

# The Mercury News

June 16, 2008

## **Apple's bait: Application developers swarm to iPhone**

**By John Boudreau**

Call it the iPhone economy.

Apple's soon-to-open online App Store has triggered a scramble among software developers to write business plans aimed at making money off Apple's iPhone, a mini-computer that doubles as a phone.

"I'm seeing an excitement among mobile developers that I've never seen before," said Sam Altman, chief executive and co-founder of Mountain View-based Loopt, a location-based social networking service. "People who said they'd never start a mobile (applications) company because they didn't want to rely on the carriers are now starting companies focused only on the iPhone."

Apple recently provided the tools engineers need to create applications for its popular mobile device. The Cupertino company said some 250,000 iPhone software development kits have been downloaded. The App Store Web site, where applications will be sold or given away, is expected to launch soon, perhaps July 11 when the faster next-generation iPhone goes on sale.

Apple could be creating a billion-dollar industry built around the iPhone, said Piper Jaffray analyst Gene Munster. In a recent note to investors, Munster wrote that the App Store could create a \$1 billion-plus iPhone ecosystem by the end of 2009.

Last week, 5,200 software developers packed San Francisco's Moscone Center for Apple's annual Worldwide Developers Conference. For the first time, mobile software writers were invited. Apple offered a taste of the types of services iPhone owners could experience very soon, including near real-time updates and video from Major League Baseball, sophisticated location-based social networking that allows people to find friends, and video games in which users play by tilting the iPhone.

Munster said the applications were "more powerful and attractive" than anything he'd seen on a mobile device before.

What excites many developers are the iPhone's capabilities and its "stable" software platform, which makes writing programs for it relatively easy and quick.

The iPhone "puts the Internet in your pocket, whether it's e-mail, whether it's Web browsing, whether it's YouTube," Apple vice president Greg Joswiak said. "The entire Internet is in your pocket."

The iPhone's capabilities are sure to become even greater after Apple rolls out its newest version, dubbed 3G for "third generation," which company CEO Steve Jobs says will operate twice as fast as the inaugural device, released just a year ago.

Mobile phone operators and analysts say iPhone users have a huge appetite for data.

M:Metrics, a mobile research firm, reported in spring that 31 percent of iPhone owners watched mobile TV or video vs. a mere 4.6 percent market average. Fifty percent of iPhone users also reported using their gadget to access a social-networking site, about 12 times more than the industry average.



(Chris Strach / Mercury News)

"We are going to see things that create totally new behavior, just like the Internet created usage patterns and behavior we hadn't seen before," said Matt Murphy, a partner with venture capital firm Kleiner Perkins Caufield & Byers.

Murphy manages a \$100 million iFund that backs start-ups creating applications for the iPhone. So far, more than 2,000 business plans have been submitted, and three companies have been funded, he said, adding that more money could be added to the fund.

Apple's App Store is expected to be modeled after iTunes, the successful online outlet for digital music and video that helped make the iPod a must-have device. It launched an iPod accessories industry, from high-end speakers to fashionable cases. Apple has sold about 150 million iPods, while the iPhone, at about 6 million in sales, remains something of a novelty item.

"This is the iTunes Store for the iPhone," Munster said of the App Store. "If you build an application that is compelling, people will pay \$10, \$20 for it."

The iPhone just might be the device that finally kick-starts mobile phone advertising in the United States, said Ujjal Kohli, CEO of Rhythm NewMedia, a Mountain View start-up. Its mobile service, called vSnax, provides free video on a range of topics - including news, sports and weather - and attaches ads to them. iPhone users interested in an advertised product, such as an automobile, can press the screen and be directed to a dealer.

"The iPhone collapses time and space for advertising," Kohli said. "No other media has done this."

Another appealing aspect of Apple's iPhone offer is the company's fee structure, which allows developers to keep 70 percent of the revenue from their applications, said Daren Tsui, CEO and co-founder of mobile entertainment start-up mSpot in Palo Alto. When they sell applications through other devices, carriers demand 40 percent to 60 percent of the revenue, he said.

Still, Tsui said he'd like to see Apple's take drop 15 percent or 10 percent, which is what Japanese mobile carriers charge to encourage aggressive applications development.

Apple is still something of a minnow in the mobile phone market. Nokia sells more phones in a week than Apple sold in 10 months. Many analysts do not expect the company to dominate the mobile phone market the way its iPod owns the digital music player industry - at least not any time soon. Still, its move into the smart-phone market is forcing all the big players to rethink how their devices are designed.

Jobs announced last week Apple would lower the price for the latest iPhone model to \$199 for its 8-gigabyte model. Analysts expect the company will have little trouble meeting its goal of selling 10 million iPhones this year. And Jobs said the device will be sold in 70 countries by the end of the year.

"As more vendors gather around the iPhone, the more lucrative it becomes," said Richard Stern, senior vice president at SpinVox, which provides a program that allows people to read transcriptions of voice mail on mobile devices. "When 6 million people get the iPhone, it's worth 'X.' When 50 million people get them, it's a whole different situation."

## **APP STORE OFFERINGS**

Apple is expected to launch its online App Store about July 11, when it also releases its new iPhone 3G. Several hundred free and fee-based applications will be available for iPhone users to download. The company has not said which applications will initially be offered, but here are several that could be on the App Store "shelves" next month.

**Loopt:** A location-based social-networking service that helps users locate friends and share photos and other information.

**MLB.com:** Major League Baseball offers game video clips and near-real-time game updates.

**mSpot:** The mobile entertainment company provides radio feeds, music and other entertainment.

**Rhythm NewMedia:** Its mobile ad-based service vSnax provides free video clips.

**Sega:** The game developer has prepared its popular "Super Monkey Ball" arcade and console game to run on the iPhone.

**SpinVox:** A service that provides transcriptions of voice mail on mobile devices.