EXPERT OPINION:

The key to success in The App Economy:
Effective upstream partner management

While the app store is arguably the hottest topic in the industry right now, the concept of paying for downloading apps to your phone is not new. Operators have been doing it for years charging either a one-time or basic subscription fee to download ringtones, games and so on. What is groundbreaking, says Mark Johnson, is the recent explosion in the number of third party developers and content providers.

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These third party developers and content providers are becoming a central part of the app store ecosystem, brought about by the move away from the old 'Walled Garden' model. This exponential increase looks set to continue as smartphone prices inevitably fall and app stores become universally accepted as a mass market channel for developers and consumer brands to access a broad customer base.

Whilst the expansion of the third party ecosystem will undoubtedly lead to increased complexity, it will also accelerate the distillation of the value chain into constituent parts. This value chain distillation will expose the real revenue opportunity for the telecoms service provider; namely the opportunity to monetise the business-to-business interaction with and between ecosystem players.

We have witnessed a wave of evolution in the app store, largely driven by Apple (below).

Service provider app stores will evolve to become services platforms which will offer developers the opportunity to enhance applications with sophisticated network-based functions, flexible charging options and service personalisation. Critically, they will also become the pivotal point of interconnection between third parties and across service clouds.

Evolution 1.0 – the Apple effect
What we have witnessed so far in the app store market is a wave of evolution – driven largely by **Apple** – that has taken the basic model and revitalised the idea with some tweaks to make it more consumer oriented. Apple essentially pioneered the evolution of:

- **Better platform:** the iPhone offers a development environment and a developer-relations community that has triggered a race among handset manufacturers to match it.
- **Better revenue share model:** the simple Apple 30% / developer 70% split is generous to the developers while covering Apple's costs plus a little margin.
- **Better retailing:** Apple did some simple things in their store like allowing consumer ratings and rankings of popular apps per category. Simple stuff that **Amazon** showed the world how to do 14 years ago!

But these are just tweaks to an existing model which have improved the user experience and reduced friction in the business to consumer (B2C) value chain. The app store is still very much a product-centric model: you buy an application, it is an atomic transaction, you pay once, you own it. Apps have unitary prices which are the same for everyone shopping in the store.

Evolution 2.0 – from app store to services platforms
The evolution to services platforms will be quite different. Instead of buying applications you will sign up for services. Service pricing will depend on who you are, how you use the service, whether you buy related services or optional extras. So service pricing requires packaging, bundles, cross-product discounts, rewards and discounts for regular users.

In contrast to a product-centric model, service-based business models are necessarily multi-sided and highly interlinked. As the pivotal point in this ecosystem, the communications service provider has the potential to add significant ▶

value to upstream business partners. Developers, content providers and even other cloud-based service providers can benefit from:

- **Better product development & packaging** – The ability to introduce network-based intelligence, such as location and identity, into applications opens wide-ranging product enhancement opportunities for developers.

- **Better product placement** – The sophisticated storefront technologies resulting from the Evolution1.0 wave, combined with increasingly powerful customer analytics, discovery and targeting technologies being deployed by communications service providers can be leveraged by vendors and brands to open a world of real-time promotional capabilities which are not available in more traditional retailing channels.

- **Better monetisation options** - Service platforms will allow sophisticated options for end customer billing using a mix of ecommerce-style one-time payments and subscription or usage-based pricing models. The operator is the platform provider who sits in the middle of the money flow between all the different customers and partners and can, potentially, take the valuable position of managing the credit risk for all parties while doing a form of multi-lateral netting (i.e. offsetting the receivables and payables among the different players, with corresponding periodic payments to or from the platform provider).

The upstream value opportunity for the service platform provider

In this increasingly competitive market, cultivating and fostering the developer community is critical. To differentiate in this new world service platform providers need to take into account the needs of this new set of upstream "customers". Particularly:

- **Ease and speed of commercial partnering** - Current multi-tier retailing and distribution models in the consumer products environment are highly optimised. In order to make the service platform an equally efficient retail channel for business, the developer on-boarding and contract management process needs to evolve from today's manual, high-touch model to become highly automated and scalable to handle tens of thousands of developers.

- **Rapid and flexible service modelling and launch** - Reducing time-to-market for upstream business partners relies on rapid submission and approval processes, packaged

access to secure development and testing environments and structured flexibility to choose between charging a set fixed price for their apps or a services pricing model with recurring fees, bundles, discounts, promotions, etc.

- **Visibility into performance of individual applications and services** - As upstream business partners and developers become increasingly sophisticated in the way they utilise service platforms they will become increasingly demanding of the insights they expect into the performance of those applications. Multiple third party analytics and discovery applications are already entering the market and presenting a threat to the service platform provider in this area.

- **Revenue and service assurance** - Developers and content providers alike want assurance that their platform of choice provides accurate and timely settlement for applications consumed according to commercial agreements. The assurance function traditionally employed in the digital download business that relies on a manual reconciliation of downloads vs settlements paid cannot possibly scale to track millions of applications from thousands of developers.

Conclusion

Communications service providers have unique strengths that can be leveraged to establish a position of value in the next wave of evolution from app stores to service platforms. The most successful in this environment will be those who:
- Recognise and respond to the needs of upstream developers and business partners
- Leverage core competencies and platforms to deliver value to the whole ecosystem
- Put in place robust, scalable back office systems and processes to manage and monetise the tens of thousands of business-to-business relationships on which their value depends.

Influencing the "4 p's" in Apps Marketing – The Key Sources of Service Provider Value