



# 2010 State of the iPhone in North America

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## Overview/Abstract

When the iPhone was introduced it was a game changing device. Its introduction to the North American market changed the average mobile users from mobile internet laggards into mobile internet addicts. Now with accessible device and data plan pricing schemes the iPhone is also reaching beyond the prototypical affluent early-tech adopter and into demographics that are less technically inclined with narrower margins of disposable income.

The iPod Touch is also making waves through its teen and tween user base. This youth market has proven to be a dynamic and insatiable market for mobile applications and their consumption of applications looks to surpass that of iPhone users.

The release of new Android compatible devices and other next generation smartphones has heated up the marketplace, making for rapid changes in user preferences, demographics, and sales leadership. The device/platform that will ultimately lead the marketplace is yet to be determined.

As the iPhone becomes more integrated into peoples daily lives, new opportunities arise for marketing, CRM, and commerce.

## The Device

In 2003 Steve Jobs predicted that that, despite the public clamor for new PDAs and tablets, cell phones would become the next important device for portable information access after notebook computers. After a few lackluster attempts developing the ROKR with Motorola as a third party extension of the iTunes platform between 2004 and 2006, Jobs decided to take the task of building a superior mobile device in house. In the fall of 2005 Steve Jobs had tasked 200 of Apple's top engineers to develop a revolutionary cell phone<sup>1</sup>.

After months public speculation, gossip, and rumors by journalists and fans, Steve Jobs announced the iPhone on January 9th, 2007. Press who were able to review the hardware before its release were unanimously impressed by the device. It was officially a game changer before it had even reached the general market. Carriers learned “that the right phone — even a pricey one — can win customers and bring in revenue. Now [in the pursuit of Apple’s record sales] every manufacturer is racing to create a phone that consumers will love, instead of one that the carriers approve of.”<sup>2</sup>

In June of 2007, Apple announced that the iPhone would support third party development of applications to be accessed by the phone's mobile browser. The very first of these applications was a program called "OneTrip" that kept track of users' shopping lists. Since then the list of applications available for the iPhone has increased exponentially to over 180,000 applications in 2009<sup>3</sup>.

Since the iPhone's first release in 2007, two hardware revisions have been made. The first revision focused on storage size, the speed of the device, and its movement from the Edge data network to the more modern and improved data network called 3G. This model we then known as the 3G. The second revision, known as the 3G(s), boasted improved processor speed, GPS navigation, voice control, and video capabilities.

The latest version is the iPhone 4. Apple has pretty much improved almost every feature of the iPhone with the 4. This new version will sport improved processor speed, memory, camera, sound quality for phone calls, video recording, motion

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1 Fred Vogelstein. January 9, 2008. The Untold Story: How the iPhone Blew Up the Wireless Industry. [http://www.wired.com/gadgets/wireless/magazine/16-02/ff\\_iphone#](http://www.wired.com/gadgets/wireless/magazine/16-02/ff_iphone#) (Accessed January 21, 2010)

2 Fred Vogelstein. January 9, 2008. The Untold Story: How the iPhone Blew Up the Wireless Industry. [http://www.wired.com/gadgets/wireless/magazine/16-02/ff\\_iphone#](http://www.wired.com/gadgets/wireless/magazine/16-02/ff_iphone#) (Accessed January 21, 2010)

3 Edit Staff. January 12, 2010. The Apple App Store Economy. Gigaom. <http://gigaom.com/2010/01/12/the-apple-app-store-economy/> (accessed February 1, 2010)

sensing, signal reception and wifi detection, size and weight, and screen resolution. This phone will also have a few significant new features like a front facing camera for face to face phone calls and an operating system that allows for multitasking (the ability to run multiple programs at once). All of these improvements have paid off. Within three days of being open for sales, Apple sold 1.7 million iPhone 4 devices<sup>4</sup>. It was the most successful product launch in Apple's history.

Another point of note is that the price has also dropped over time. Considering that the second biggest reason for people not to get an iPhone is price<sup>5</sup>, it was necessary to address the price in order to keep increasing Apple's mobile market share. The original version of the phone sold for \$499 for the entry level 4GB (gigabyte) model and \$599 for the larger 8GB model. Currently, an entry level 8GB iPhone 3G can be bought for \$99, a 16GB 3G(s) can be purchased for \$199, and the 32GB 3G(s) at \$299 [prices in US dollars]. Apple will be dropping the 8GB with the release of the iPhone 4 and pricing the 16 and the 32GB at \$199 and \$299 respectively with an AT&T contract. Refurbished 3G and 3G(s) models are available through AT&T for anywhere from \$50 to \$150 depending on the exact model. This is part of Apple's strategy to avoid the mistakes it made in its early years that made it an item of exclusivity and hindered its sales potential<sup>6</sup>. The drop in price has already impacted the demographics of iPhone users. While 43% of iPhone owners earn in excess of \$100,000 annually, the strongest growth in users is coming from those earning far less than that. The adoption rate among people earning between \$25K and \$75K is three times that of those earning more than \$100K<sup>7</sup>.

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4 Robin Wauters. June 28, 2010. Apple: We're Sold Over 1.7 Million iPhone 4 Devices In First 3 Days. <http://techcrunch.com/2010/06/28/apple-weve-sold-over-1-7-million-iphone-4-devices-in-3-days/> (accessed June 28, 2010)

5 Roger Entner. June 15, 2009. The Impact of the iPhone 3G Price Cut. Nielsen Blog: <http://blog.nielsen.com/nielsenwire/consumer/the-impact-of-the-iphone-3g-price-cut/> (accessed October 16, 2009)

6 Morgan Stanley Research. December 15, 2009. The Mobile Internet Report.

7 Comscore. October 27, 2009. In Tough Economy, Lower Income Mobile Consumers Turn to iPhone As Internet & Entertainment Device. [http://comscore.com/Press\\_Events/Press\\_Releases/2008/10/Lower\\_Income\\_Mobile\\_Consumers\\_use\\_Iphone/\(language\)/eng-US](http://comscore.com/Press_Events/Press_Releases/2008/10/Lower_Income_Mobile_Consumers_use_Iphone/(language)/eng-US)

<b>iPhone 3G Launch Analysis: Growth of iPhone Owners by Annual Household Income</b>	
<b>Source: comScore Mobile</b>	
<b>Three-month average ending June, July and August 2008</b>	
<b>Household Income</b>	<b>% Growth June to August 2008</b>
Under \$25,000	16%
\$25,000 to \$49,999	48%
\$50,000 to \$74,999	46%
\$75,000 to \$99,999	3%
\$100,000 or more	16%
Total	21%

This also effects how people in lower income brackets consume media. The number of people earning between \$25K and \$50K who access news and information via a mobile browser grew by 5% in 2008, while that rate for people in general only grew by 3%. “There was also 7% growth in mobile email usage and 5% growth in mobile music consumption among those earning between \$25,000 and \$50,000 per year.”<sup>8</sup> This makes the iPhone the entrenched smartphone of choice for a broad range of users across a wide range of income levels, so as new smartphones enter the market, habit will dictate that people who already have an iPhone will be more likely to stay with that device than go through the process of buying and learning a different one.

A large part of this inertia which prevents people from switching to an iPhone competitor, is the iPhone/iTunes ecosystem. The ability to purchase, store, retrieve, update, change, and sync a variety of music, information, and applications between two pieces of Apple software and/or hardware makes the very idea of having to use another system unbearable. This is especially true when you consider how happy people are with their iPhones - 90% of iPhone users are “extremely” or “very” satisfied with the product and 85% would recommend it to a friend<sup>9</sup>. Why would you leave the fold with numbers like that? Think of the power over media that creates should Apple’s market share continue.

For the time being, AT&T has exclusive rights to distribute the iPhone in the US. This exclusive deal was rumored to end in January of 2010, but was instead extended with the release of the iPad. If this exclusive partnership were to end it

<sup>8</sup> Comscore. October 27, 2009. In Tough Economy, Lower Income Mobile Consumers Turn to iPhone As Internet & Entertainment Device. [http://comscore.com/Press\\_Events/Press\\_Releases/2008/10/Lower\\_Income\\_Mobile\\_Consumers\\_use\\_Iphone/\(language\)/eng-US](http://comscore.com/Press_Events/Press_Releases/2008/10/Lower_Income_Mobile_Consumers_use_Iphone/(language)/eng-US)

<sup>9</sup> Edward C. Bain. July 13, 2007. iPhone Users Have No Regrets. USA Today. [http://www.usatoday.com/tech/wireless/phones/2007-07-12-iphone\\_N.htm](http://www.usatoday.com/tech/wireless/phones/2007-07-12-iphone_N.htm) (accessed January 26, 2009)

unlikely to have a dramatic effect on iPhone sales, but it will have a serious negative effect on AT&T's bottom line. More than 80% of their net new customers in Q1 of 2009 came from people who recently purchased the iPhone<sup>10</sup>. While other carriers are eagerly adding iPhone competitors from Google/HTC, Motorola, Blackberry, Samsung, Palm and others they are still eagerly awaiting the day that Apple's device can operate on their networks. iPhone users are also eagerly awaiting that day if only for the benefit of relieving AT&T's overtaxed 3G network. Having every heavy data user on one network has made for poor call quality and download/upload speeds.

With the release of more smartphones and other mobile devices capable of accessing the mobile internet (such as the iPad), all mobile carriers will have to invest heavily in upgrading the infrastructure of their systems in order to keep up with the ever increasing demand for mobile data.

## The Internet

You can not discuss the iPhone without discussing the effect it has on mobile internet usage. Historically the story went that Japanese mobile users were lightyears beyond North American and European users. For them accessing the mobile web, gaming, texting, downloading, uploading, QR codes, etc. was a normal part of every day life. This was not the case in North America until the release of the iPhone. With the iPhone, suddenly accessing the mobile internet was almost identical to accessing the web from your laptop or desktop. The commands of click, back, forward, map, dial, etc. were elegantly intuitive. Suddenly it was no longer about a ghettoed web that needed a separate navigating language and limited access; it was about the whole web, in your hand, ready at a moment's notice wherever you happened to be. This democratization in access liberated people's notions of when and where they could access the internet. Using a mobile device to access the internet has become so natural that some analysts believe that more people will be connected to the internet via mobile devices than through desktop PC's within the next five years<sup>11</sup>.

Post iPhone introduction the mobile internet story is now completely changed. "The US, UK and Italy are leaders in mobile Internet penetration. 15.6 percent of

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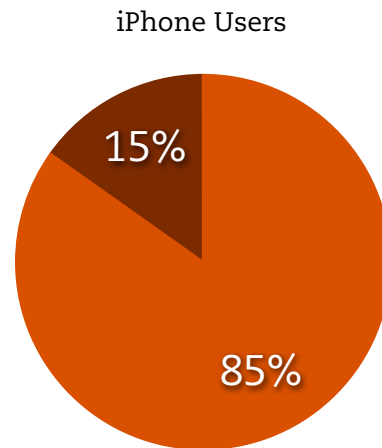
<sup>10</sup> Roger Entner. June 15, 2009. The Impact of the iPhone 3G Price Cut. Nielsen Blog: <http://blog.nielsen.com/nielsenwire/consumer/the-impact-of-the-iphone-3g-price-cut/> (accessed October 16, 2009)

<sup>11</sup> Morgan Stanley Research. December 15, 2009. The Mobile Internet Report.

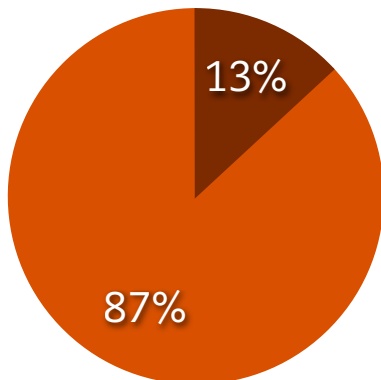
mobile subscribers in the US, 12.9 percent of subscribers in the UK and 11.9 percent in Italy actively use the mobile Internet.<sup>12</sup> A major part of this global role reversal is the introduction of the unlimited data package. 50% of US Wireless subscribers prefer an unlimited data package to any other program offer.

This mobile internet liberation is unique to the iPhone and its users. According to a study by M:Metrics "84.8 percent of iPhone users report accessing news and information from the hand-held device. That compares to 13.1 percent of the overall mobile phone market and 58.2 percent of total smartphone owners – which include those poor saps with BlackBerries and devices that run Windows.<sup>13</sup>"

- Access News & Info on Mobile
- Do Not Access News & Info

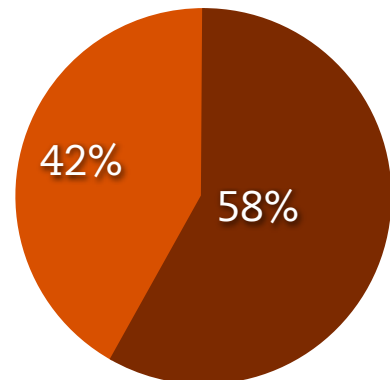


All Mobile Users



- Access News & Info on Mobile
- Do Not Access News & Info

All SmartPhone Users



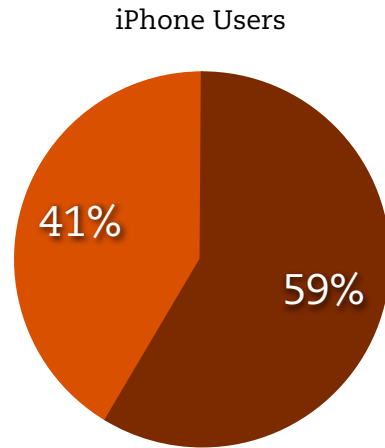
- Access News & Info on Mobile
- Do Not Access News & Info

<sup>12</sup> Nielsen Mobile. July 2008. Critical Mass: The Worldwide State of the Mobile Web.

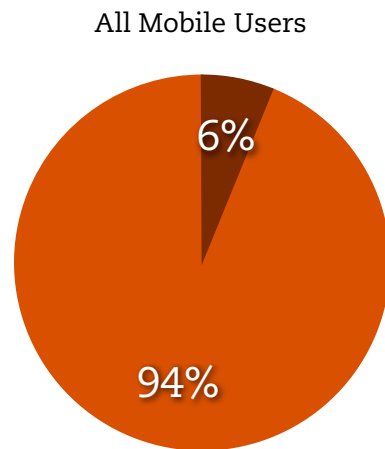
<sup>13</sup> Brad Stone. March 18, 2008. iPhone Users Love That Mobile Web. The New York Times: Technology Blog: <http://bits.blogs.nytimes.com/2008/03/18/iphone-users-are-mobile-web-junkies/> (accessed October 18, 2009)

Then we can also compare mobile search engine usage<sup>14</sup>:

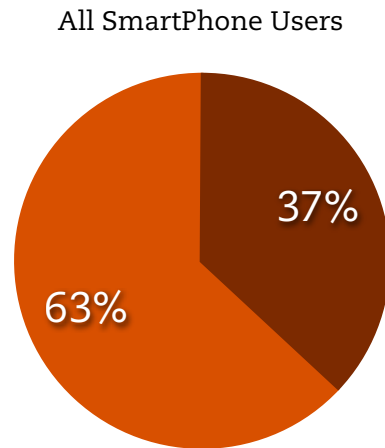
- Visit SearchEngine on Phones
- Do Not Visit SearchEngine on Phones



- Visit SearchEngine on Phones
- Do Not Visit SearchEngine on Phones



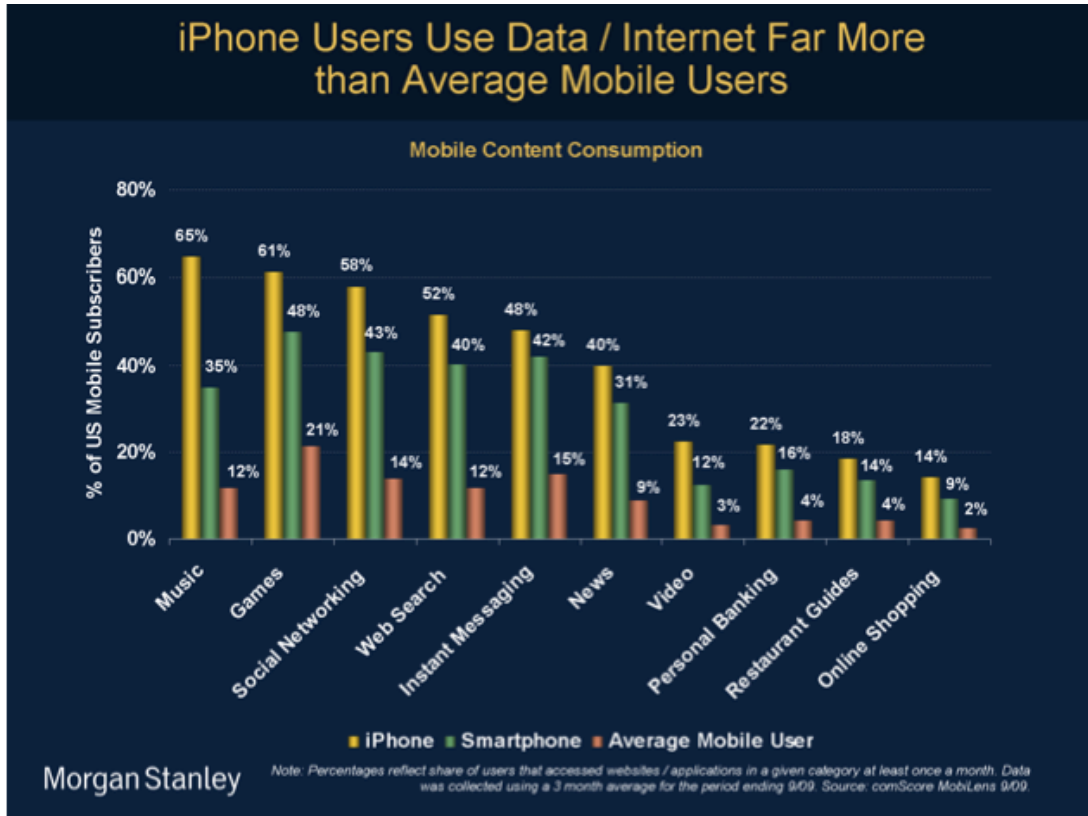
- Visit SearchEngine on Phones
- Do Not Visit SearchEngine on Phones



Although AT&T's unlimited data package is set to end with the introduction of the 4G, we believe that current users have become so comfortable with the idea of using mobile data with such quickness and ease that they will continue to their current consumption habits, but exercise a slight amount of restraint and caution so as not to overly exceed their allowance megabytes.

<sup>14</sup> Brad Stone. March 18, 2008. iPhone Users Love That Mobile Web. The New York Times: Technology Blog: <http://bits.blogs.nytimes.com/2008/03/18/iphone-users-are-mobile-web-junkies/> (accessed October 18, 2009)

We can also look at mobile games and video as an indicator for just how much the iPhone has changed our mobile internet usage. Before the iPhone, no one watched videos online, now 31% of iPhone users have watched an online video on their phones<sup>15</sup>. Today video is the main driver for growth in internet traffic. Mobile data traffic to video driven sites is expected to rise 66x by 2013<sup>16</sup>.

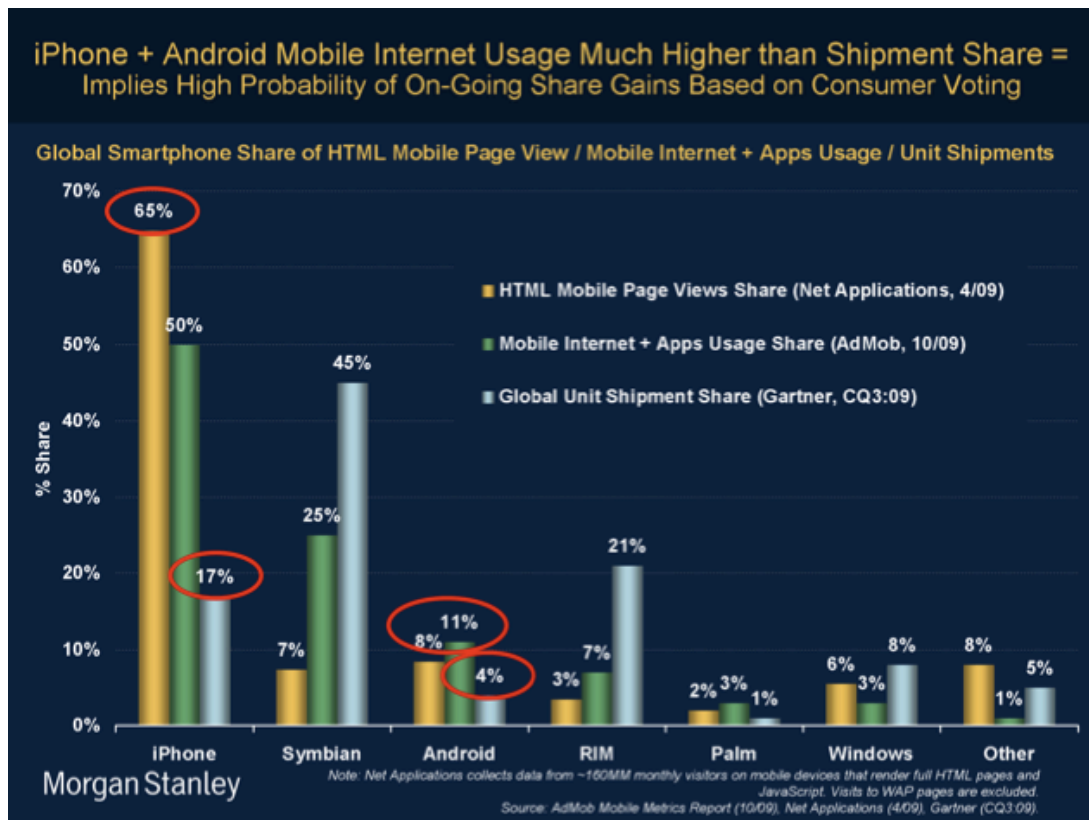


Here is another picture of just how much iPhone users consume mobile internet more than users of any other handheld device<sup>17</sup>:

<sup>15</sup> Brad Stone. March 18, 2008. iPhone Users Love That Mobile Web. The New York Times: Technology Blog: <http://bits.blogs.nytimes.com/2008/03/18/iphone-users-are-mobile-web-junkies/> (accessed October 18, 2009)

<sup>16</sup> Morgan Stanley Research. December 15, 2009. The Mobile Internet Report.

<sup>17</sup> Morgan Stanley Research. December 15, 2009. The Mobile Internet Report.



These numbers indicate that a vast majority of mobile web browsing and downloading is done using an iPhone. It is the device the all others can be measured against and should ALWAYS be taken into account when developing applications or mobile marketing strategies.

Aside from this voracious mobile internet consumption, iPhone users are more likely to listen to music on their iTunes equipped device. 74% of iPhone users actually listen to the music library on their phone as opposed to only 28% of smartphone owners in general. That number is even more significant when you look at the entire population of mobile phone users, where only 7% listen to music on their phones.<sup>18</sup> This makes the iPhone one of the most diversely used handheld devices available.

## The Applications

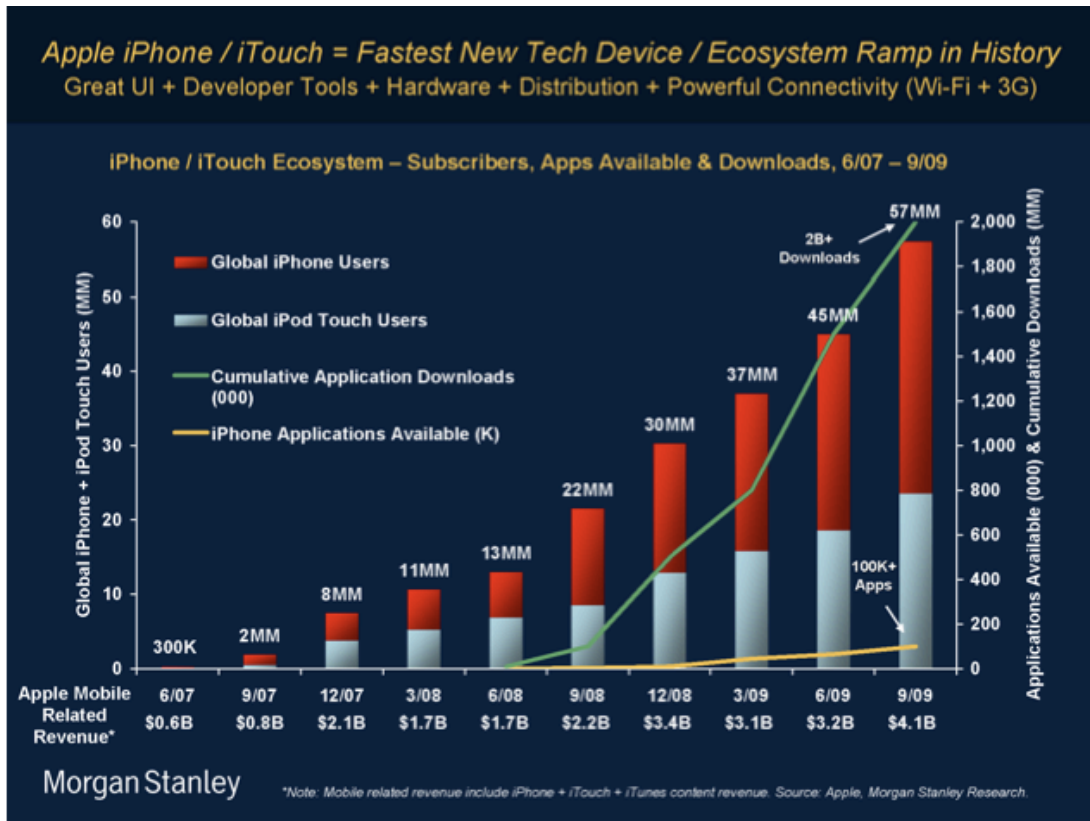
Some stats on the current state of the iPhone application market<sup>19</sup>:

<sup>18</sup> Brad Stone. March 18, 2008. iPhone Users Love That Mobile Web. The New York Times: Technology Blog: <http://bits.blogs.nytimes.com/2008/03/18/iphone-users-are-mobile-web-junkies/> (accessed October 18, 2009)

<sup>19</sup> Edit Staff. January 12, 2010. The Apple App Store Economy. Gigaom. <http://gigaom.com/2010/01/12/the-apple-app-store-economy/> (accessed February 1, 2010)

- There are over 180,000 apps in iTunes app store available for download.
- There are over 28,000 iPhone app developers.
- iPhone owners downloaded an average of 4.8 apps each in December 2009. Three out of every four of those apps were free.
- The average listed price for an app is \$2.70 (this takes into account the free ones).
- There are over 58 million iTunes app store users and there are 280 million apps available for download.
  - 34 million of these people are iPhone users, the other 24 million are iPod Touch users.
- Each app store user spends an average of \$4.37 on apps every month.
- 280 million applications were downloaded in December of 2009, generating more than \$250 million in revenue.

The combination of Apple's iPhone/iTouch hardware, software, distribution, data plans and access, developers, and applications is a tech ecosystem, symbiotic in nature. Each feed and strengthen the other in users and depth of use. It is the fastest growing tech device and ecosystem in history<sup>20</sup>. Not even the market for desktop personal computing grew this much this fast. It's truly remarkable. Especially when you view the rate at which applications are developed versus how often they are downloaded.



When Apple first opened the App Store in July 2008 sales were brisk, with 300 million apps sold by December<sup>21</sup>. After the holiday gift season that number had jumped to 500 million<sup>22</sup>. Earlier in January 2010, Apple announced that sales had reached over 3 billion; that means iPhone users downloaded 2.5 billion apps in 2009 alone<sup>23</sup>. Estimates from market research analysts show another 16 million apps that could come from other platform's recently opened app stores, but that is only a drop in the bucket compared to Apple, which still has at least a 99.4% market share of all applications sold during 2009.<sup>24</sup>

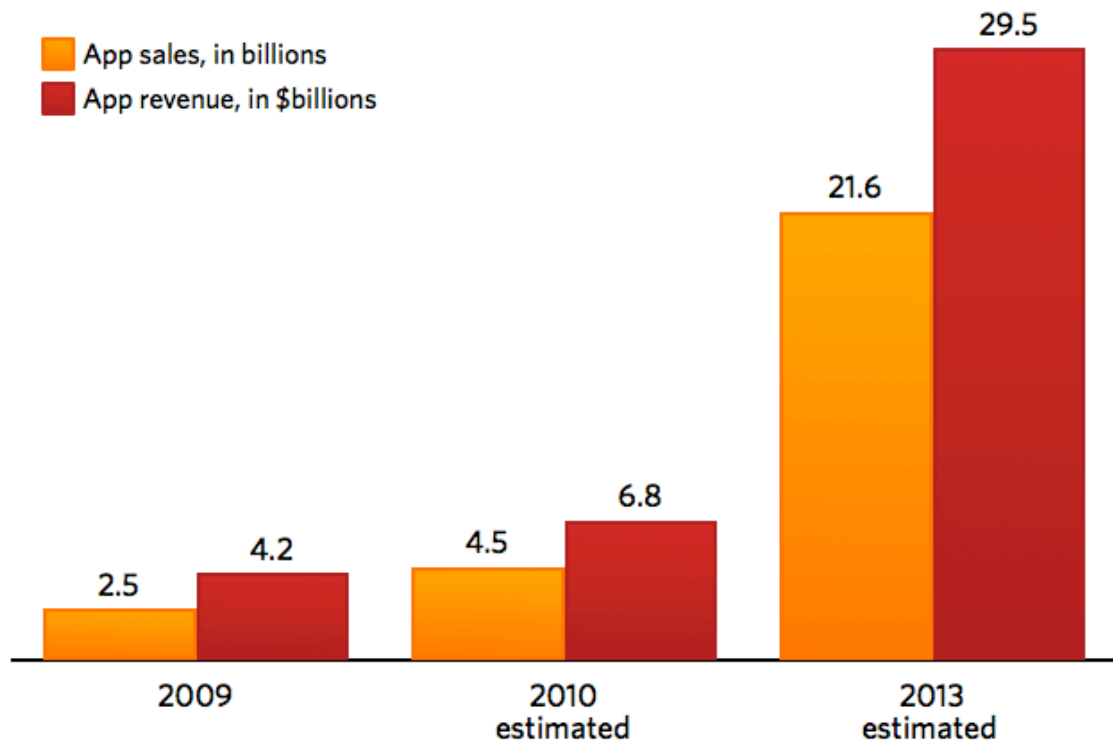
21 Chris Foresman. January 18, 2010. Arstechnica: Apple responsible for 99.4% of mobile app sales in 2009. <http://arstechnica.com/apple/news/2010/01/apple-responsible-for-994-of-mobile-app-sales-in-2009.ars> (accessed February 1, 2010)

22 Chris Foresman. January 18, 2010. Arstechnica: Apple responsible for 99.4% of mobile app sales in 2009. <http://arstechnica.com/apple/news/2010/01/apple-responsible-for-994-of-mobile-app-sales-in-2009.ars> (accessed February 1, 2010)

23 Chris Foresman. January 18, 2010. Arstechnica: Apple responsible for 99.4% of mobile app sales in 2009. <http://arstechnica.com/apple/news/2010/01/apple-responsible-for-994-of-mobile-app-sales-in-2009.ars> (accessed February 1, 2010)

24 Chris Foresman. January 18, 2010. Arstechnica: Apple responsible for 99.4% of mobile app sales in 2009. <http://arstechnica.com/apple/news/2010/01/apple-responsible-for-994-of-mobile-app-sales-in-2009.ars> (accessed February 1, 2010)

## Mobile App Sales and Revenue



Source: Gartner



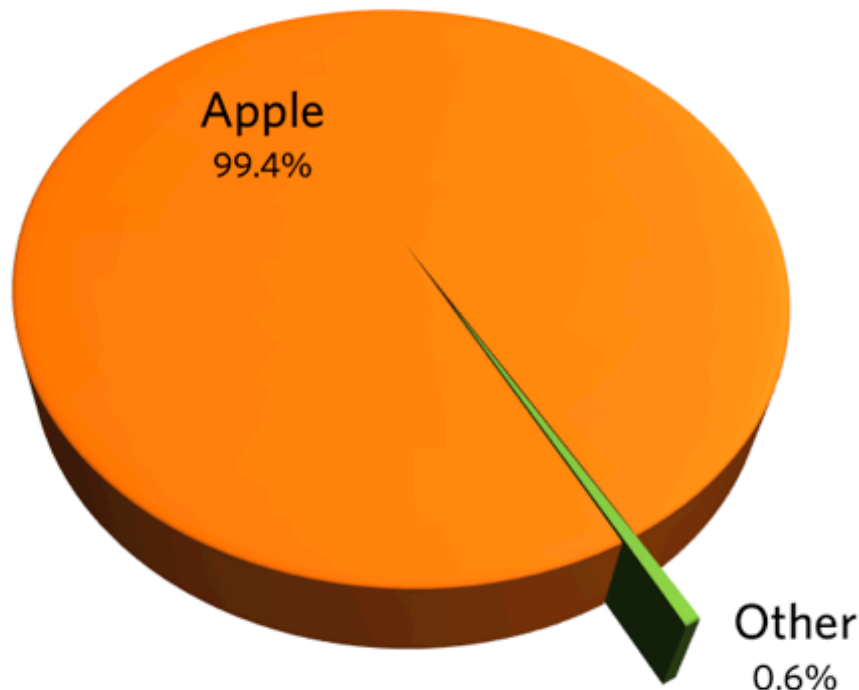
**Table 1**  
**Mobile Application Stores' Number of Downloads and Revenue, Worldwide**

	2009	2010	2013
<b>Downloads (in M)</b>	<b>2,516</b>	<b>4,507</b>	<b>21,646</b>
<b>Total revenue (in \$M)</b>	<b>4,237.80</b>	<b>6,770.40</b>	<b>29,479.30</b>

Source: Gartner (December 2009)

## App Store Market Share, 2009

Percent



Source: Gartner, Apple



Forecasts for 2010 see only continued growth for the iPhone ecosystem. Downloads will jump from 3 billion in 2009 to 4.5 billion in 2010 which will generate an estimated \$6.8 billion in revenue<sup>25</sup>. 2013 is predicted to be even bigger. It is estimated that app downloads will grow to 21.6 billion that year for an estimated \$29.5 billion in revenue<sup>26</sup>. Keep in mind that not all of this income will be generated directly from the buying/downloading of these applications. 25% of the app revenue will most likely be generated by free applications that are supported by advertising<sup>27</sup>. That is over \$7 billion.

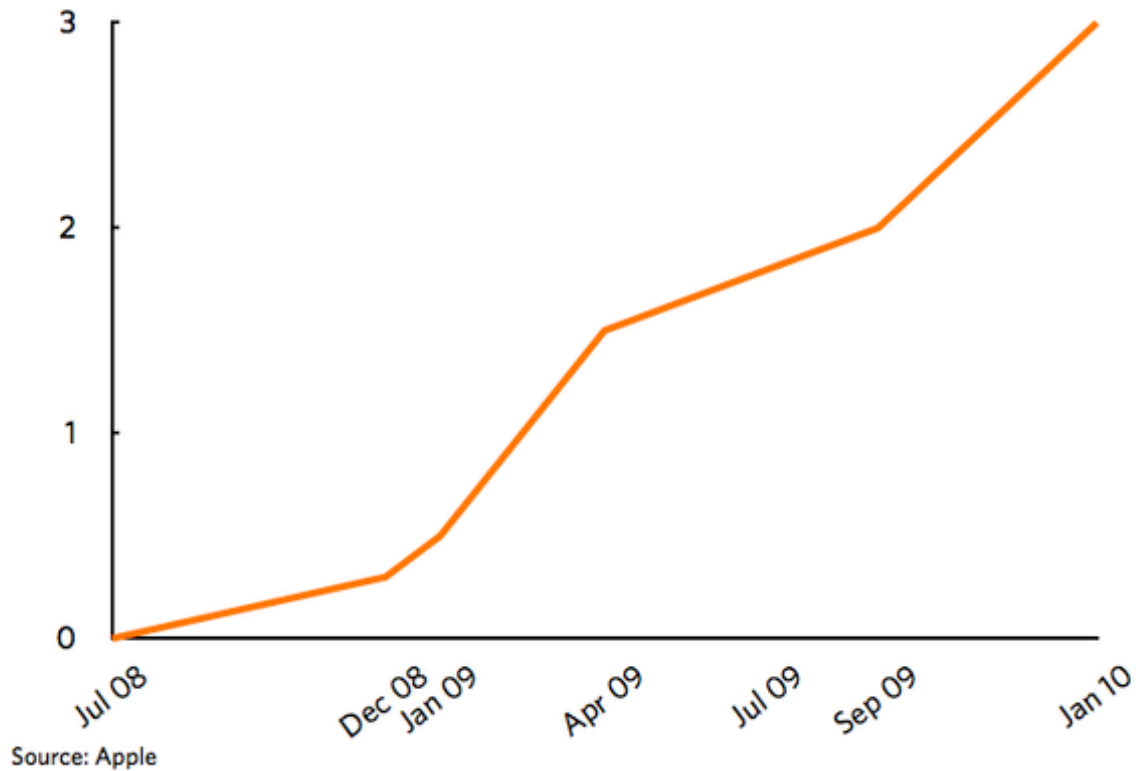
<sup>25</sup> Chris Foresman. January 18, 2010. Arstechnica: Apple responsible for 99.4% of mobile app sales in 2009. <http://arstechnica.com/apple/news/2010/01/apple-responsible-for-994-of-mobile-app-sales-in-2009.ars> (accessed February 1, 2010)

<sup>26</sup> Chris Foresman. January 18, 2010. Arstechnica: Apple responsible for 99.4% of mobile app sales in 2009. <http://arstechnica.com/apple/news/2010/01/apple-responsible-for-994-of-mobile-app-sales-in-2009.ars> (accessed February 1, 2010)

<sup>27</sup> Chris Foresman. January 18, 2010. Arstechnica: Apple responsible for 99.4% of mobile app sales in 2009. <http://arstechnica.com/apple/news/2010/01/apple-responsible-for-994-of-mobile-app-sales-in-2009.ars> (accessed February 1, 2010)

## iPhone App Store Sales

Billions



ars

With the knowledge that a quarter of the money generated from iPhone applications will be from advertising, suddenly Apple's purchase of the mobile advertising service, Quattro Wireless, and its conversion into the iAd platform makes sense<sup>28</sup>. By getting into mobile advertising they are only broadening the income streams from application downloads and usage and they are also tapping into the over \$7 billion of revenue that would have been diverted to other parties in the ecosystem.

This strategy is already proving itself beyond even the most enthused industry analysts predictions. Apple has stated that it already has \$60 million in advertising commitments for 2010<sup>29</sup>. That is almost half of the entire current mobile advertising market.

<sup>28</sup> Gabriel Madway. January 5, 2010. Reuters: Apple Acquires Mobile Ad Company Quattro Wireless. <http://www.reuters.com/article/idUSTRE6043NM20100105> (accessed March 2, 2010)

<sup>29</sup> Leena Rao. June 7, 2010. Techcrunch: Apple - We Have iAd Commitments for 2010 Totaling Over \$60 Million. <http://techcrunch.com/2010/06/07/apple-we-have-iad-commitments-for-2010-totaling-over-60-million/> (accessed June 11, 2010)

So what types of applications are most likely to be downloaded? Gaming related applications are by far the most popular, but other types of applications are seeing significant growth as users begin to see their phone as something more than a communication and entertainment device. Social networking, shopping, utilities, and productivity tools are among the types of applications seeing this steady growth.

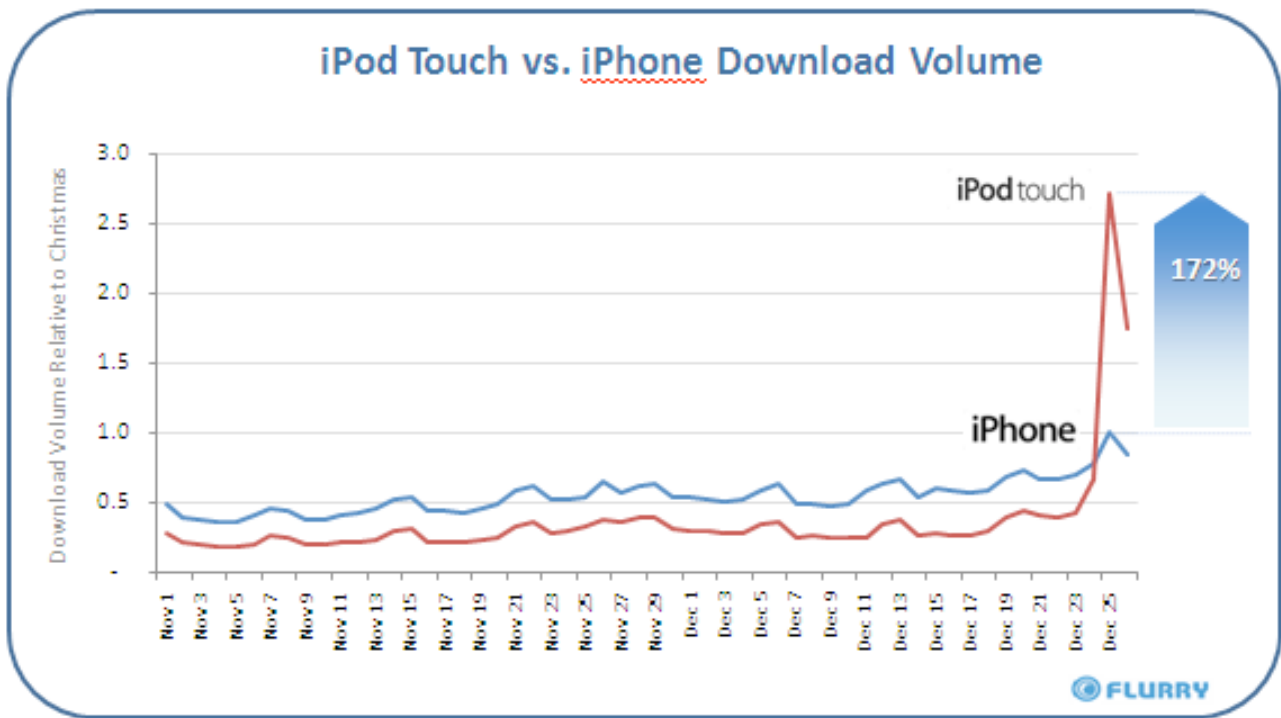
Although free applications have a clear advantage in their likelihood for download (3 out of every 4 downloaded are free) there is a distinct difference in someone more versus less likely to purchase a mobile application and the gap between these two types of users will only widen as smart phones grow in popularity. According to analysts at Gartner, “High-end smartphone users today tend to be early adopters of new mobile applications and more trustful of billing mechanisms, so they will pay for applications that can meet their needs. As smartphones come down in price and increase in their mass market appeal, the average user will be less technically savvy and therefore less trusting of payment and information systems. These users will be even more reluctant to pay for applications.<sup>30</sup>”

Although the data we see from the iPhone is significant, we can't ignore the iPod Touch. The Touch, a device favored by the teen and pre-teen consumers. Out of the 58 million iPhone and iPod devices circulating in 2009, roughly 40%, or 24 million, were Touches which flooded the market over the Christmas holidays as parents and grandparents gave their little nearest and dearest the gift of mobile technology<sup>31</sup>. From this sudden increase in the amount of iPod Touches in use we have learned at least one thing - Teens and Pre-Teens LOVE to download.

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<sup>30</sup> Gartner. January 18, 2010. Gartner Says Consumers Will Spend \$6.2 Billion in Mobile Application Stores in 2010. <http://www.gartner.com/it/page.jsp?id=1282413> (accessed 2/16/2010)

<sup>31</sup> Peter Farago. Flurry. December 28, 2009. Flurry Holiday 2009 Report: App Store, iPod Touch Shatter Records. <http://blog.flurry.com/bid/29288/Flurry-Holiday-2009-Report-App-Store-iPod-Touch-Shatter-Records> (accessed 2/5/2010)



Source: Flurry Analytics

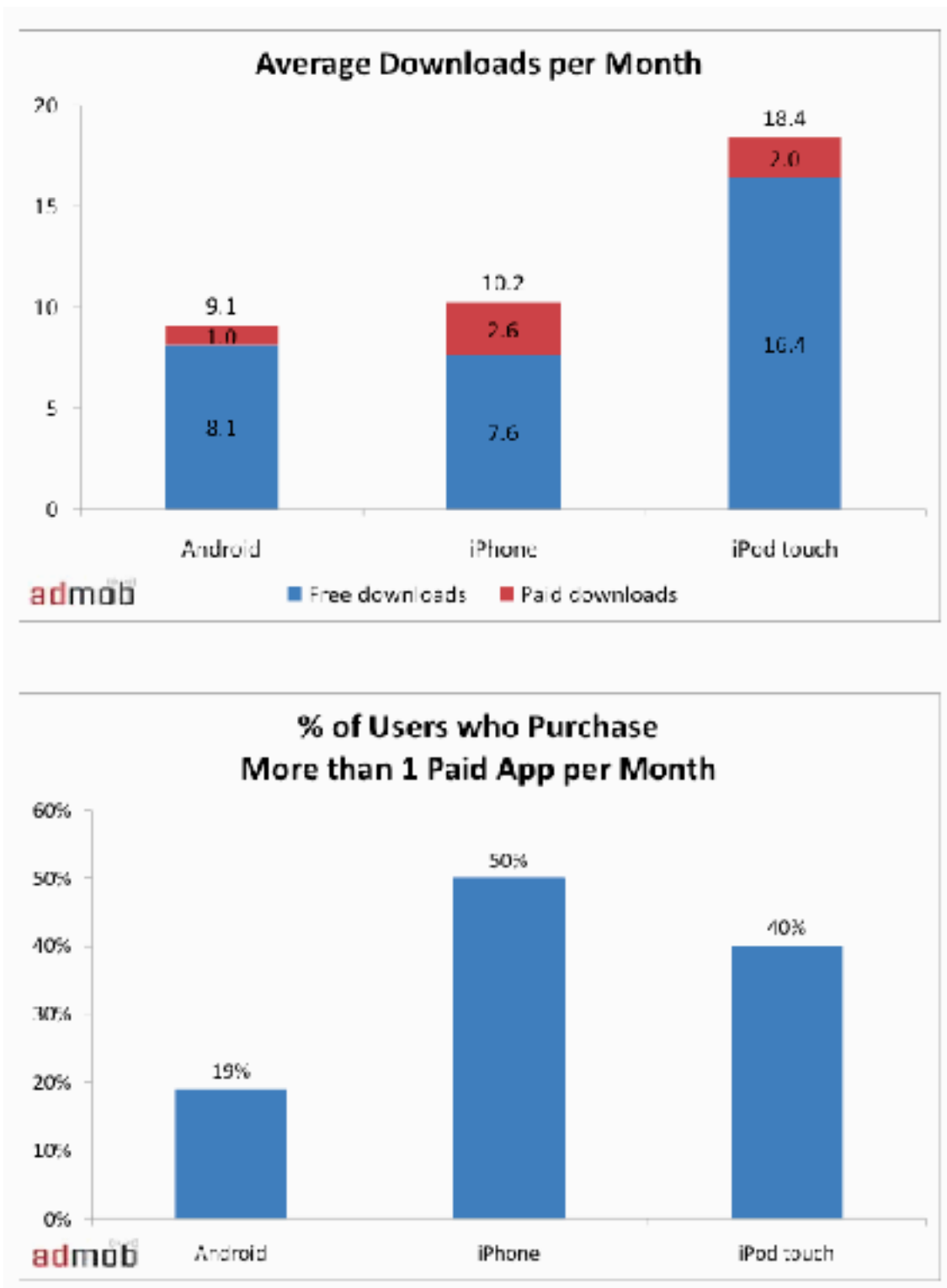
In 2009, app downloads on the iPod Touch screamed past the iPhone for the first time ever, surpassing iPhone downloads by 172%<sup>32</sup>. On Christmas Day (a Friday), iPod Touch 3G downloads jumped by 900% compared to all of the other Fridays that month<sup>33</sup>. Total iPod Touch downloads (all generations) jumped by over 1000% on Christmas Day compared to the other Fridays that occurred that month and even after Christmas Day, Touch downloads continued to overshadow iPhone downloads by 104%<sup>34</sup>. The exception to this rule lies in viewing paid applications only, where 50% of iPhone users download more than one paid application per month while only 40% of iPod Touch users are likely to do the same<sup>35</sup>.

32 Peter Farago. Flurry. December 28, 2009. Flurry Holiday 2009 Report: App Store, iPod Touch Shatter Records. <http://blog.flurry.com/bid/29288/Flurry-Holiday-2009-Report-App-Store-iPod-Touch-Shatter-Records> (accessed 2/5/2010)

33 Peter Farago. Flurry. December 28, 2009. Flurry Holiday 2009 Report: App Store, iPod Touch Shatter Records. <http://blog.flurry.com/bid/29288/Flurry-Holiday-2009-Report-App-Store-iPod-Touch-Shatter-Records> (accessed 2/5/2010)

34 Peter Farago. Flurry. December 28, 2009. Flurry Holiday 2009 Report: App Store, iPod Touch Shatter Records. <http://blog.flurry.com/bid/29288/Flurry-Holiday-2009-Report-App-Store-iPod-Touch-Shatter-Records> (accessed 2/5/2010)

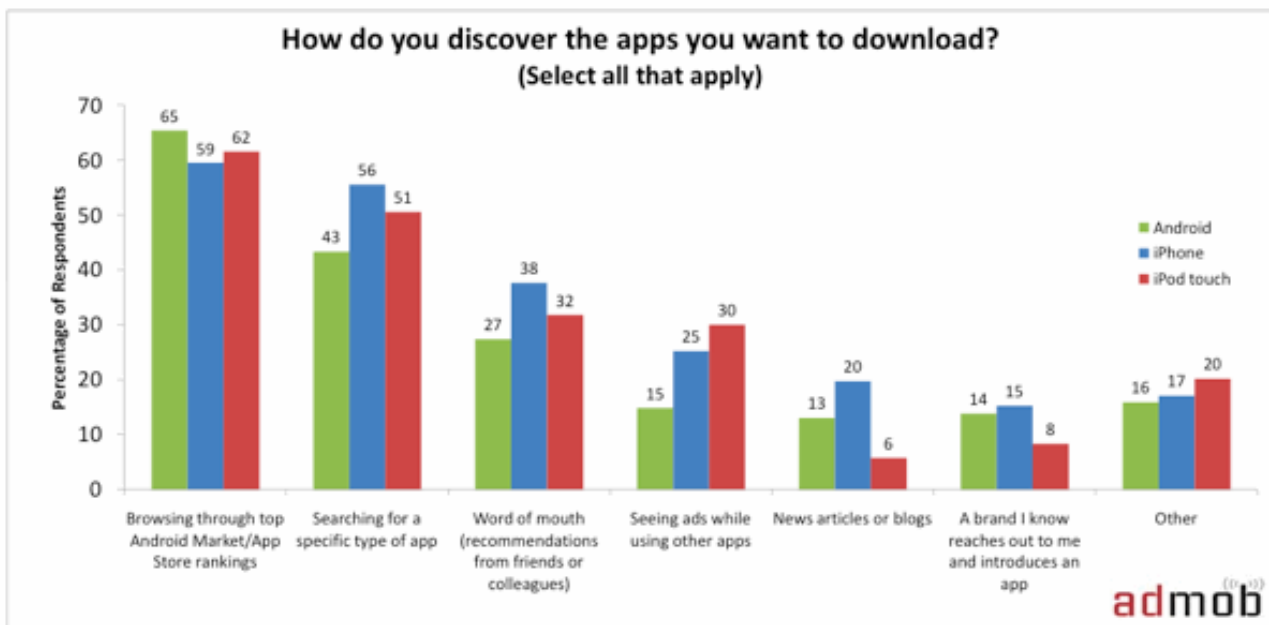
35 Om Malik. Gigaom. August 27, 2009. How Big Is the Apple iPhone App Economy? The Answer Might Surprise You. <http://gigaom.com/2009/08/27/how-big-is-apple-iphone-app-economy-the-answer-might-surprise-you/> (accessed 2/16/2010)



But how much time are iPhone users actually spending with all of these apps that they are habitually downloading? Given the amount of applications that iPhone users download, about 10 every month, you would wonder how often users would download, toy with for a while and quickly lose interest in. While this scenario is likely to be common, half users actually spend 30 minutes every day using the iPhone apps they download and nearly a quarter of users spend two hours with

their applications daily<sup>36</sup>. That kind of time is not just a passing fancy, it is an integral part of everyday life.

But how do iPhone and iPod Touch users find these beloved applications? While there may be a huge difference in scale (recall that Apple owns 99% of the mobile application market) the methods for how people discover apps are fairly similar between Android, iPhone, and iPod Touch users - starting with browsing top rankings at the top and working its way down to a brand recommendation at the bottom. The areas where the similarities seem to end is in smart phone and iPod Touch users when it comes to the subject of advertising. This is most likely because Teens and Pre-Teens, although more savvy than previous generations, are still more susceptible than their elders to advertising messages.



## The Marketing Opportunities

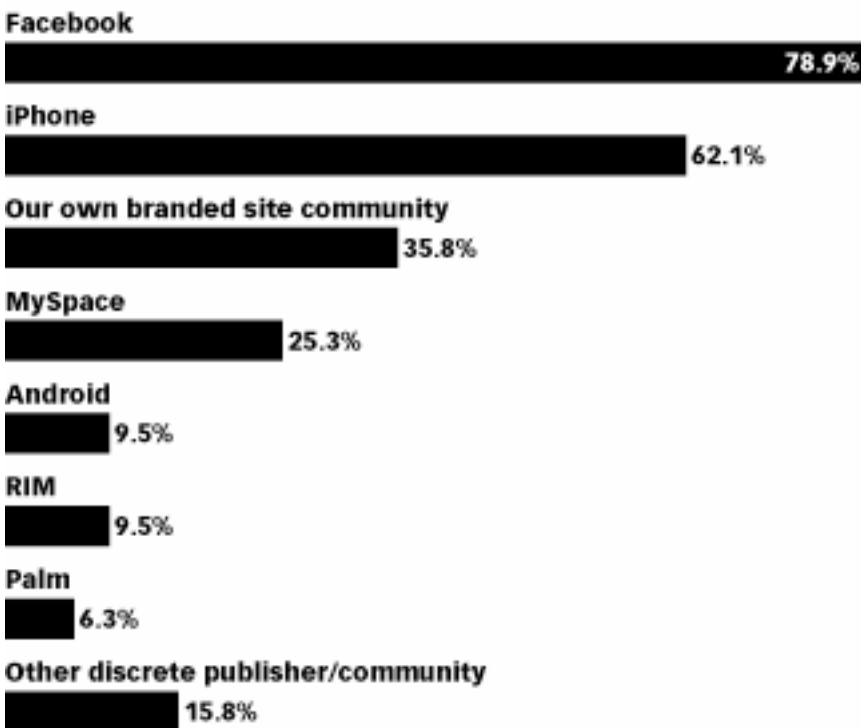
Advertising is a big part of revenue generation in the mobile content and application sectors. “As mobile Internet publishers build out an advertising inventory, advertising is becoming a common part of the mobile Internet experience: 26 percent of mobile Internet users recall seeing some form of advertising while using the mobile Internet. Mobile Internet users are 60% more likely to be open to mobile advertising than the average mobile data user.<sup>37</sup>”

<sup>36</sup> Om Malik. Gigaom. August 27, 2009. How Big Is the Apple iPhone App Economy? The Answer Might Surprise You. <http://gigaom.com/2009/08/27/how-big-is-apple-iphone-app-economy-the-answer-might-surprise-you/> (accessed 2/16/2010)

<sup>37</sup> Nielsen Mobile. July 2008. Critical Mass: The Worldwide State of the Mobile Web.

The key to this acceptance of mobile advertising is that there is an exchange of value. Users are more likely to accept advertising on their mobiles if it offers something of value in return for their attention. In fact, 32% of mobile internet users are open to mobile advertising if it helps them lower their wireless bill<sup>38</sup>. This can take other forms, such as access to wifi or access to content and applications. Users find these exchanges acceptable provided that it does not overly intrude on their experience while using their mobile device.

**Channel in Which Marketers in North America Have Used Mobile/Social Apps, December 2009 (% of respondents)**



Note: n=95  
 Source: DM2PRO and Quattro Wireless, "What's the Hap's on Apps?"  
 December 10, 2009

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www.eMarketer.com

Mobile advertising maybe a fledgeling platform, but it's starting to see some recognition and with recognition comes money. While most advertisers are investing in social applications, this may soon stagnate in favor of mobile advertising and applications. The top third of advertisers and agencies are planning to increase their mobile advertising investments my 75% or more<sup>39</sup>. Their biggest reasons for increasing their budget allocation are the growing

38 Nielsen Mobile. July 2008. Critical Mass: The Worldwide State of the Mobile Web.

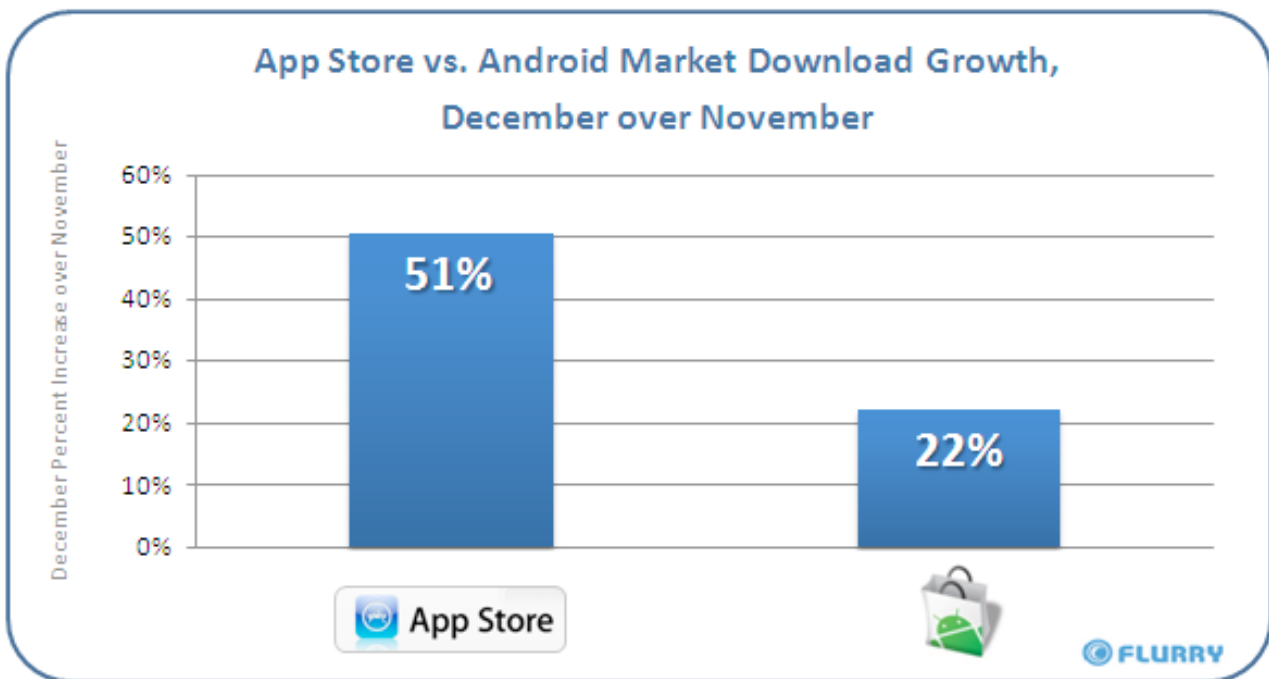
39 eMarketer. January 21, 2010. Mobile to Fare Better Than Social. [http://www.emarketer.com/Article.aspx?Ntk=basic&R=1007473&Ntt=social+media&No=-1&N=0&xsrc=view\\_article\\_sitesearchx](http://www.emarketer.com/Article.aspx?Ntk=basic&R=1007473&Ntt=social+media&No=-1&N=0&xsrc=view_article_sitesearchx) (accessed 2/5/2010)

smartphone market and the increase in standardization between mobile platforms.

## The Competition

Two and a half years after it first launched, the iPhone is still the dominant smartphone leader thanks to its army of loyalists and superior user experience and interface. “It ranked No. 1 in Brand Keys' annual loyalty survey this year, while 74% of iPhone owners said they were very satisfied with the device, compared to 43% of BlackBerry owners.<sup>40</sup>”

Another factor in the iPhone's almost cult-like loyalty is the robustness of its app store. While this may not be end all and be all of smartphone purchase decision factors now, look for it to be a major consideration in the future. Lucky for Apple, it has a head start it currently has ten times the number of applications available for download than its nearest competitor, Android (Google)<sup>41</sup>.



Source: Flurry Analytics  
*\*Actual tracked downloads through 12/26; forecast for 12/27 – 12/31, using average daily download rate from 12/1 – 12/26*

40 Rita Chang. November 9, 2009. Flurry of Smartphones Coming This Christmas. AdvertisingAge. [http://adage.com/article?article\\_id=140365](http://adage.com/article?article_id=140365) (accessed 11/9/2009)

41 Rita Chang. November 9, 2009. Flurry of Smartphones Coming This Christmas. AdvertisingAge. [http://adage.com/article?article\\_id=140365](http://adage.com/article?article_id=140365) (accessed 11/9/2010)

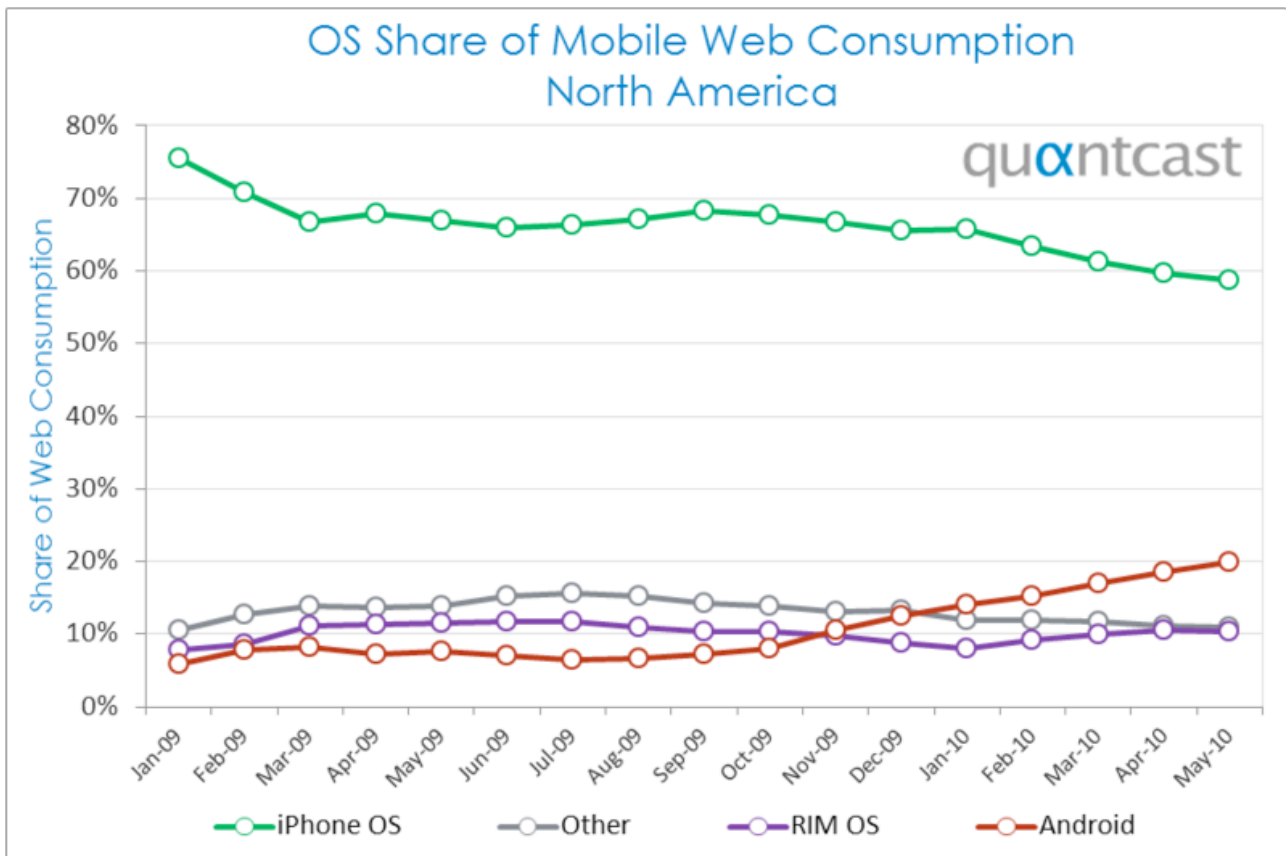
**Paid Application Market Size Estimate<sup>(3)</sup>**

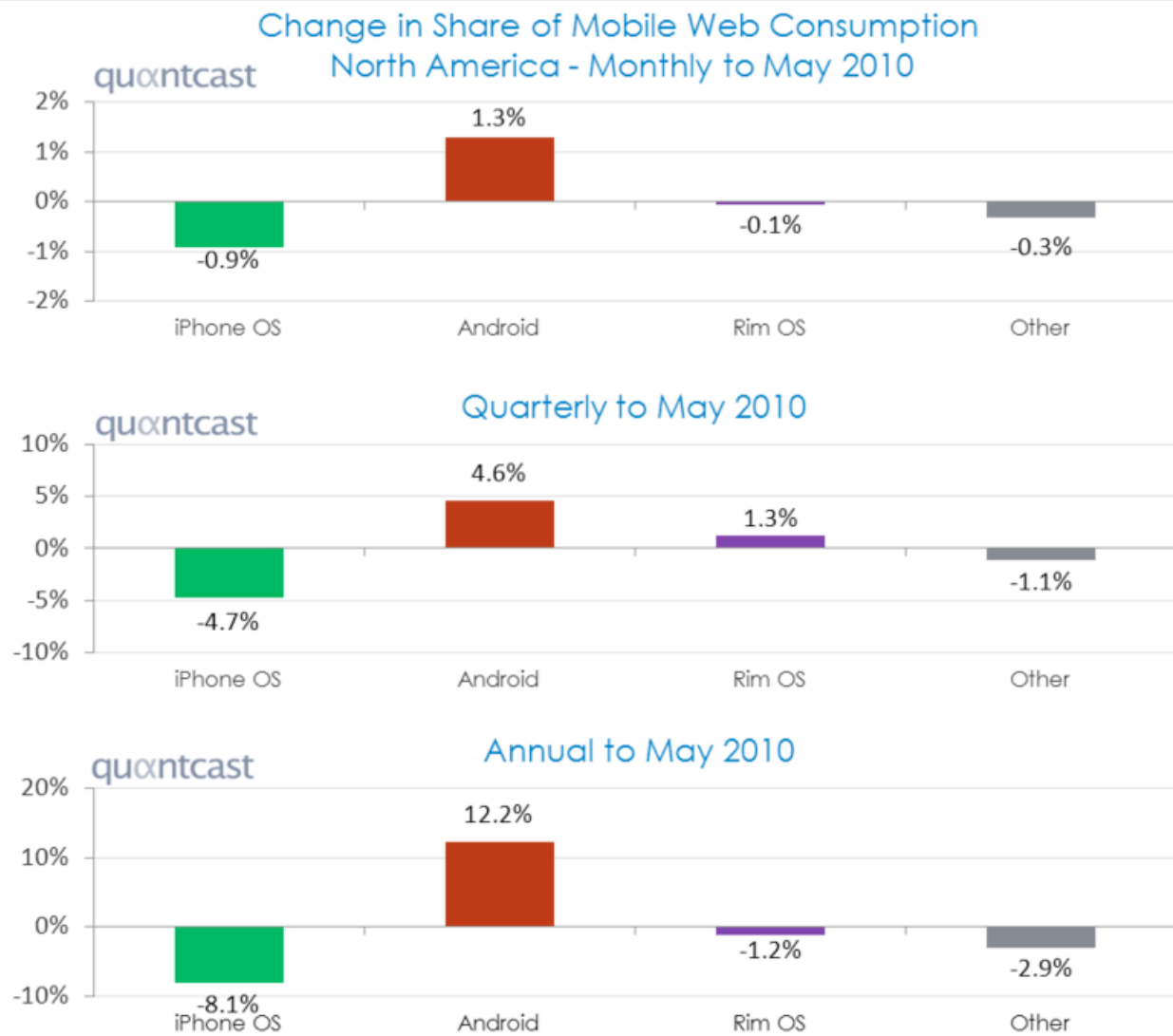
	Estimated Number of Users	% Who Buy Paid Apps	Average \$/Month Spent on Paid Apps		Est. August 2009 Paid App Market Size
Android	3M	19%	\$8.63	➔	\$5M
iPhone	26.4M	50%	\$9.49	➔	\$125M
iPod touch	18.6M	40%	\$9.79	➔	\$73M

The first tier iPhone's \$99 price tag is also turned some heads from what was once considered the traditional smartphone choice. 36% of people who plan to buy a smartphone soon say they will opt for one in comparison to the 27% who favored Blackberry and only the 8% that said they wanted a Palm [survey was taken before the introduction of the introductions of Google's NexusOne or the Motorola Droid]<sup>42</sup>. This first tier iPhone will broaden their user base past the Apple enthusiasts and early adopters to include those who would be considered less and will only further entrench the iPhone and the Apple App Store as the ecosystem of choice for mobile users.

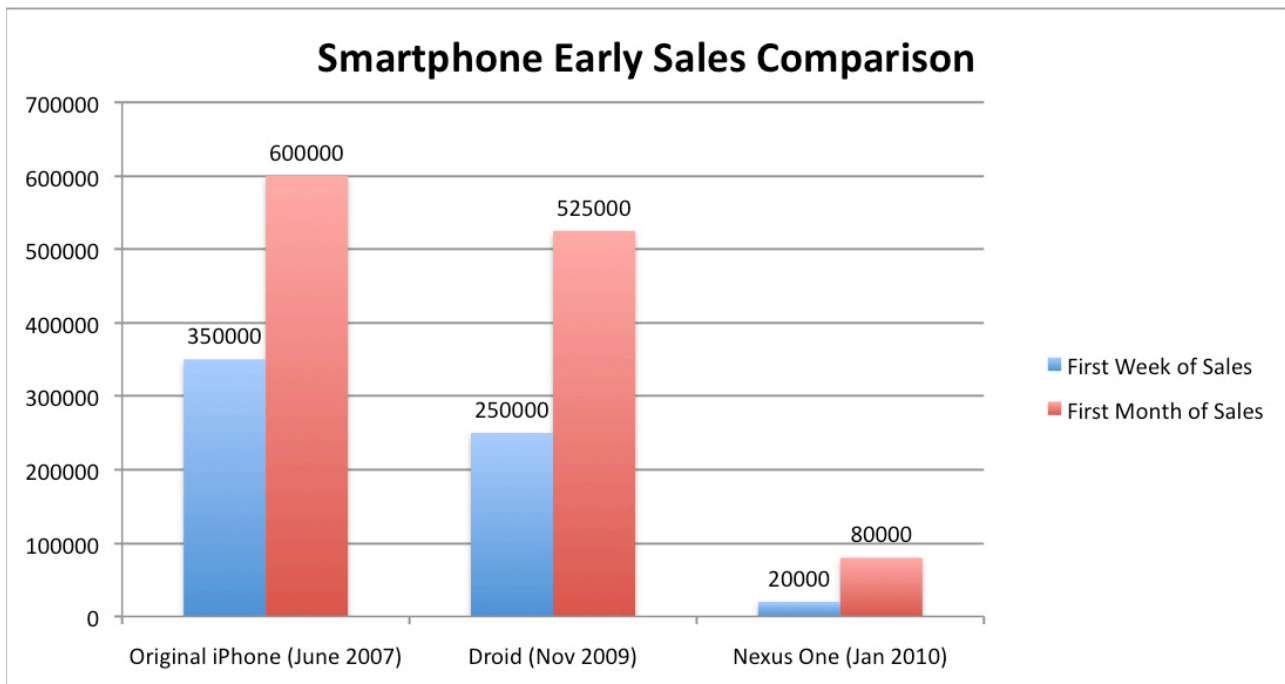
For now the app store advantage lies with the iPhone, with its users 30% more likely to buy an application than their Android using counterparts, but this may change in the long run. In fact, Android is already starting to eat away at Apple's market share of mobile web consumption.

<sup>42</sup> Rita Chang. November 9, 2009. Flurry of Smartphones Coming This Christmas. AdvertisingAge. [http://adage.com/article?article\\_id=140365](http://adage.com/article?article_id=140365) (accessed November 9, 2009)





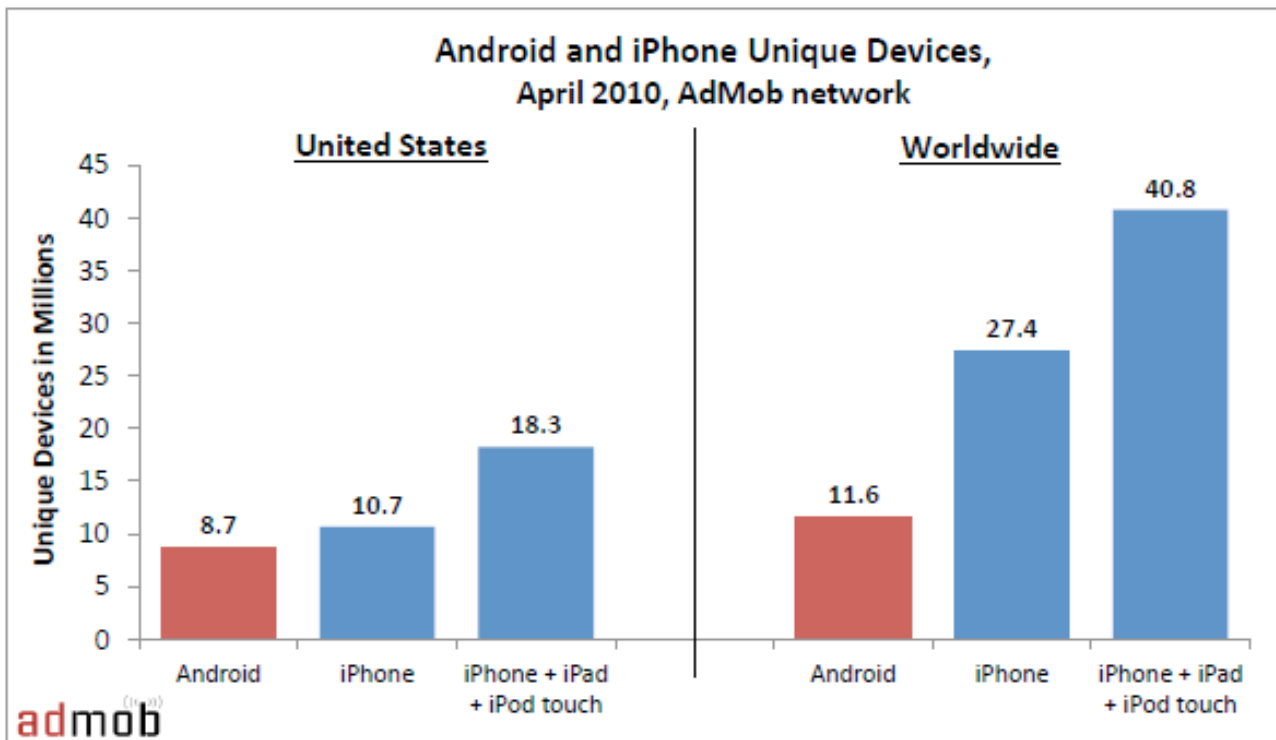
The long term advantage for Google's Android is in its open source platform. While Apple's platform will only work on their products (iPhone, iPod Touch, iPad), the Android platform will not only work on Google's platform, but also any phone that is capable of handling an open source mobile operating system. This means that Android has the potential of being on more phones than Apple's mobile operating system. But, due to Apple's large head start and heavy loyalty it is unlikely that even a parity between Apple and Google will occur in the near future. The competitive relationship between the two platforms will probably need a major reevaluation within the next one to two years. As for now, the difference is significant with the Apple App Store as the clear leader.



The introduction of the Motorola Droid and the the HTC NexusOne, both of which operate of Google's open source Android platform, have people speculating on the challenges that Apple will face in 2010 and beyond. 2010 and beyond will likely be extremely competitive, with manufacturers and mobile service providers will be taking careful consideration of their offerings and price points as new smartphone models flood the market. In fact, sales of Android compatible phones has already outpaced iPhone sales for the first quarter of 2010, with iPhone having 21% of smartphone sales and Android reaching 28%<sup>43</sup>.

The competition between platforms and service providers will be good for consumers as prices are likely to drop across the board and manufacturers will have to focus on refining and innovating not only the hardware, but the smartphone software as well in order to set their products apart from their competitors and Apple will be no exception to this. Hence the wide range of price and hardware offerings.

<sup>43</sup> NPD Group (Press Release). May 10, 2010. Android Shakes Up U.S. Smartphone Market. Market Watch. [http://www.marketwatch.com/story/android-shakes-up-us-smartphone-market-2010-05-10?reflink=MW\\_news\\_stmp](http://www.marketwatch.com/story/android-shakes-up-us-smartphone-market-2010-05-10?reflink=MW_news_stmp) (accessed June 13, 2010)



## The Future

In 2010 the mobile will be focusing on their application offerings in their attempts to gain customers and lasting loyalty. “Consumers will have a wide choice of stores and will seek the ones that make it easy for them to discover applications they are interested in and make it easy to pay for them when they have to. Developers will have to consider carefully not only which platform to support but also which store to promote their applications in.<sup>44</sup>”

Smartphone sales will grow, but that doesn't necessarily mean that users will be spending more money on their devices or applications. The methods that hardware and applications are paid for will evolve to find ways that are the most profitable for all the parties involved; from the producer, to the distributor, to the user. We started with user funded applications, but we're starting to move towards more advertiser funded applications.

We believe that Apple has the North American smartphone market locked down for now, but that stronghold may not last for very long. Every mobile handset manufacturer is gunning for Apple's position as the top smartphone maker in

<sup>44</sup> Gartner. January 18, 2010. Gartner Says Consumers Will Spend \$6.2 Billion in Mobile Application Stores in 2010. <http://www.gartner.com/it/page.jsp?id=1282413> (accessed 2/16/2010)

North America. All of their competitors are smart and financially capable reaching that goal, but Apple has a massive head start and robust ecosystem of hardware and software that is very hard for average consumers to walk away from. This will prove challenging for competitors, but not impossible; especially if we were to consider non-English speaking markets. It will be interesting to take another look at how the smartphone market has changed in two years time.

One way we can predict the path of mobile computing is by comparing it to the history of desktop computing. While the current wave of innovation is focused on applications, services, and content; analysts believe that the next surge will consist of innovations in the retail sector (how people will find, buy, and pay for goods and services)<sup>45</sup>. Mobile usage in Japan is also good indicator of what is to come for North American mobile internet usage, since they have been heavy mobile internet users longer than anyone else. "If Japan's history with mobile internet revenue generation is any indication of what we will see in the rest of the world over the next few years, then most of the revenue growth will come from mobile paid services and mobile online commerce<sup>46</sup>."

According to a recent survey from Experian 22% of US consumers are open to the idea of making a purchase using their web enabled mobile device, but there is another 13% who are already starting to do just that and making very distinct purchase decisions:

- Sixty-one percent of consumers with Web-enabled phones have used their phone to purchase ringtones and apps
- Fifty-seven percent of consumers with Web-enabled phones have used their phone to purchase consumer electronics
- Forty-two percent of consumers with Web-enabled phones have used their phone to purchase books
- Thirty-four percent of consumers with Web-enabled phones have used their phone to purchase clothing
- Sixteen percent of consumers with Web-enabled phones have used their phone to purchase jewelry<sup>47</sup>

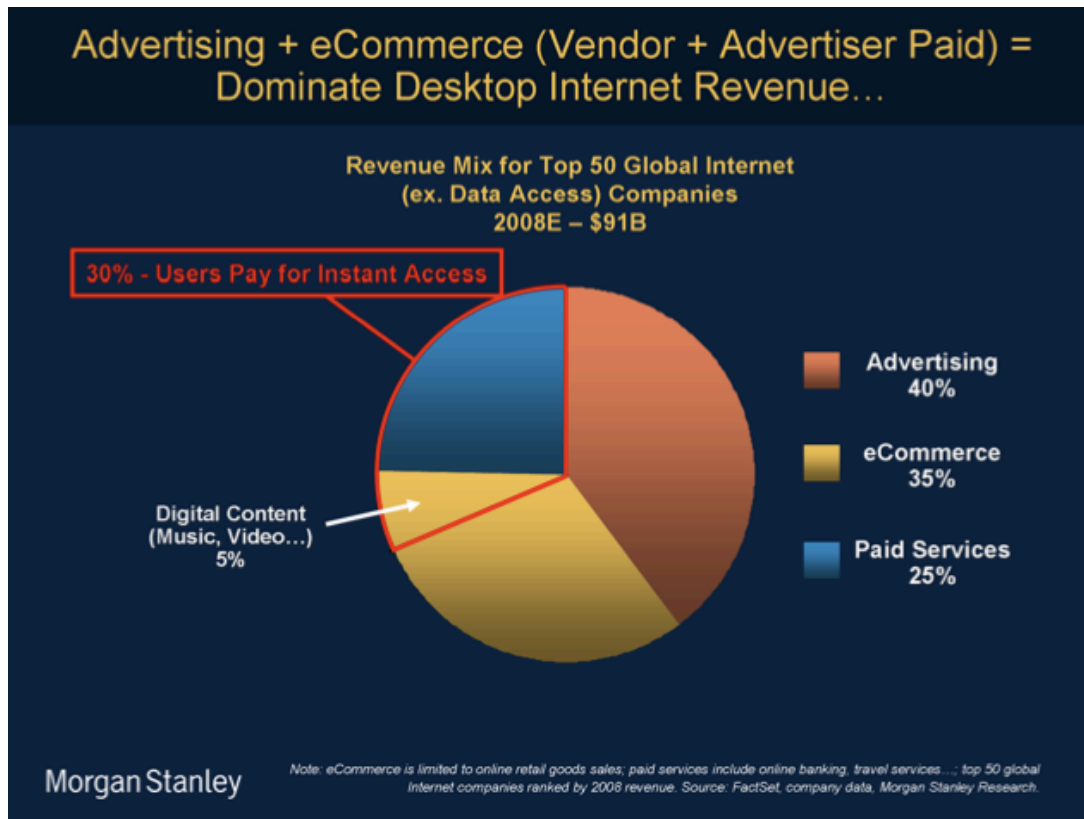
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<sup>45</sup> Morgan Stanley Research. December 15, 2009. The Mobile Internet Report.

<sup>46</sup> Morgan Stanley Research. December 15, 2009. The Mobile Internet Report.

<sup>47</sup> Dan Butcher. June 1, 2010. Twenty-two percent of consumers plan to make mobile purchase. Mobile Commerce Daily. <http://www.mobilecommercedaily.com/twenty-two-percent-of-consumers-plan-to-make-mobile-purchase-pricegrabber-survey/> (accessed June 13, 2010)

Any online retailer who hasn't begun to incorporate mobile compatibility into their sites should do so immediately to take advantage of these numbers.

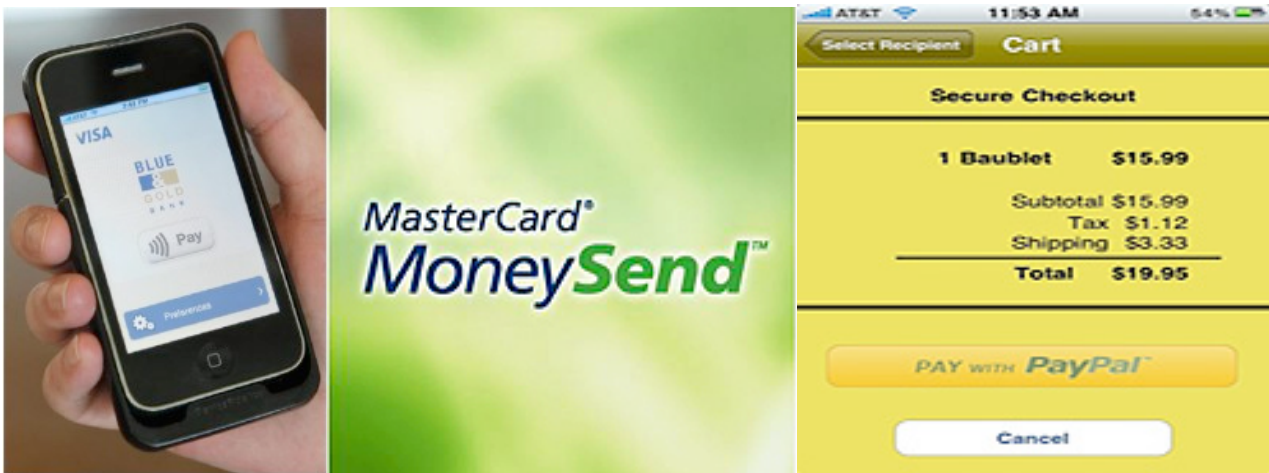


This is all well and good for online retailers, but what about using the iPhone as an actual payment device or conduit. Some credit companies and payment services are already starting to do make inroads in that direction. Visa is creating a near-field communication sleeve to handle brick and mortar commerce<sup>48</sup>. Mastercard is edging in on PayPal's territory with the development of a peer-to-peer payment application for the iPad and the iPhone<sup>49</sup>. Meanwhile PayPal has made it easy for iPhone application developers to add payment functionality to their creations through their Mobile Payments Library<sup>50</sup>. This particular development can turn any application into a potential storefront with profits going (almost) directly to application developer instead of being filtered through Apple.

48 Eliot Van Buskirk. May 18, 2010. Visa Seeks to Extend Retail Dominance With Pay-With-iPhone Service. Wired. <http://www.wired.com/epicenter/2010/05/visa-seeks-to-extend-retail-dominance-with-pay-with-iphone-service> (accessed June 13, 2010)

49 Dan Butcher. June 7, 2010. MasterCard enables person-to-person payments for iPhone, iPad. Mobile Commerce Daily. <http://www.mobilecommercedaily.com/mastercard-enables-person-to-person-payments-for-iphone-ipad/> (accessed June 13, 2010)

50 Dan Butcher. April 28, 2010. PayPal powers mobile payments for iPhone, iPad app developers. Mobile Commerce Daily. <http://www.mobilecommercedaily.com/paypal-powers-mobile-payments-for-iphone-ipad-app-developers/> (accessed June 13, 2010)



Expect to see more developments to make mobile commerce a seamless part of daily life in the months to come.

## Conclusion

The creation, refinement, or implementation of a mobile strategy is of great concern to many organizations and any mobile strategy would be remiss to exclude the iPhone. This not only due to its strong foothold and head start in the market when it comes to market share, but also in consideration for its user base. These users have proven themselves to be unique from other smartphone users in their willingness to download, use, and pay for mobile applications and their frequency of visiting and utilizing the mobile web. In these terms they have a far greater footprint than Blackberry or Android users.

While the competitive landscape for mobile devices and web usage is changing at a rapid pace, iPhone users are currently leading the way in terms of how integrated a mobile device can be in our daily lives.