

Home > News > IT

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# The Apps Business

There are around 300,000 app startups in the country. What are their business models?

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Vic Bhagat, global chief information officer of EMC Corporation, keeps a close watch on his Mercedes parked in his garage in the US even when he is in a meeting in Bangalore. He pulls out his iPhone and clicks on an app to see if anyone is tampering with his car or taking it for a spin. "It allows me to track my car. I have kids who don't drive yet, but it is a great safety feature to know where my car is," says Bhagat. He can even start and switch off his car while sitting in India. Mercedes gave him the app when he bought his car.

Bhagat is convinced that apps will increasingly be part of our everyday lives — at work and at home. "The future is mobile for every corporation and consumer," he adds.

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Somakumar Kolathur and Sreekumar Paramu, both former Infoscions, are as bullish about apps as Bhagat is. They quit stable jobs at the IT services major to start up Moonraft in Bangalore. They believe in combining design with technology to create unique apps for clients. And in Ahmedabad, Kirit Gajera of DRC Systems has also staked his future on apps. He started DRC as an IT services company but is now concentrating on building exciting apps for clients. He expects that at some point in the future, the apps business will be his main revenue earner, even though it is currently one-tenth of his IT services business.

These people are not alone in dreaming of making a fortune through developing apps. In India, several hundred thousand companies — both established IT firms as well as startups — are very clear that apps will be ubiquitous in a few years' time and will be the preferred way of doing everything — from shopping for goods and services to keeping track of security at home and office. The statistics on smartphone sales, app creation and downloads only serve to vindicate their bullishness on the app business.

According to data provided by research firm Nielsen, some 29 million smartphones and five million tablets were bought by Indian consumers in 2012. The smartphone sales for the year represented a jump of 145 per cent over the previous year.

Meanwhile, another financial advisory firm, Avendus, estimates that by 2015, India will have a smartphone population of 382 million (the global smartphone number are estimated to be around 2.2 billion). Of the 382 million, only 50 per cent will be active users of mobile Internet; and, the users will download 45 apps on average annually. Currently, Indians only download 10 apps on average.

In 2012, more than 60 billion apps were downloaded across the world. India accounted for a relatively minuscule 300 million. Research by Gartner estimates that in 2013, global app downloads will cross 102 billion; Indian smartphone and tab users will download over 800 million apps. It is estimated that by 2016, there will be a little over eight billion app downloads in India alone.

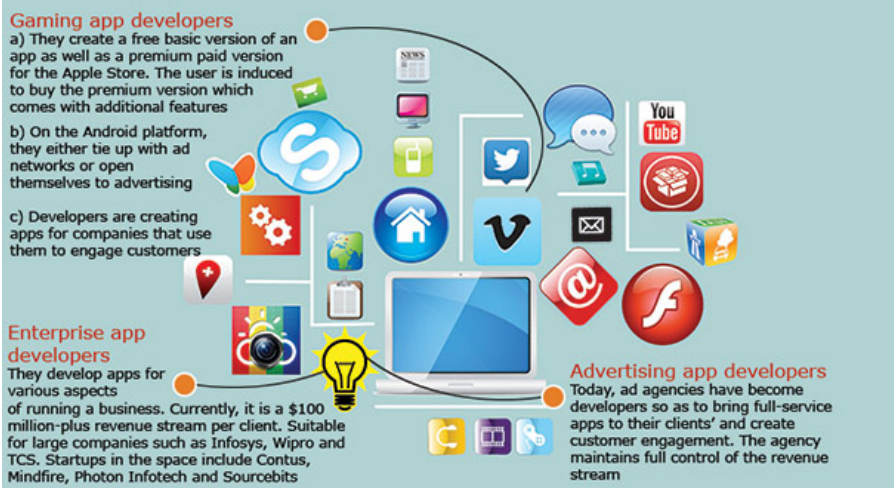
For all the mind-boggling numbers though, the app business is not for the faint-hearted. There are too many people chasing too small a pie because the app business has relatively low entry barriers — several entrepreneurs we spoke to estimated that you could create an app startup with an investment of as little as Rs 50 lakh, if you had a good idea and were willing to hire fresh-out-of-college engineers and designers. You do not need particularly expensive hardware or software, and a team as small as 10 engineers is sufficient to start out with.

The fact that giants such as Microsoft actively encourage and incentivise millions of independent software vendors to use their platform and stores also makes it easier for those who do not want to slug it out in the Android & iOS space. Little wonder then that there has been a rush of app startups in the past couple of years. An estimated 300,000 small and medium companies are building apps in India today, and that population is only going to grow.

On the other hand, the pie they are chasing is not all that attractive. The market for paid downloads is practically non-existent in India, and analysts estimate that the annual mobile ad spends in India for "in-app and mobile" advertising — the term used for the ads present in the free apps you are using — currently is just about Rs 300 crore. And, India does not figure in the list of the top 10 countries by ad revenues from apps.



**Dippak Khurana, CEO, Vservomobi**  
"With so many downloads on free apps, advertisers get access to premium inventory to display ads in rich media formats such as video, HTML5 and Flash"



That is precisely why a great many app developers have decided to build their businesses around enterprise clients, and not around individual customers. It is the apps built to order for corporate customers that are providing the bread and butter — and the jam — for the average app company based in India.

### Building Apps To Order

Every large company wants an app developed in double quick time. And, it is these companies that are providing the main business for thousands of app developers. Moonraft, for example, got its big break from Reva, makers of India's first electric car. The automaker — now part of Mahindra & Mahindra — wanted an app that would help engage its customers better. Sreekumar and Somakumar obliged by creating an app with a simple interface, which could help the customer keep track of the vital statistics of the car, including the all-important battery charge indicator. Moonraft today boasts of 25 clients, and a staff of 50. It says it will clock revenues of Rs 5 crore this year.

Meanwhile, for IMI Mobile, a Hyderabad-based mobile data platform, value-added services (VAS) and interactive voice response (IVR) company, the showcase order came from a power distribution company in Mumbai which was trying to tackle corruption in its meter-reading staff. There were suspicions that some meter readers were being paid off by a few customers to falsify readings. IMI created an app which was put on a handheld device to be carried by all meter readers. Once the reader reached a household, he would click on the app which would connect the camera and capture the meter reading and transmit it to the central server. In one stroke, the problem of tampering with meter readings was eliminated. IMI boasts of revenues of Rs 500 crore. It says the enterprise app is part of a larger mobile integration solution and, therefore, revenues from just apps cannot be quantified.



**Anil Mathews, Founder, CEO, Adnear**

'Today, most of our market is in Australia, South Asia and the Middle East'

The revenue model of app developers with corporate clients has evolved over time. In the initial days, corporations primarily contacted developers for one-off apps and paid a flat fee. Now, there are four clear business models that are emerging. The first being the time and material model. Here, the developer charges a flat dollar rate per hour. Many in the Indian developer community follow this model.

The second is the scope and milestone model. In this, the developer meets a set deadline and charges a flat fee. Companies like Moonraft and IMI Mobile follow this model. The third is the transaction-based pricing model. Here, the developer gets paid in accordance with the traffic that flows to the app — probably the number of times a customer uses the app. Ad agencies prefer this model and usually have an in-house app development team that also builds a traffic tracking engine.

The fourth model is outcome-based, one where the developer not only builds an app, but takes a percentage of the ad revenue that flows to the app. Here, the developer does not charge any upfront fee and leaves the marketing to the client. The app that Gajera of DRC Systems built for a Renault dealer in

Ahmedabad is a perfect example of this. The app — which allows customers to check everything from availability of preferred colour to service slots at the dealership — works by connecting with the ERP (enterprise resource planning) system of the dealer. It is envisaged as a lifecycle management app for the car that the customer purchased, and gives Gajera a recurring revenue stream. Currently, his firm makes just about Rs 12 crore annually. He hopes the app business will scale up.

The enterprise segment seems to be the most lucrative for developers because it involves long-term maintenance contracts and upgrades. Contus, a \$1-million mobile app company from Chennai, started just five years ago and now has close to 140 people on its rolls. "In the mobile app business, we talk to the business managers of the enterprise; it is very different from an IT services business," says Sriram Manoharan, founder of Contus. He adds that while delivering apps for enterprises is challenging, his company is also building expertise in consulting to add to the mobile app business. "The app business works on a pure IT services model with value additions in data analytics, building e-commerce, field force or distributor connect," explains Manoharan.

### Ads Drive App Revenues

Though the corporate client forking out development and maintenance fees is the most stable revenue model for most app companies, it does not stop them from trying to make a bestseller that will earn millions from ads served; the way a Flappy Bird did before it was abruptly pulled by its developer (Flappy Bird reportedly made \$50,000-plus a day from ads for its developers). Companies that are trying to improve the ad-serving model are staking their future on it. The ad-led model has become popular as mobile ad exchanges have become more sophisticated. Google's launch of Admob is testimony to the growing importance of mobiles for advertising. "Location-based targeting is needed because advertising in apps is moving away from the plain banner and text ads," says Akilesh Tuteja, partner at KPMG India.

Earlier, the ad serving in mobile networks was often not very attractive for clients. Part of the problem was that ad-network interactions were unstructured and everyone was keen on measuring the return on investment on mobiles without defined variables or a metric of measurement.

"The problem was that text and banners were targeted on a mass scale in apps. No brand really knew if this was working," says Aashish Bhide, executive director of Digital Media at Aventus. He says the app economy today is primarily a free download economy, in-app purchases and intelligent targeting of advertisers will increase only over the next couple of years.

There are companies already investing in this. AdNear, a Bangalore-based mobile ad targeting company, captures the GPS data of customers' apps and then places the ad by targeting the right customer. "Today, most of our market is in Australia, South Asia and the Middle East," says Anil Mathews, founder and CEO of AdNear. He believes that by knowing the customer's location data, his company can then correlate the visit frequency of the app-user to a particular area. This allows the company to buy and sell ads on a real-time basis for advertisers.

The business works like this: first, an ad-targeting company has to tie up with globally popular apps and plug in its SDK (software development kit), which tracks the location of the customer. This allows it to actively bid for inventory of popular app companies which, in turn, have tied up with app exchanges.

Later, based on the consumer's location, a company like AdNear guides brands on targeted advertising. For example, if you are using a gaming app in a suburb and you happen to be close to a store, AdNear will tell the retailer to target you to shop at the store. Every time a customer looks at the brand's advertisement, AdNear gets paid Rs 5 for each impression by the advertiser. This business model has helped AdNear raise \$6 million in its first round of funding from Canaan Partners and Sequoia Capital.

From a quantitative standpoint, blind networks form a large share of the mobile advertising market, dominated by InMobi and Komli. But, there are new business models.

Eureka Mobile Advertising is working on a model wherein every time a customer opens the screen of his device, it results in monetisation. For the operator, this could add to VAS revenues and also increase the subscriber base. Eureka hopes to provide a more effective channel for the advertiser with a guarantee to increase its ROI. "Success in this space will be determined by delighting the subscriber with a non-intrusive, seamless experience that rewards him with relevant content when and where he needs it," says Rahul S. Jaywant, founder and CEO of Eureka.

With India's app developer base estimated at 300,000 and app downloads around 8.4 billion by 2016, the market potential is huge. As advertisers are realising that apps are becoming popular, they are embracing in-app advertising as a key component of their media mix. App exchange Vservmobi uses telecom subscriber data to profile audiences and then allows advertisers to target customers. Their product also allows app developers to access the ad network. The company has received \$3 million in funding from IDG Ventures. "With so many downloads of free apps, advertisers get access to premium inventory to display ads in rich media formats such as video, HTML5 and Flash," says Dippak Khurana, CEO of Vservmobi. He adds that mobile advertising still lacks key targeting parameters like demographics and spending power which, he believes, are going to change the ecosystem.



**Shubhradeep Guha, Country Manager, Sapientnitro**

'The app is yet to reach a full-service cycle and CMOs and CIOs cannot ignore the power of mobiles' (BW pic by Bivash Banerjee)



**Vineet Bajpai, CEO, Magnon Solutions**

'Clients ask us how much they should focus on digital today...earlier, they focused on TV, print' (BW pic by Ritesh Sharma)

E-commerce firms are emerging as key players in the app ecosystem. "Apps allow you to change the buying process because the user's action is recorded and innovation is possible with data from social media," says Shamik Sharma, CIO of myntra.com. But he warns that mobile commerce will grow only if banks standardise their infrastructure to seamlessly integrate app-based payments. "If you study data from credit card companies, usage of debit and credit cards has dropped in the e-commerce industry," he says. The cost of advertising in an app is not the issue, the scale is. "How many times will your ad show for a significant mindshare when location maps are still not very robust? Precision becomes an important driver of customer targeting," adds Sharma.

#### The Next Big Thing

Remember when voice responses were only in English? Today, they are available in most Indian languages. Likewise, most apps will also migrate to Indian languages in the next five years. "You forget that telecom operators, along with handset makers, can load apps in local languages and play a vital role in bagging customers. It will be lucrative to build the app ecosystem based on the diversity in this country," says Sandeep Gupta, MD, Protiviti Consulting.

The English-speaking population in this country is close to 100 million and beyond that the vernacular plays a major role in a brand winning over customers. Mobile marketing platform One97 says the future lies in building payment gateways and creating a market for vernacular apps. "Imagine ad banners and location-based targeting in Hindi or Telugu or Kannada or Bengali. That work has already started," says Vijay Shekar, CEO, One97.

As the app economy matures, there is greater clarity in the various app business models. And, in a few years, the app economy might well be as large an opportunity as the more mainstream IT businesses currently.

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