VAS Research Series

The Mobile Application Market

The Mobile Application Market is the second consecutive market report from Berg Insight analysing the latest developments on the global market for mobile applications and app stores.

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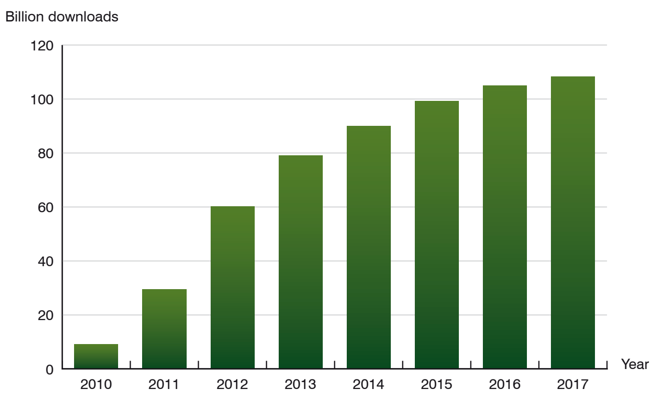
Mobile application downloads doubled in 2012

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 achieved 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. Mobile applications are already a multibillion Euro business and the importance of mobile apps is clear 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 2011, there were approximately 30 billion app downloads made on all mobile platforms. Consumers are getting used to expanding the functionality of their devices through apps and Berg Insight estimates that the number of app downloads doubled year-on-year in 2012 to reach 60 billion downloads. Even if featurephones are able to run apps, the increased sales of smartphones and the rising popularity of apps are closely tied together. In 2017, over 80 percent of all handset shipments will be smartphones, building a large user base that will spur the number of app downloads to reach 108 billion during 2017. The number of app downloads per platform will gradually mimic the market share for each mobile platform. However, some platforms such as iOS, Android and Windows Phone are much more app centric than older platforms such as Symbian, Series 40 and BlackBerry OS. 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 Apple's App Store and Google Play combined will serve over 62 percent of the total app downloads in 2017. The Windows Phone operating system is projected to be the third most popular application platform in 2017.



Mobile application downloads, billion downloads (World 2010–2017)

Berg Insight estimates that revenues from paid applications, in-app purchases and subscription services – so called direct revenues – reached € 5.1 billion in 2012, up from € 3.0 billion in 2011. Berg Insight forecasts direct app store revenues to grow at a compound annual growth rate of 15.8 percent to reach € 10.6 billion in 2017. Apple's App Store is the current leader in direct monetisation of mobile applications and will keep the number one position during the forecast period. In 2012, the Apple App Store generated direct revenues of € 3.45 billion. In 2017 the company's app store is predicted to generate € 5.2 billion in direct revenues. Google Play for Android apps is the second largest app store in terms of direct revenues and generated € 900 million during 2012 which will grow to almost € 2.5 billion in 2017.

The market for in-app advertising took off during 2010 as a means to capitalize on free apps. In 2012, app advertising revenues reached € 1.35 billion worldwide. The in-app advertising revenues will increase throughout the forecast period and in 2017, in-app advertising is forecasted to generate € 3.5 billion corresponding to 25 percent of the total app revenues. Google Play and Apple App Store generated € 510 million and € 570 million respectively in in-app ad revenues in 2012. Free to download monetisation strategies such as in-app purchasing and in-app advertising are today dominating. Top mobile application publishers such as Rovio Entertainment, Electronic Arts, Zynga and DeNA all work with multiplatform and free to download strategies. Facebook is today the publisher which generates most in-app advertising revenues and the company offers apps on all major platforms.

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 maximise revenues for different types of apps?
- 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, telematics and mobile applications.

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