

Mobile Applications in Germany

A Mass Market Phenomenon or a Case of Hype? Time for a Reality Check



A recent study conducted by Arthur D. Little and IP Deutschland shows that mobile applications are becoming a mega-trend within the industry and are dramatically changing the way customers use their mobile device. Understanding this trend will be important for device manufacturers, application developers and operators that want to adopt and profit from these fundamental changes in the value chain.

Smartphones – accelerating growth enables penetration up to 70%

The Arthur D. Little/IP Deutschland survey¹, which took place among a representative sample of German internet users in August 2010, showed that smartphones already represent a third of the total mobile device market. With another 11% of survey participants stating they were highly interested in purchasing a smartphone within the next three months, the study shows clearly that there is a strong and growing demand for smartphones among German customers.

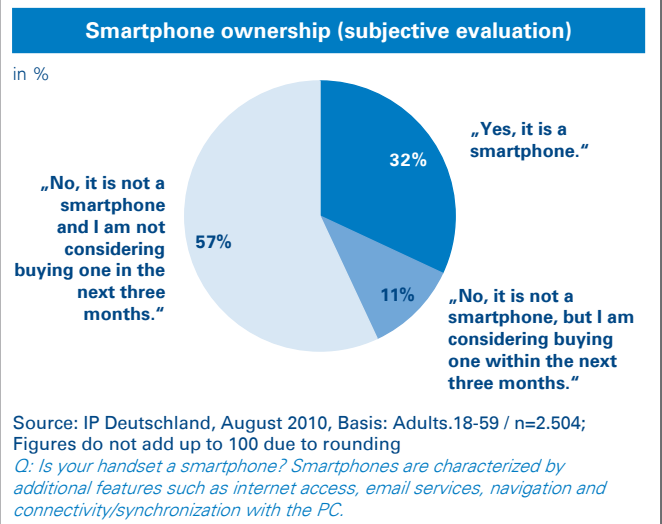
Smartphone penetration is especially high among male and younger users (18–29 years) with about half of survey respondents either owning or saying they would like to own a smartphone. This trend is likely to accelerate over the next five years, with penetration expected to surpass the 50% mark in 2012–13 and reach a penetration target of 70% by 2015–16².

This growth projection for smartphones will however require much stronger adoption among female users, of which currently only 25% of those surveyed stated that they own a smartphone. Females currently prefer to use classical features such as SMS and MMS rather than internet browsing or mobile applications. To address this untapped market, we believe that both handset form and user interfaces need to become more attractive to female users in the future.

iPhone rules the market – but Android is growing fast

Currently, Nokia is still the most widely used handset type, particularly among older customers (Nokia has a 37% share in the 30–58 age group). With respect to smartphone penetration

Figure 1. Smartphones already represent a third of the total market



however, Nokia is significantly underrepresented, reaching only 25% market share.

On the contrary, market share for the iPhone – one of the most application-oriented devices in the market – is evenly distributed across all age groups (6% market share overall). The iPhone has already gained 15% market share in the smartphone market, putting it in second place.

Smartphones that run predominantly on Android, such as those from Samsung and HTC, have gained a combined 20% share in the user base. Research In Motion's Blackberry devices, which are more commonly used by older and male customers, achieve 6% market share among the user base.

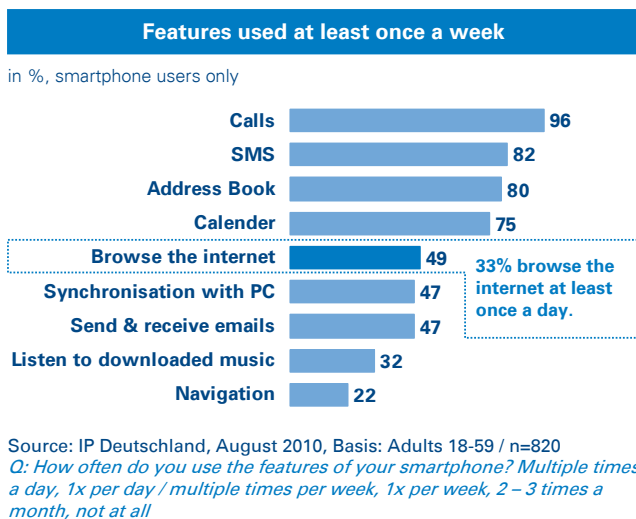
1 Study was conducted online (2,500 surveys) from July to August 2010
 2 Exane BNP Paribas / Arthur D. Little report "Mobile internet: blessing or curse?"

It seems then that the German smartphone market is following the trend seen in other markets (the US in particular) with respect to the growing importance of four device platforms: Apple iOS, Android, Nokia and Blackberry. Therefore operators and developers need to address multiple platforms rather than relying on the currently dominant Apple iOS.

Mobile internet as key driver for the smartphone market

Nearly 50% of all smartphone users surveyed access the internet on a weekly basis. An astonishing 33% of survey respondents access the internet at least once a day through their smartphone. Mobile internet is therefore the most prominent "new" smartphone feature. Navigation, gaming or video usage are less popular by comparison, with only around 20% of respondents accessing them weekly.

Figure 2. Almost 50% of smartphone users access the internet at least once a week.



Although mobile internet services have been available for some time on mobile devices, the user experience has improved dramatically on smartphones due to factors such as higher network speed and simpler user interfaces. iPhone customers are particularly regular users of mobile internet services – 97% of them access the internet at least once a week.

Around half of all mobile web-browsing sessions last less than ten minutes. By contrast, nearly 30% of iPhone users surveyed said they spend more than 30 minutes online during each mobile web-browsing session.

"Downloading" and "using applications" are among the most popular uses of smartphones; only around 20% of users stated that they do not use applications and are not interested in them.

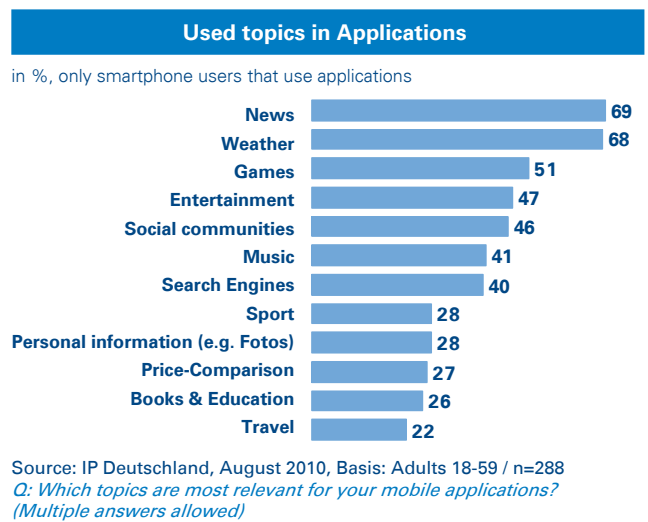
The applications used most frequently are related to news and weather, followed by games, entertainment and social networks.

There are however distinct preferences by gender and age; while female users seem to be much more interested in social

networks than games, younger consumers rank entertainment and social networks as their most-used applications.

In addition, more than half of survey respondents said they tend to use applications that they know from the fixed internet. This suggests that preferences are carrying over from the fixed internet to the mobile screen, proving that customers have already adapted to "multi-screen" services.

Figure 3. News and weather are the most popular topics for mobile applications.



With respect to accessing the mobile internet, over 70% of respondents use both applications and the classical browser. However, more than half of respondents believe that applications will dominate the mobile internet in future.

Application stores – significantly influencing choice of handset

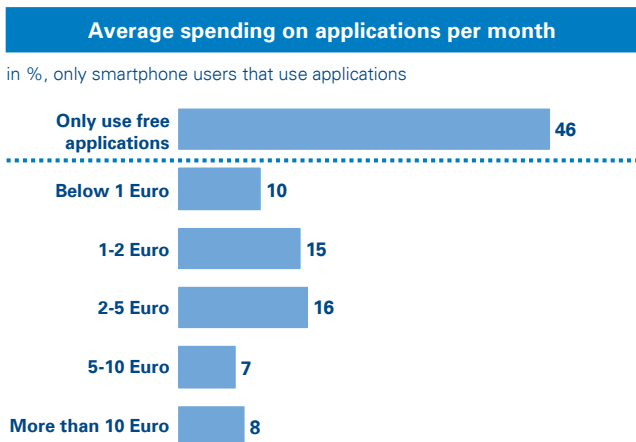
Application stores play a crucial role in sustaining the acceleration in growth of smartphone sales. More than half of the respondents (54%) stated that the accompanying application platform was a key driver for the purchase of the handset.

The perceived attractiveness of application stores depends strongly on the amount and appeal of the applications offered. This means platform providers as well as third party developers make an important contribution to the overall attractiveness of the device. Currently, Apple's AppStore is by far the most-used application platform, followed by Android Market and Nokia's OVI platform.

Mobile operators' own application stores are of minor interest as a download channel for respondents, indicating the lack of attractive content being offered by operators for various handsets, and leaving this space to the device and operating system providers for the time being.

The application market is, however, not only a driver for the customer's decision to buy a handset; it is also becoming an attractive source of revenue for platform providers and developers.

Figure 4. Approx. 50% of the users are paying for applications.



Source: IP Deutschland, August 2010, Basis: Adults 18-59 / n=288
 Q: How much do you in average spend per month on applications?
 (Figures do not add up to 100 due to rounding)

Currently, the majority (54%) of smartphone users surveyed are willing to pay for mobile applications, with 31% willing to pay 1–5 Euros per application. In addition, 15% of survey respondents are willing to pay more than 5 Euros. This result indicates that smartphone users see real value in some of the offered applications. Male users generally are more willing to pay higher prices than female, while younger users aged 18–29 are more focused on free applications.

What makes a good application?

Irrespective of the price of an application, customers rank simplicity and security of personal data as the most important features required for a good application. In addition, customers expect fast start-up and shutdown as well as the facility to update the application. About half of smartphone users also expect applications to be adapted to their location in terms of language.

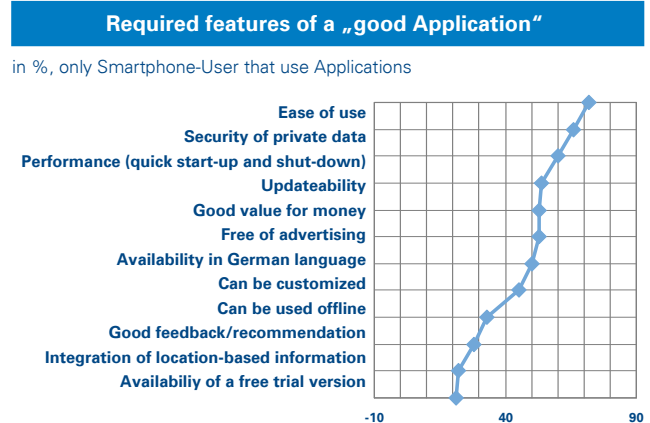
The expectations of customers however are driving complexity for developers. Development costs for a good application currently stand at approximately 25K Euros.

With this price tag, we suspect that most applications are not currently delivering profits for their developers. If an application is offered at 0.79 Euros and the developer gets 70% of the revenue (as is the case with Apple’s share revenue model), then the application needs to be downloaded at least 45.000 times for the developer to break even.

However, with ever-growing competition among applications (large application stores already have more than 250.000 apps on offer), it will become increasingly difficult for developers to get their application promoted appropriately and reach such a mass of customers.

This highlights the increasing significance of viral marketing for promoting applications. Besides the application stores’ own

Figure 5. User-friendliness is the most important feature for an application to be rated as good.



Source: IP Deutschland, August 2010, Basis: Adults 18-59 / n=288
 Q: Which of the following features do you expect from a „good“ application? (Multiple answers allowed)

marketing activities, such as a ‘Highlights’ or ‘Top 25’ section, recommendations from friends or other users are becoming more and more important in the decision to purchase.

According to the survey, 61% of people find out about applications via the application store, 44% find out through friends and 25% through online reviews.

However, we believe that the requirement to promote applications means application developers will need to move away from the pure ‘platform’ environment and enter new partnerships with local promotion partners. In particular, we believe that there is a space for mobile operators to establish a sustainable position.

Enrich applications through partnerships

Currently, mobile operators’ stores are not a preferred source for applications (only 20% of respondents use the operator’s store). However, we believe that the potential of operators to act as a ‘partner’ of the application developers is currently undervalued.

We believe that operators can help smaller developers to market and promote attractive applications and manage the increasingly relevant porting of applications from one operating system to another. Operators as marketing partners can also be extremely efficient on a regional basis, where they will be much more effective than application platform providers, which are mostly device/OS centric and centrally managed.

In addition to their role as local ‘promotion partner,’ network operators have specific assets that can further improve the performance of third party-applications. Operators’ four key differentiating assets are: billing, control of user ID, their network capabilities and location data.

Network operators have a particular opportunity to exploit their position as the only player in the mobile eco-system

with knowledge of where each customer is. This capability is extremely valuable to developers that want to offer location-based services and/or integrate location-based advertising.

To standardize and commercialize these assets, operators founded the Wholesale Application Community (WAC) in 2010. Nearly 60 international providers, device manufacturers and developers are now working together on standardizing application interfaces and platforms. Although this standardization would be beneficial for developers, we are sceptical that operators will be able to act fast enough to address the market trend efficiently since competition among players in the mobile eco-system will limit co-operation. As a result, operators could lose the chance to establish a unique point of differentiation in relation to local competition – something they ought not to give up voluntarily.

In-app advertising as the “next big thing”

The most significant change currently evident is the move towards applications financed by in-app advertising. More than 45% of survey respondents stated that they would welcome in-app advertising if this meant attractive applications were free. More than 50% predict that in-app advertising will decrease the cost of applications in future.

Recent developments in mobile advertising, such as the introduction of Apple’s iAds, show that the addition of innovative advertising in applications is of growing significance to application developers and advertisers. As 74% of respondents will choose their next smartphone based on the size of its applications store, we see a large opportunity for this kind of re-financing of applications in the future.

Conclusion

Smartphones and mobile applications will continue to re-shape the mobile eco-system in the future. Operators and device manufacturers need to be aware that mobile application services will ultimately define the success of smartphones in the market. In order to address this future development, operators need therefore to be proactive in establishing a relevant position in the value chain, becoming more than simply a local promotion partner recommending applications. Operators should add value to the applications through their networks, becoming branding and financing partners as well as developing a set of own applications that are relevant to their own customer base.

Within the application developer community, we see that, after the initial uptake, developers need to establish new ways of marketing and promoting applications in order to make business profitable. Partnering with mobile network providers, both to enable and promote applications will become commonplace.

Consumers will embrace mobile advertising in order to reduce the cost of mobile applications. This will create alternative sources of revenue for application developers, advertising platforms and network providers.

Contacts

Dr. Karim Taga

Managing Partner TIME practice
taga.karim@adlittle.com



Ansgar Schlautmann

Principal TIME Practice Germany
schlautmann.ansgar@adlittle.com



Arthur D. Little

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