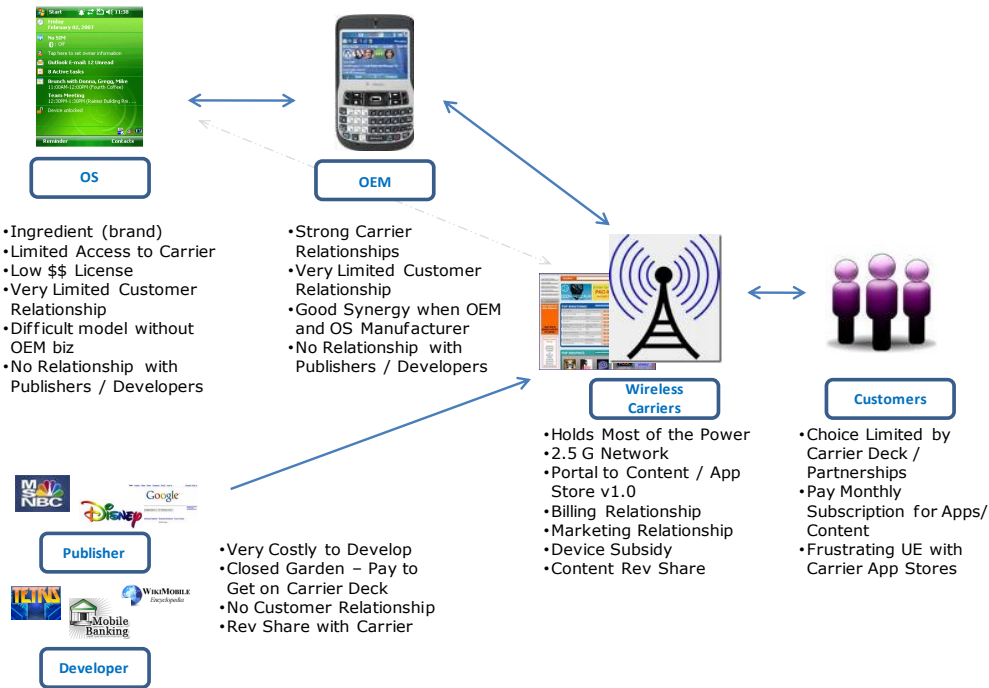
- There are so many applications in the iPhone App Store and growing by the hour, future developers will not make money by simply building an application. They will need to market to a target set of consumers
- The mobile content ecosystem has evolved and the carriers have been largely cut out of the revenue model in the new ecosystem
- It's not too late for the carriers to get back in the game but they need to act now and help developers market to their base
- Carriers will need to improve engagement of their base and provide a more valuable customer experience—one that recommends or showcases the appropriate application for the best targeted subscriber

HOW DID WE GET HERE?

App stores are not a new idea. The carriers created their own stores as early as 2001 as a way to monetize costly new "high-speed" 2.5G networks. Figure 1 below illustrates the Mobile Content Ecosystem v1.0. In this model, the carriers had most of the power. The ecosystem was characterized by the following:

- Content was offered in a "walled garden" model and choice was limited. Applications were costly and typically charged as a monthly subscription
- Billing was easy and just showed up on your wireless bill
- Application developers had to pay significant development costs and revenue share to ensure they got onto the carrier "deck"
- Testing was rigorous (and costly) OEM/OS vendors had very little direct relationship with content developers and almost no relationship with the customer.

Figure 1: Mobile Content Ecosystem v1.0



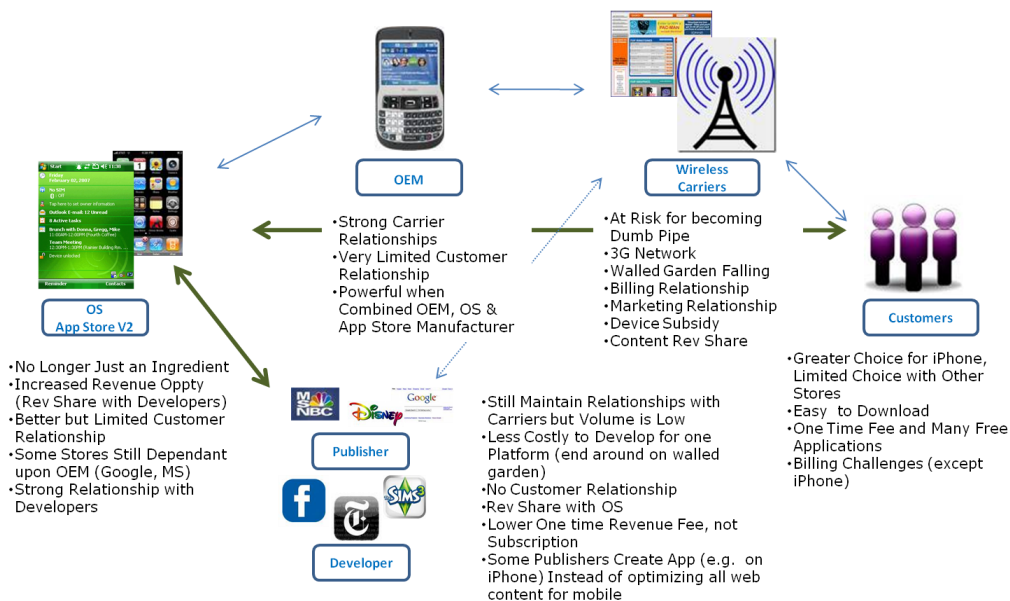
The carriers did not execute this model well. Very little marketing was put towards introducing new subscribers to their app stores—e.g. very few free trials were offered to get users comfortable with and aware of the app store offerings. What did exist was geared more towards ring tones and other content that was ubiquitous across all phones not geared to smart phones. In addition, the stringent testing requirements as well as their requirement that the applications work across multiple phones and OS versions proved very expensive to developers. The combination resulted in limited selection and low subscriber use of the carrier app stores.

WHERE ARE WE TODAY?

The launch of Apple's iPhone App Store in 2008 was truly revolutionary and significantly altered the mobile content ecosystem. As Figure 2 illustrates, the ecosystem has evolved for all participants and the power has shifted from the carrier to the OEM/OS.

- The OS/OEM vendors now have a direct, strong relationship with the application developers and customers
- Application revenue flows primarily to the developer and the OEM/OS
- The customer has greater choices and a much easier user experience when downloading applications
- Billing is easy with iPhone App Store but more cumbersome to navigate with some of the other "App Stores"
- Carriers still have their own "App Stores" and are required to do a delicate dance with OEM/OS (e.g. AT&T's Media Mall and T-Mobile's web2go) but risk becoming "dumb pipe"
- Application Developers and Publishers still have no direct relationship with customers

Figure 2: Mobile Content Ecosystem v2.0



Apple has defined and thrived in the new ecosystem for a number of reasons (product design, open APIs, SDK, shrewd negotiation with AT&T), but three of their building blocks could have been owned by the carriers:

- **They defined and maximized the customer experience.** Apple had a pre-existing relationship with many wireless customers (via their iPod) and capitalized on what that segment wanted (the carriers have installed bases in the millions and could have done the same).
- **They had a simple, familiar way to bill you for your applications (iTunes Store).** The carriers have the same relationship.
- **They marketed to you.** Apple drove great awareness of the App Store by investing heavily in marketing and PR and by ensuring a large number of quality applications were available for free (to encourage trial). Again the carriers could have done a better job doing the same.

These will continue to serve Apple well, but there is the opportunity to evolve the ecosystem a bit more to meet both the needs of the individual customer as well as the developer.

WHAT'S NEXT?

The carriers have a tremendous opportunity to get back into the game and play a meaningful role in the ecosystem while helping solve the challenges outlined above. However, they have a narrow window before an OEM or a 3rd party mobility site will likely fill the gap. Here's what they should do:

- 1. Engage Their Customer Base (And Give them a Fantastic User Experience)** – The carriers are fortunate to have a direct relationship with their customers; it's time to leverage those relationships and their corporate data to deliver extra value to that base. Here are a few relatively easy ways to do so:
 - **Create a profile** - Allow subscribers to create a profile of what interests them and how they use their device/the internet. This would be beneficial to the carrier for more than just selling applications. Make this a light weight process that provides value immediately (in the form of freebies or recommendations). Update over time based on behavior.
 - **Freebies** - Give them a free trial of various apps/services that are in line with their profile. This will encourage adoption and get them comfortable with Carriers new App Store "work flow".
 - **Recommendations** - Recommend other applications based on customer's profile, their location as well as based upon behavior (i.e. contextually relevant). Treat this like a traditional relationship marketing campaign that is executed on device, on the website or via email and allows them to buy instantly.
- 2. Partner with OEMs (other than Apple)** - My enemy's enemy is my friend. The other OEM "App Stores" will all be competing to chip away at (and replicate) Apple's success in the ecosystem. All of the carriers have historical relationships with the OEMs (Nokia, RIM, MS and Palm) and two key assets to help them.
 - a. **Billing** - None of the "App Stores" have the easy billing one finds with iTunes. They all rely on a 3rd party system (e.g. pay pal, credit card, etc.). Let them use your billing system and make it easy for the subscriber (take part of the rev share).
 - b. **Marketing** – Help these OEM stores market themselves at launch and then work jointly to help them market individual applications that are relevant to your subscribers (all for a fee of course).
- 3. Help the Developers Market their Applications** – How about building a platform that would allow individual developers to market directly to relevant subscribers based upon the profiles they set up all for a nominal fee? This one is a bit tricky given the revenue share agreements developers have the OEMs but may give impetus to adjust that model as well. It could function similar to "renting a list" in database marketing with many similarities to that model (e.g. fees vary based on # of targets, etc.) or could be similar to selling media. Include web advertising or statement stuffer access as part of the media package.

Working on all of these fronts and being willing to start over with their App Stores should give the carriers a shot to get back into the game before it's too late. The opportunity is too great to not find a role in the new ecosystem.

SUMMARY

Apple's iPhone App Store has been revolutionary and changed the mobile content ecosystem, largely leaving the carriers on the sideline. As more and more applications become available it becomes difficult for the individual developer and consumer to make money or find the right App for them. All of this can be overcome via better customer engagement and marketing. This is the golden opportunity for the carriers to get back in the game or be relinquished to "dumb pipe" status for the long haul, but they must move quickly before the window is shut.

FOR MORE INFORMATION

To discuss this POV or to learn about our mobility solutions, please contact Kirk Johnson at kjohnson@lenati.com