

App stores' direct revenue to exceed \$14 billion next year and reach close to \$37 billion by 2015

- Mobile network operators can give vendor app stores a run for their money, says Canalys

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For immediate release**

Canalys today announced that app store direct revenue from the sale of apps, in-app purchases and subscriptions across smart phones and pads combined will hit \$14.1 billion next year, up 92% from an expected \$7.3 billion in 2011, and will reach \$36.7 billion by 2015.¹ This equates to a four-year compound annual growth rate for 2011 to 2015 of just under 50%. According to the analyst firm, this projected revenue growth presents an excellent opportunity for mobile network operators (MNOs) to compete with vendor app stores. MNOs have a strong platform on which to offer an improved customer experience, leveraging their detailed subscriber data.

'The leading stores already have hundreds of thousands of apps, so it's hard for operators to compete with those numbers,' said Canalys Analyst Tim Shepherd. 'On the other hand, too much choice brings serious problems in terms of application discovery for both developers and users, which operators can turn to their advantage.'

According to Canalys, large app inventories pose a problem for consumers who face overwhelming choice when it comes to the most popular app categories. A consumer searching for a weather app in the Android Market, for example, will find numerous possibilities, many of which have not yet received any user ratings or reviews. This gives operators an opening to provide an improved customer experience, by offering a narrower, yet fully vetted, choice of apps that can be tailored by user preference.

Consumer behavior is driving a major shift in the mobile space, as end-user appreciation of the convenience of connected mobile apps and web services grows. Consumers typically take their mobile devices everywhere, opening new market opportunities for time- and location-specific services.

'As more content and services are delivered over their networks, many MNOs are aspiring to move up the value chain,' said Shepherd. 'When it comes to detailed subscriber data, operators certainly have the competitive advantage. While they must clearly be careful to respect their customers' privacy, the data they hold leaves them well positioned to propose targeted

¹ Canalys Mobile App Store Analysis forecast, June 2011.

marketing services, such as promotions and recommendations, as well as richer editorial guidance, better localization, improved security and simpler billing processes.'

With 419.0 million application-addressable smart phones and 43.3 million pads expected to ship worldwide this year alone, the market opportunity for apps is still growing rapidly. But for operators, there are other advantages to having a branded app store offering beyond direct revenue. For example, they can actively build consumer experiences that bolster customer loyalty. A vibrant app ecosystem could lure new customers, while helping operators upsell current customers to higher-end smart phones and larger data contracts, and could even encourage pre-pay customers to consider post-pay contracts.

'Some operators are concerned that having their own branded app stores will appear as a throwback to the "walled gardens" of the past,' said Shepherd. 'While consumers would probably object to operators installing their app stores in place of vendor ones, there is no reason for operators not to pre-install their app stores alongside vendor stores to compete on user experience.'

Canalys estimates that the impact of mobile apps will extend to all aspects of the customer lifecycle, from acquisition and retention to lifetime value and profitability: 'Mobile apps are a disruptive technology force,' said Shepherd. 'Consumers will continue to value mobile device design and functionality, but the quality and availability of certain apps will progressively influence their buying decisions. By building on their strengths, operators can capture more of the market, while delivering a better customer experience.'

About Canalys Mobile App Store Analysis

This unique service has been developed to provide intelligence and ongoing comprehensive analytical support to help executives make better decisions about investments in app stores. It builds on Canalys' leadership in tracking the smart phone and pad industries, with focused qualitative and quantitative analysis around app stores from our global analyst team. The service dives deep into the critical issues affecting mobile app store decision-making, such as how to manage them and drive customer traffic, how to improve app discovery, how to attract and retain developers and, ultimately, how to optimize profits.

About Canalys

Canalys serves the technology industry with high-quality analysis, produced via a rigorously consistent methodology that is complemented by attentive customer service. Members of its talented, ambitious and globally integrated team are leading-edge users of technology. Canalys deploys innovative, web-based solutions to gather research, connect communities and provide

customer-friendly deliverables. These investments underpin the company's long-term approach to consistent, profitable global growth.

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