The Mobile Application Market

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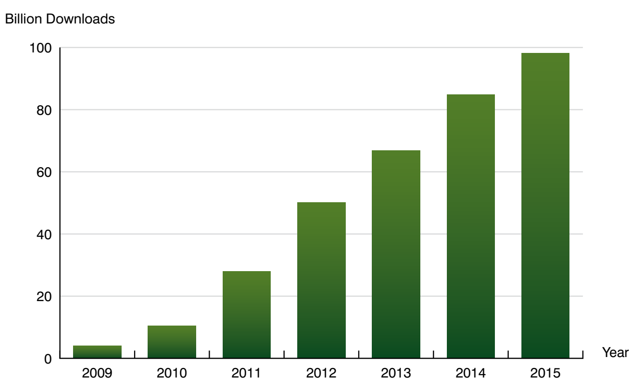
The smartphone trend is accelerating the mobile application market

Software especially developed for mobile phones has been around for well over a decade and before the term application (app) store was popularized, distribution of mobile content and applications was often realized through portals which were managed by network operators. Operator portals had some success in selling mobile content but the ecosystem was at first unclear and did not attract enough developers and users to really take off. The Apple App Store – an on device centralized store – with easy to find applications and with a simplified business model for developers, was later the disruptive force that kick-started the market for mobile applications. The success was immediate and within its first week of operation, the App Store accounted for 10 million app downloads. Today all leading operating system providers and handset vendors have followed and launched their own application stores.

The ecosystem around devices consisting of services and applications has today become an important influencing factor for users when choosing handsets. Therefore, it is important for mobile platform vendors to achieve a prosperous mobile app ecosystem that creates revenues for publishers and value for end users in order to increase customer loyalty and sell more devices. Even though the directly generated revenues in mobile app stores still are comparably small, the importance of mobile apps is self evidential when observing the consumer interest in apps as well as the fact that apps attract and generate revenues for a growing mobile community of software developers, publishers, media owners and mobile ad companies.

In 2010, there were approximately 10 billion app downloads made on all mobile platforms. Consumers are getting used to expanding the functionality of their devices through apps and Berg Insight anticipates the number of app downloads to almost threefold year-on-year in 2011. Even if featurephones are able to run apps, the increased sales of smartphones and the rising popularity of apps are closely tied together. In 2015, over 70 percent of all handset shipments will be smartphones, building a large user base that will spur the number of app downloads to reach almost 100 billion during 2015. The number of app downloads per platform will gradually mimic the market share for each mobile platform. However, some of the newer platforms, such as iOS and Android, are much more app centric than older platforms such as Symbian. Also, network effects in the symbiosis between users and developers, reinforces the most popular platforms and attracts both more developers and users. Berg Insight forecasts that iOS and Android combined will serve over 62 percent of the total app downloads in 2015. The Windows Phone operating system is projected to be the third most popular application platform in 2015.



Mobile application downloads, billion downloads (World 2009–2015)

Berg Insight estimates that revenues from paid applications, in-app purchases and subscription services – so called direct revenues – reached € 1.6 billion in 2010. Berg Insight forecasts direct app store revenues to grow at a compound annual growth rate of 40.7 percent to reach € 8.8 billion in 2015. Apple's iOS is the current leader in direct monetisation of mobile applications and will keep the number one position during the forecast period. In 2010, the Apple App Store generated revenues of € 1.33 billion. In 2015 the company's app store is predicted to generate € 4.4 billion in direct revenues. The Android platform is the second largest platform in terms of direct revenues and generated € 80 million during 2010 which will grow to almost € 1.5 billion in 2015.

The market for in-app advertising took off during 2010 as a means to capitalize on free apps. In-app advertising generated € 300 million representing 16 percent of the total app revenues during the year. In 2011, app advertising revenues will more than double to reach € 750 million. The in-app advertising revenues will increase throughout the forecast period and in 2015, in-app advertising is forecasted to generate € 3.5 billion corresponding to 29 percent of the total app revenues. In-app advertising is more of a volume game and Android will surpass iOS in 2012 as the platform that generates most in-app ad revenues. Berg Insight predicts Android to generate over € 1.2 billion in in-app ad revenues in 2015, up from € 39 million in 2010. The iOS platform generated € 230 million in 2010 and is forecasted to reach almost € 1.0 billion in 2015.

This report answers the following questions:

- Which mobile platforms offer the best potential for monetising mobile apps?
- How can mobile operators benefit from the mobile application market?
- Which will be the most important business strategies for mobile applications?
- What are the impacts of web technologies such as HTML5 on the mobile application market?
- Why is it important with a multi platform development strategy?
- How big is the revenue opportunity within the mobile application market?
- How can app developers minimize business risks?
- Which are the leading mobile application stores?

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About the Author

Johan Svanberg is a Senior Analyst with a Masters degree from Chalmers University of Technology. He joined Berg Insight in 2007 and his areas of expertise include embedded connectivity and mobile applications.

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