Advisory Report

Handset-based Application Stores: A Closer Look at the Leading Players

Deepa Karthikeyan
Senior Analyst, Wireless Services - U.S.

May 15, 2009

Summary

Up until mid-2008, the only way most mobile users could gain access to and download applications and content on their phones was via a direct link on the carrier's portal (also popularly known as the "walled garden" approach), which gave consumers very little (if any) choice in services. Carriers tightly controlled the content on their decks as well as prices, leading to a very undemocratic system where developers were forced to establish a direct relationship with carriers in order to get distribution for their apps, and revenue share agreements were negotiated on a case by case basis.

Fast forward to 2009 where handset-based application stores have taken the market by storm offering users a myriad of services and applications at very low prices (if not free). These stores sprung up to service 'iconic' or hero devices – typically smartphones – to tap high-value data users. The revolution spearheaded by iPhone's App Store has been lapped up by every handset and OS manufacturer worth its salt. Key players include Google's Android Market, BlackBerry Application Store Front (RIM), Ovi Application Store (Nokia), Windows Mobile marketplace and Palm App Catalog. These marketplaces promise to be a nirvana for developers, providing them with an open platform of sorts where they can create and sell their applications and claim a fixed percentage of the overall revenues.

However, this new phenomenon is not free of wrinkles. Although developers now have an opportunity to display their wares easily, and earn considerable revenue in the process, the high degree of fragmentation reflected in the form of variations in acceptance policies, revenue sharing agreements and fee structures among the different app stores creates a confusing scenario for developers. In the long run this can prove to be counterproductive to this trend as a high level of developer involvement translates to a wider variety of application availability, which in turn will ensure greater consumer interest.

This report provides a comparative analysis of the top handset- based application stores – the options available, policies and revenue sharing procedures, and a general overview of their prospects.

Current Analysis
Outsmart your competitors

For more information, please call +1 703 404 9200, toll-free +1 877 787 8947,
Europe +33 (0) 1 41 14 83 14. Or visit our Web site: www.currentanalysis.com

Report:

Handset-based Application Stores: A Closer Look at the Leading Players

Current Perspective

Application Stores are listed by launch date.

iPhone App Store

Launch Date: July 2008
OS: OS X
Developer Fees: $99 One-time fee
Free Apps: Yes
Supported payment method: iTunes (credit cards and gift cards purchased at retail)
Revenue Share (Developer: Host): 70:30

Apple's iPhone App Store has the honor of being the one to stoke the handset application store mania. Its advertising has conditioned customers to download applications and has educated the smartphone user market, regarding the capabilities of their device. This less than a year old store recently celebrated its one billion app download mark and boasts over 40,000 applications, a testimony to its immense popularity. With a onetime developer fee of $99 and its support for free as well as paid-for applications (as low as $0.99), Apple has made it relatively simple for developers to bring their wares directly to consumers via its iconic iPhone. Distribution and payments are handled through the iTunes interface, negating the need for users to familiarize themselves with a new system. Developers who publish their applications on the App Store receive 70% of sales revenue, and do not have to pay any distribution costs for the application. Furthermore, the store gives consumers a centralized location to browse and download applications. The low-cost barriers and potentially high rewards allow small-scale developers to serve the market in exactly the same way as their larger counterparts, leveling the playing field for the first time. The new version of its OS (iPhone OS 3.0) is designed to further encourage this system via some 1,000 new APIs allowing developers to offer things like subscriptions, additional game levels, and new content.

The App Store, however, is not flawless. It has been criticized severely by snubbed developers for its somewhat closed, self serving and sometimes unfair application approval process. Apple prohibits apps that compete with services and apps that might impact its carrier negatively, such as video streaming and tethering apps.

Android Market

Launch Date: September 2008
OS: Linux
Developer Fees: $25 Onetime fee
Free Apps: Yes
Supported payment method: Google Checkout (credit cards)
Revenue Share (Developer: Host): 70:30

Google's Android App Market saw the light of day in September 2008 via the launch of the G1 phone on T-Mobile's network. With this launch, Google extended its tried and tested revenue model of ad-funded services into the mobile space. The Android Marketplace encourages developers to create programs which translate into more advertising and eventually greater revenue and growth for the Internet giant. While the overall buzz did not measure up to that of the iPhone App Store, the Android App Market was well received by developers because unlike Apple, Google does not heavily regulate the Android App Market, making it a truly open playground for creative developers. The current revenue share model

is an arrangement between the carrier and the mobile application developer; Google does not partake in the revenue. In the U.S., this has allowed T-Mobile to see a revenue share upside that escaped AT&T with the iPhone App Store. Furthermore, Android Market is now accepting premium applications from developers which should enhance their earning potential, increasing the appeal of the platform. Google also recently launched a new iteration of the platform, Android 1.5, which brings a lot of new and exciting features like support for home screen widgets, software keyboards, a media framework featuring video and photo sharing intents, and miscellaneous enhancements such as LocationManager, WebView and GLSurfaceView.

Android is based on mobile Linux; however, application development is typically done in Java. There are several hundred Android apps, but this number is expected to grow dramatically. The HTC Dream (aka the T-Mobile G1) gave Android a start in the market, and several handset manufacturers have announced that they are working on Android smartphones to be released sometime this year, which should provide more options to both the developer community and end users.

The primary concern with Android App market is that it does not have a clear consumer value proposition aside from the integration of Google's own applications. A single device with considerably less visual appeal than the iconic iPhone, provided by a carrier with spotty 3G coverage in the U.S. has not helped skyrocket its popularity. Although T-Mobile's G1 customers can use WiFi hotspots in select locations, they need to subscribe to a monthly or daily WiFi plan from the carrier for access. Google's hope is that if it gets enough companies to build Android phones, someone will create a killer app for it. In many ways, Android's value proposition is more interesting for application developers than consumers. Promising an open development environment does not create a market for those applications, even if Google does deliver on its promises not to interfere with what types of applications reach the market.

BlackBerry App World

Launch Date: April 2009
OS: BlackBerry OS
Developer Fees: $200 Onetime fee
Free Apps: Yes
Supported payment method: PayPal
Revenue Share (Developer: Host): 80:20

RIM's BlackBerry App World is available to all BlackBerry devices that have been updated to BlackBerry OS version 4.2.0 or higher, including BlackBerry Storm, Pearl, Curve (8300 and 8900) and BlackBerry 8800. Unlike its predecessors, RIM set a $2.99 minimum price for paid-for applications and a hefty $200 one time developer fee. It also charges $200 as annual application fees for ten listings. In comparison, almost a quarter of iPhone apps are free and pricing for paid-for apps for the iPhone starts at 99 cents, while 80% of the apps cost less than $1.99, and until April everything in the Android App Store was free. The two stores also offer unlimited listings to their developers at no additional cost. While RIM's historical base was from the business and professional segments who may tolerate higher pricing, 70% of all BlackBerry smartphones purchased last quarter went to consumers, not business users. However, while developers may chafe at the higher fees, they should appreciate higher minimum sale prices – RIM claimed that it designed the policy from developer feedback. The higher costs will also keep less desirable apps at bay which competitors like iPhone have fallen prey to (e.g., the 'Me so holy' and 'Baby Shaker' apps). Moreover,

Report:

Handset-based Application Stores: A Closer Look at the Leading Players

BlackBerry App World's revenue share is the best in the industry today, enabling developers to pocket 80% of the revenues earned from the app sales, which should help offset some of the high entry cost barriers. The underlying BlackBerry OS also allows for personalization (changing skins, fonts etc) and can handle multitasking (allowing multiple apps to be open in the background), which helps differentiate the store from competitors.

Despite some positive traits, BlackBerry App world was not received with the same enthusiasm as the preceding two app stores. Although RIM expects the store to grow over time, it failed to create a splash at launch. There aren't that many apps in the store, and the titles that are on the shelves are not unique to the BlackBerry platform. While iPhone's App Store holds the title of the innovator and Google's Android Marketplace that of an open, unfettered and more importantly low cost destination for developers and users, BlackBerry's App World is still looking for its niche.

Nokia Ovi Store

Launch Date: Yet to be Launched
OS: Symbian
Developer Fees: None
Free Apps: Yes
Supported payment method: Carrier Billing, Credit Card
Revenue Share (Developer: Host): 70:30

Nokia's Ovi store was confirmed at the 2009 Mobile World Congress with the key differentiator being that the store will provide personalized recommendations to users based on their usage patterns and location, bringing in the all-important concept of personalization to the picture. This will encourage niche developers to participate more as their apps will automatically be targeted to the right users at the right place and time using features like geo-location services and peer to peer networking, maximizing their revenue potential in the process. The store also requires no developer fees, which will be welcomed by small time developers and will help inject some fresh and innovative content. The Ovi store will also feature personalization content like ringtones and wallpaper, essentially acting as a one stop shop for all services. It will initially be available for download to S40 and S60 Nokia devices, and the first preloaded handset will be the N97 in June 2009, and will feature 20,000 applications ready for download.

It is tough to assess the pros and cons of a store that is yet to be launched, but a prime negative that jumps out is that Nokia does not offer a one size fits all system for developers to help them launch their applications across its varied handset portfolio, which features different screen sizes and user interfaces. Although having multiple devices to choose from is not necessarily a bad thing since it offers developers a wider audience to target their apps at, the absence of a system that will enable them to port their applications on more than one handset without making any changes does make life a little complex. Developers now have to tweak or worse even rewrite some of their programs to make sure their applications are optimized for each device type and ensure a wide reach. Furthermore, Nokia has almost no presence in the U.S. smartphone market which makes it tough to assess the impact it will have upon the competition and vice versa. However, outside the U.S., the situation is quite different. Despite inroads from Apple, Samsung and HTC, Nokia is still the world's largest smartphone vendor with unparalleled distribution advantages in many markets.

Report:

Handset-based Application Stores: A Closer Look at the Leading Players

Windows Mobile Marketplace

Launch Date: Yet to be Launched
OS: Windows Mobile 6.5
Developer Fees: $99
Free Apps: Yes
Supported payment method: Carrier Billing, Credit card
Revenue Share (Developer: Host): 70:30

Like Nokia, Microsoft also confirmed the launch of its Window Mobile Marketplace store at the 2009 Mobile World Congress, and said it will be found on all handsets that have the soon to be launched Windows Mobile 6.5 OS. Similar to Google's Android market, users will need a Windows Live ID to browse and purchase applications from the phone. Windows has chosen to emulate RIM's path by posing a hefty annual developer fees of $99 and imposing a $99 application listing fee for five applications a year in a bid to weed out undesirable entries, which unfortunately will also curb innovation. However, it is willing to bend its rules a little by waiving registration fee for student developers who enroll in its DreamSpark program. Microsoft has also avoided potential pitfalls by offering developers a list of application types that will be prohibited in its storefront like VoIP services, programs that are larger than 10 MB and programs that will change or remove default services on the handset like SMS and MMS.

This proactive measure should help developers rather than irk them as they now have a set of rules to follow and can bring Microsoft to task if their app is rejected on a basis other than the ones explicitly spelt out in the list. Applications will be developed in C# using the same tools and many of the same APIs used for Windows on the desktop. This will make it easier for corporate developers, who already have the necessary tools and skills. The company already claims to have a database of 20,000 applications for Windows phones which will be available to customers through the marketplace during launch time. Some of the features which will help attract developers and users include a transparent approval policy, customizable UI, a 24 hour app return policy and wide global device support. Microsoft has also indicated that it will support both credit card payments and carrier billing giving users an option in their payment choice and carriers an additional revenue source. The registration doors for the store opened in May 2009 and developers will be able to submit their applications this summer. The store is scheduled to launch later this year.

Palm App Catalog

Launch Date: Yet to be Launched
OS: Windows Mobile 6.5
Developer Fees: $99
Free Apps: Yes
Supported payment method: Carrier Billing, Credit card
Revenue Share (Developer: Host): 70:30

Palm has not revealed much about the details of its App Catalog. The store is set to be launched on the highly anticipated Palm Pre. The Pre is based on Palm's new webOS that combines a gesture-based UI for capacitive touchscreens with advanced multitasking and social network integration. webOS uses Web standards, rather than C or Java, for its APIs. The idea is to get the hundreds of thousands of Web developers to write apps for webOS, rather than compete with the smaller number of application developers already writing for other mobile platforms. Palm will also include libraries that will offer access to its hardware and OS capabilities. On April 1 2009, Palm expanded its early access program for Palm Mojo Software Development Kit to the developer community at large (previously only available

to select few), offering them an opportunity to test drive the OS free via a set of tools they can use to build applications for Palm's Pre Smartphone and other devices running webOS. Due to the SDK's limited ability in supporting natively running apps, users will not find extensive and feature rich gaming and other applications on the store at launch time, which might disappoint some. Although the webOS is impressive, it will take a successful launch across multiple carriers and handsets to make the App Catalog a success and a true threat to other handset-based application stores already in the market.

Recommended Actions

Recommended Vendor Actions

• Since iPhone's OS does not support third party multitasking, users have to close existing applications in order to open new ones. Apple needs to fix this. The upcoming push server workaround still doesn't address some applications – like location-based services – that actually need to run on the hardware in the background. Apple also needs to relax regulations against apps that compete with its native services (iTunes, Safari etc.) to avoid risking its competitive stance in the near future vis a vis other, more open app stores.

• Google's Android Marketplace should highlight some of its inherent advantages over iPhone's App Store beyond its more democratic approach to application selection, such as multiple device support capability, 24-hour return policy and its one time low developer fee of $25. Its challenge is to get developers building apps for a small installed base; it can start by asking carriers and handset vendors to announce the number of new Android devices that will be launched later in the year, even without any other details.

• RIM should justify its hefty developer fees of $200 for ten apps and the minimum non-free price tier of $2.99 by promising that developers won't have to compete with a flood of less desirable apps. It should also highlight the fact that its revenue sharing agreements are the best in the market with developers receiving 80% of the total app related revenue (the industry standard is 70%).

• As app stores gain momentum and richer media intensive applications are launched on a wider scale, U.S operators should rethink their unlimited data plan strategies to curb data abuse and excessive consumption which might negatively impact their network performance. Carriers should consider weighing in data limits at 5 GB (a la broadband plans) or charge more for data-intensive applications to encourage users to opt for WiFi access where applicable.

• Nokia needs to get its hardware in front of U.S. software developers, which means getting U.S. carrier distribution for its smartphones. Then it can highlight the wide reach of its Ovi platform and other critical advantages over other app stores which include the lack of developer fees, ability to publish Flash Lite apps and minimal filtering. Nokia should also publish data as soon as it is available showing that its recommendation engine increases sales.

• Vendors interested in launching their own stores need to recognize that Apple's success with App Store is partly predicated on the fact that it is the sole source for iPhone applications. Microsoft, Symbian and RIM must ensure that all apps for their platforms, not just some of them, end up in their stores. Consumers are being trained (by Apple's ads, if nothing else) to search the store. If they don't find what they're looking for, they won't search elsewhere – they'll give up.