



May 5, 2010

Developers Question Apple's Advertising Ambitions

By Gabriel Madway

Software developers expect a windfall in ad revenue from games and other applications they are designing for the iPad, but Apple Inc's (AAPL.O) push into mobile advertising is raising some industry hackles.

Apple said last month that its new advertising network, dubbed iAd, will sell display advertisements within the software applications, or apps, for the iPhone and iPad, and aims to improve their quality and relevance to consumers.

But in its new agreement with developers, Apple prohibits data about app usage to be transmitted to outside analytics companies. Rival ad networks, such as Google Inc's, rely on those analyses to determine how successful an online ad is in reaching its targeted audience.

Thus, the new rules could create a unequal playing field for ad networks competing against Apple's, some app developers say.

Because of that, iAd is drawing interest from U.S. competition regulators, according to one developer, who said the Federal Trade Commission has asked him specifically about Apple's ad network.

"They asked about the sharing of information with third parties," said the developer, who spoke on condition of anonymity. He said the FTC did not indicate whether it planned to pursue an inquiry.

Apple and the FTC declined to comment. The iAd network is not the only piece of Apple's mobile platform generating scrutiny. Regulators are considering an inquiry into whether Apple violates antitrust law by requiring that its tools be used to write applications for the iPad and iPhone, a source familiar with the matter said on Monday.

Paran Johar, chief marketing officer of rival mobile ad network Jumtap, said he saw huge promise for mobile advertising in the iPad, but he was critical of Apple's approach to ads.

"The problem with the iPad and the iPhone is that Apple is taking its traditional approach of being a closed system," he said.

THE IPAD OPPORTUNITY

Research group Gartner expects the mobile advertising market to rise 78 percent to \$1.6 billion in 2010.

Many app developers see the iPad as an opportunity to generate ad sales: although the tablet is not a go-everywhere device in the same way as the iPhone, its 9.7-inch screen means ads can be more advanced and more appealing.



COMMUNICATIONS®

Marketing Communications & Media Relations

When it introduced iAd last month, Apple said it had the potential to make 1 billion ad impressions a day on its mobile devices, which number in the tens of millions.

Although Apple has played down the financial prospects for the network, Broadpoint AmTech analyst Brian Marshall has estimated iAd could generate more than \$2 billion in annual revenue for Apple when it is fully deployed.

Apple will sell and host the ads, putting it in direct competition with Google and others. App developers would pocket 60 percent of the ad revenue.

"Whoever offers the best ad experience is who we'll go with," said Shравan Goli, president of Dictionary.com, in an interview in April. The company's app has been downloaded 6.5 million times on the iPhone, and 75,000 times on the iPad.

"There is a concern in terms of the access to data and how much insight marketers can get," he said.

Startup developer Pinger found success on the iPhone, and believes the iPad will expand that opportunity. It charges for its Textfree app and also sells ads within its other apps.

Pinger co-founder Joe Sipher said he expects the ad-supported part of his business to surpass paid downloads, and said he was "agnostic" when it comes which ad network the company worked with.

"There's a huge amount of potential for the iPad in advertising, having the bigger screen real estate really enables new things," Sipher said.

"What Apple is starting to do with iAd, if they can make the ad more attractive, then we're for it," he said.

Apple sold more than 1 million iPads in less than a month after launch. Developers have already created more than 5,000 apps specifically for the tablet, which can also run the vast majority of the 200,000 apps available for the iPhone.

Some vendors are charging much more for their iPad apps, and the device seems tailor-made for game makers and media companies. Electronic Arts (ERTS.O) is charging \$10 for its Scrabble iPad app, twice what it charges on the iPhone.

But developers of some apps that made a lot of sense on the iPhone -- a communications device that travels everywhere -- will have to change them significantly to appeal to users of the iPad, which is more of a couch-and-coffee-shop device.

"It's different, whereas the iPhone is for utility, the iPad is about content consumption," Jumtap's Johar said.



COMMUNICATIONS®

Marketing Communications & Media Relations