

Apps primed for take-off

Market trends and impacts

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Applications are big news and are changing the way users shop and live but have not yet produced the financial returns that their large volumes would suggest. As the market develops, CSPs are in a prime position to be an essential part of the app revolution.

When it comes to driving the growth of mobile data, applications are certainly getting the lions' share of the attention. Understanding the dynamics of applications, what consumers want of them, how they can be used, what the possibilities are and their importance in redefining the ecosystem is crucially important.

Although applications have been around for a long time, their actual take up has been slower than might have been expected. This has all changed and we are now seeing an application explosion driven by the arrival of the critical ingredients at the same time, with the right price that consumers find attractive. The devices are now capable and impressive, broadband, both fixed and mobile, is ubiquitous, an application developer community has grown up equipped with the right tools and application stores are in

place. This brings new experiences to consumers while disrupting existing business models, a situation that is bound to result in increasing innovation.

Goodbye killer app, hello mash-up

The concept of the next killer applications has been around for a long time, but more recently, people have come to realize that success will no longer be based on one application that captures the public's imagination. Instead, a large variety of different applications will populate the communications landscape, with new, innovative applications often being a mix of existing applications and capabilities, known as 'mash ups'.

This trend leads to two major consequences, each of them significant for both developers and users of applications. The first is that application development time gets shorter when other applications can be re-used to build another. The second is that take up times get shorter – building on top of or linking to existing social networks, for instance, gives the application owner a ready source of users. This means it takes much less time from the initial idea for an application to achieve success – Yahoo, Skype, YouTube, Twitter all achieved significant volumes in progressively shorter times.

Although we cannot predict accurately what these future applications will be, we can say that they will be made up of certain key ingredients, such as voice, video, location, maps, search and social networking, payment and various types of sensors. Endless possibilities exist but the overriding common factor will be ease of use – no application will be successful if it does not include this basic ingredient.

Online and offline get closer

What we can say of future applications, based on what we have seen so far, is that they will help the online and offline worlds become closer and more integrated, with online applications having a significant impact on how real goods and services are sold and consumed.

An example of this is point and find applications where you point the camera of your mobile phone at an attraction and get information such as opening times and options to buy tickets online. Similarly, Amazon has launched an application to be used in real shops. When you find a product you wish to buy, take a picture of the barcode. This tells you the price the same product would cost in Amazon and allows you to order it straightaway.

Until now, group buying has been restricted to online shops, which could also only provide the same offer to everyone. The advent of popular applications such as Groupon, LivingSocial, and Foursquare, are bringing this concept to the offline world. Offline shops and restaurants can make online offers, for example, based on your location, where the discount depends on the number of people participating. The coupons can be forwarded to friends. The product or service is bought online, but consumed offline, giving rise to the term Online-to-Offline (O2O).

In January 2011, LivingSocial had 20 million subscribers, while Groupon had 50 million subscribers. Both have been adding on average five million subscribers per month throughout late 2010, while in December 2010, Amazon invested 175 MUSD in LivingSocial.

Similarly, loyalty cards are moving from “offline” physical cards to online applications where a consumer receives points either when buying something or when using the application to check-in at a physical location, for example, a shop. Facebook Places is a service that allows its users to check-in to shops, businesses and locations using their smartphone, getting special offers, discounts and

coupons for outlets that partner with the social network. These can be donations to charity, give aways of products to individuals, loyalty schemes or rewards for bringing friends to a location.

Pay as you move

Mobile payment and mobile wallets are major trends that combine online and offline worlds and customers of Starbucks can already pay for their coffees using an iPhone application.

One of the major series of changes we have seen in recent years has been in the media and entertainment industries. Digitalization with the introduction of CDs was a major step but new devices, more extensive connectivity and a wealth of applications have really transformed the market and are ready to cause further disruption. MP3s downloaded from websites have undercut the mass delivery model of the major record labels and many bands now release albums themselves, directly to their on line buying fans. This is complemented by music streaming services, such as Spotify, which allow you to just start listening to the music stream over a fixed or mobile broadband connection. New business models are also introduced. For a monthly flat fee you listen to the music as much as you like, or

choose the ad based model that gives you 10 hours music streaming for free each month. The video and broadcasting industry have similar models, with Netflix and Voddler following the trend, while Amazon and Google are also developing their own services.

Book publishing has gone through an earlier stage of this transformation but the growing popularity of e-book readers and tablets is giving the industry a new lease of life and allowing out of copyright material to be repackaged and sold in a new form.

All these applications are obviously exciting and interesting to the users and are being bought and used in significant numbers.

Free apps undercut paid

Many players in the industry are looking at apps as major sources of new revenue, yet Yankee Group estimates that the overall applications market will only be 2% of the total mobile telecom market in 2014. Another factor is that the big names in the applications market, Apple and Google Android, don't regard applications as the major part of what they offer. To them, applications are merely a means to an end to support their core business, in Apple's case to sell more devices, in Google's to

get more people viewing the advertising they carry - Apple gets roughly 1% of its income from AppStore sales. Apple and Google at least have big enough volumes, which are seen as one key criterion for being successful.

We have a low market value for applications yet volumes of both apps and subscribers are high. It should be no mystery that the reason is the huge number of free apps out there and it is also no surprise that free content will drive out paid application downloads - only around 10-20% of downloads are paid for applications.

Google for one is not happy with this situation and sees the payment process as a barrier. In response, the company has announced that it will focus during 2011 on enabling carrier billing, exemplified by an

April 2011 deal with NTT Docomo in Japan.

This is the core opportunity for operators. Billing relationships with customers are operators' most crucial asset and they can make the most of this by offering billing services to over-the-top players (OTT). What consumers value most when it comes to billing and payment is convenience, which they rate even more highly than security. And the method they prefer is to be billed through their operator. Secure billing is also an attraction and consumers trust their operators more than almost any other organization.

Yet, there are some trends developing that threaten this relationship, including Internet players and credit card companies offering billing and payment, as well as devices such as Amazon's Kindle e-reader,

where the connectivity is bundled into the device price. In such cases the consumer has a billing relationship with, for example Amazon, rather than with the operator. For CSPs, making the most of this growing apps market and staving off threats from other payment routes will mean offering the advantages of their customer relationships as an asset to partners such as application stores or Internet players. As the cloud develops, networks will be become more relevant than ever, as things like network quality and security become even more critical. Using the convenience, security and trust they can offer, CSPs can make themselves a vital link in the apps value chain, benefiting from the growth that they will help to create and sustain.

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