

New rules of engagement to create an attractive mobile application marketplace

by Jon Capetz and Xavier Mas

Network provider moves into working with application and content providers (ACPs) are being shaped by a number of underlying external trends. First, the recent initiatives of web, device and operating system (OS) vendors have raised the expectations of third party application and content developers, prompting network providers to re-evaluate their own developer relationships. Second, as the mobile applications environment becomes more influenced by the dynamics of web development, network providers are pressed to determine which best practices and business models to adopt. Third, the need for truly global scale will both spur providers into partnering relationships and drive the need for industry initiatives or standardization to address the existing fragmented landscape. While there is most evidence of these trends in the mobile application space, these developments are critical to all parts of the telecom industry.

The rules of engagement have changed

Device/OS players have revolutionized the way that developers bring their applications to market and new developer expectations are forcing network providers to rethink how they engage with third party ACPs. Developers have long been critical of the high barriers of entry to get on the provider deck: the arduous, lengthy and opaque approval processes, the number of devices that require support, the need to support even the smallest application with a full-blown business case.

At the same time, providers have traditionally implemented pay per dip business models around applications (e.g. billing, messaging, and location) that worked well for larger publishers who could drive better bulk commercial deals. However, this has left smaller developers with limited room for profitability and often exposed them to greater financial risk than they can bear.

The device/OS players have changed this model completely, setting precedents around minimal up-front investments, straightforward 70:30 revenue shares in favor of the developer, transparent approval processes, and a fast and predictable route to market.

Early moving network providers are adopting these new norms. Providers such as O2 (Litmus) and SK Telecom have both announced the adoption of the 70:30 revenue share, expedited approval and testing processes, and aim to drastically reduce the time-to-market for developers. Although providers are understandably reluctant to shift towards this new revenue split, only a few providers such as China Mobile, have the requisite market position and barriers to entry to demand a larger share of revenues without fear of losing more of the market to the device/OS players.

Overall, providers are realizing that their role has changed and that they can no longer be the sole architect of their end users' mobile data experience. To improve innovation, providers must look at reducing the costs of working with ACPs, including, potentially, the trade-off of a portion of control: developers are now being allowed to choose the branding, the pricing and the method of engagement with customers.

Think "web" to win

Network providers who are embracing this new paradigm are adopting the lessons of the Web to improve their competitive position against the new device/OS players. Scale is the key to many successful Web models, and the same applies to the relationship between network providers and ACPs; to win, providers ultimately need to attract the broadest range of developers and simultaneously increase the proportion of their customer base that access and actively use applications. More and more, innovative

developers will be attracted by access to a large user base and, at the same time, user numbers will increase as more and more customers are attracted by compelling new services.

To kick-start this virtuous circle, network providers are examining the market for early industry lessons on how to build and support active developer communities. For example, some network providers are looking to provide online self-help facilities to their developer communities and use social networking tools for community building and support. Other providers are exploring how to tap into existing web developer communities. As network providers adopt more web practices, they can expect more developers to innovate in the mobile space.

Network providers can also look to web players for examples of successful business models. The two-sided business model is something that has worked phenomenally well on the Web, a model which has allowed web players to provide “free” services, such as search and other free apps to all users. Cloud computing adoption is also signaling potential changes in how consumer and enterprise end users will create, consume and pay for new applications and the business models required to support these changes.

As network providers deepen their understanding of the value of certain application programming interfaces (APIs), the end user interest or willingness to pay for specific application and network-API enhanced apps, and the impact of free content, they will need to design similar business models and new associated revenue streams, such as charging application developers for premium spots in the store and monetizing aggregate customer or application data.

Cooperation with other industry players: a win-win-win scenario?

Network providers may also increasingly choose to partner with other industry players, such as other network providers, aggregators or OS and device platform providers to achieve scale. For some network providers, particularly smaller ones or MVNO's, there are a couple of ways to impact scale:

- Joining industry task forces such as GSMA OneAPI and Rich Communication Suite (RCS), which foster interoperability and the availability of some key standard APIs, will help network providers be on an equal footing with web players who enjoy the global nature and scale of the Internet.
- Considering a partnership with an existing developer community can provide a quick route to gaining access to a large number of developers and applications. We expect a number of options to develop for network providers:
 1. Network providers may still choose to customize and control key aspects of the storefront and customer experience but leave the managing and recruitment of the developer community to the device/OS aggregator

2. Network providers could build and manage their own developer community and application catalog (potentially localized content and developers) and use the device/OS aggregator to add greater international and cross-provider scale

From the aggregator and/or the device/OS stores' perspective, this partnership also makes sense because they are already seeing the benefit of partnering with network providers who can bring robust and accepted payment mechanisms, greatly increasing the likelihood of application sales. This is particularly viable in developing regions of the world where credit card penetration might be low.

Developers are also likely to benefit from the proliferation of this model. By developing for a standardized platform across multiple operators in different regions of the world, they will be able to reach multiple providers' customers in multiple territories. Thus, through effective collaboration, network providers can grow the size of the opportunity for all players in the eco-system: providers, aggregators and device / OS partners, and developers.

Dealing with fragmentation

A recent survey conducted by Alcatel-Lucent clearly indicated that fragmentation is the number one developer concern in the mobile applications space. This fragmentation is occurring across a variety of dimensions: differences in device runtime environments, differences in network provider and system APIs (including billing and messaging), and differences in the commercial agreements with providers.

However, these challenges are being addressed through a number of initiatives. The Joint Innovation Labs program is a network provider partnership (initially with Verizon Wireless, Vodafone, China Mobile and Softbank) seeking to overcome the issue of device fragmentation addressing OS/middleware commonality. Also, GSMA, an industry trade association, has the OneAPI effort aimed at a providing standardization across network APIs.

In addition to network provider initiatives, providers can work with aggregators including network equipment vendors, device and OS stores to help overcome fragmentation. Commercial agreements appear to be harmonizing through industry norms, such as the aforementioned network provider adoption of the 70:30 revenue share model. In time, the developer community would be better supported by the adoption of standard partnership models across providers, with common operational terms and conditions, testing requirements and approval processes.

Some network providers are concerned about standardization as it may hinder differentiation. We believe that, as an industry, we need to do first things first. With fragmentation,

innovation will stall and it is likely that it will be impossible for network providers to build a strong application market. So first, we need to think of creating a strong cross-industry ecosystem of players in which all participants are fairly compensated for their contribution and investments. Scale is a key element to creating a market space where network providers can participate. Then, each player can focus on creating unique APIs and programs that will help them differentiate.

Where is Alcatel-Lucent in all this?

At Alcatel-Lucent, we have looked into supporting our customers on multiple fronts. First and foremost, our vision of application enablement for the industry is about combining the best capabilities from the network with the innovation from the Web.

We are supporting industry initiatives such as GSMA OneAPI and RCS, leading industry standards discussions such as with OMA. We are also working on aggregating APIs for network provider customers, such as location capabilities for Sprint.

We have also significantly invested in market research and business support tools and professional services to help our customers assess and pick the best alternatives that fit their business needs.

Conclusion

New Web-like trends in the area of mobile applications have made this space the current flashpoint of activity. However these dynamics have potentially wide-ranging impacts across all parts of a network provider's business. Ultimately, the ability of network providers to adapt and align themselves with this changing landscape will determine their likelihood of success in an increasingly data-driven world.

For more about application enablement, go to www.alcatel-lucent.com/application_enablement.