

Top App Predictions of 2016

From tvOS and Google Now on Tap,
Apps Are Eating the Web

App Annie

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Table of Contents

1. Introduction: Recap of 2015

- Stability at the platform level
- Monetization evolves, finally
- New device form factors and platforms increase competition for developer and publisher resources

2. Top 10 Trends for 2016

- Google Now on Tap: Easing App Discovery Through Deep Linking
- eSports: Emerging Revenue Stream for Game Publishers
- Messaging: Cultural Factors Maintain Messaging Divide
- Online-to-Offline (O2O) Services: Asia Primed for a Wave of Consolidation
- Productivity Apps: New Input Methods Spur App Innovation
- Financial Services: Retail Banks Face “Death By a Thousand Cuts”
- tvOS: Unleashing the Second Screen
- YouTube Red: Catalyst for Indie Long-Form Content
- Wearables: Watch for Vertical-Specific and Enterprise Use Cases
- Augmented And Virtual Reality (AR/VR): Major Content Players Spur Initial Adoption, but Still More Hype in 2016

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1. Introduction: Recap of 2015

With the ever-changing pace of innovation across the app ecosystem, 2015 brought some expected as well as some unanticipated developments:

- **Stability at the platform level.** In previous years we saw sharp movements in the download and revenue shares of the two leading platforms, iOS and Google Play. But 2015 was a year of consolidation as quarterly variations stabilized, leaving Google Play in pole position for downloads and iOS with the crown for revenue.
- **Monetization evolves, finally.** While sales of in-app virtual goods continued to dominate, subscription revenue burst onto the scene and is poised to see further growth. The launch of video streaming apps like HBO NOW, the continued growth of music streaming, and the demand for dating apps like Tinder's premium subscription service, Tinder Plus, led this trend. Finally, support for Safari ad-blocking extensions in iOS 9 is challenging for monetization via mobile web (on iOS) and is expected to push publishers even more toward the app ecosystem, including more (hopefully good) in-app advertising.
- **New device form factors and platforms increase competition for developer and publisher resources.** Moving beyond mobile, 2015 saw platform owners innovating in new categories, especially in wearables and TV. With developer resources already stretched across mobile OSes, we expect competition for developer attention to increase through 2016. This will be one of the key areas that our industry analysis team will be regularly assessing throughout 2016, given the impact competing platform priorities will likely have on slowing down these platforms' adoption.

- **Apps are eating the web.** Apps are increasingly where we spend more and more of our time -- and money. Apps have become a critical mechanism to deliver improved user experiences, vibrant competition, and new market paradigms to nearly every aspect of our lives. While the mobile web has played a role for publishers that have yet to build an app or for app publishers to onramp customers that have yet to download the app, the reality is that apps deliver a superior user experience versus the web.

There are numerous examples that further drive home the point that apps are eating the web. We have heard from retailers in North America and Europe that the basket spend within their app is far greater than the basket spend on the web. Emails targeting a publisher's users increasingly launch the app as the call to action versus directing the user to a website. Deep linking is becoming more prevalent and allows for the communication and movement between apps and to surface apps via web searches. Newer device platforms, like the Apple Watch and TV, have no browser and publishers cannot embed a browser within their app as some do today in mobile. Even newer technologies like app streaming are about making apps more accessible, only in this case, it's a virtual instance hosted in the cloud.

Every company that has an app is a publisher and apps are the new normal to deliver content, entertainment, utility, productivity, commerce, transportation, etc. 2016 promises to be another exciting year of developments and launches. Our analysts predict the top 10 app trends to watch for in 2016:

2. Top 10 Trends for 2016

1. Google Now on Tap: Easing App Discovery Through Deep Linking

[Now On Tap](#) is Google's ambitious attempt to make apps behave more like the web by indexing and linking to content within apps. Now on Tap gives Google a critical asset: ad hoc smartphone real estate that can be monetized through contextual app install ads in the future. At the same time, surfacing and deep linking to apps based on current user context is likely to reduce friction in navigation and ease discovery in an increasingly crowded app market. By the end of 2016, we expect app indexing and (cost effective) discovery via Google Now on Tap to make Android more attractive as a platform for developers. This should be especially valuable for resource-constrained startups and help Google attract more "Android-first" developers. On the user side, we expect user behavior to evolve as deep linking cuts the homescreen out of the smartphone navigation stack resulting in increased engagement with and across apps.

2. eSports: Emerging Revenue Stream for Game Publishers

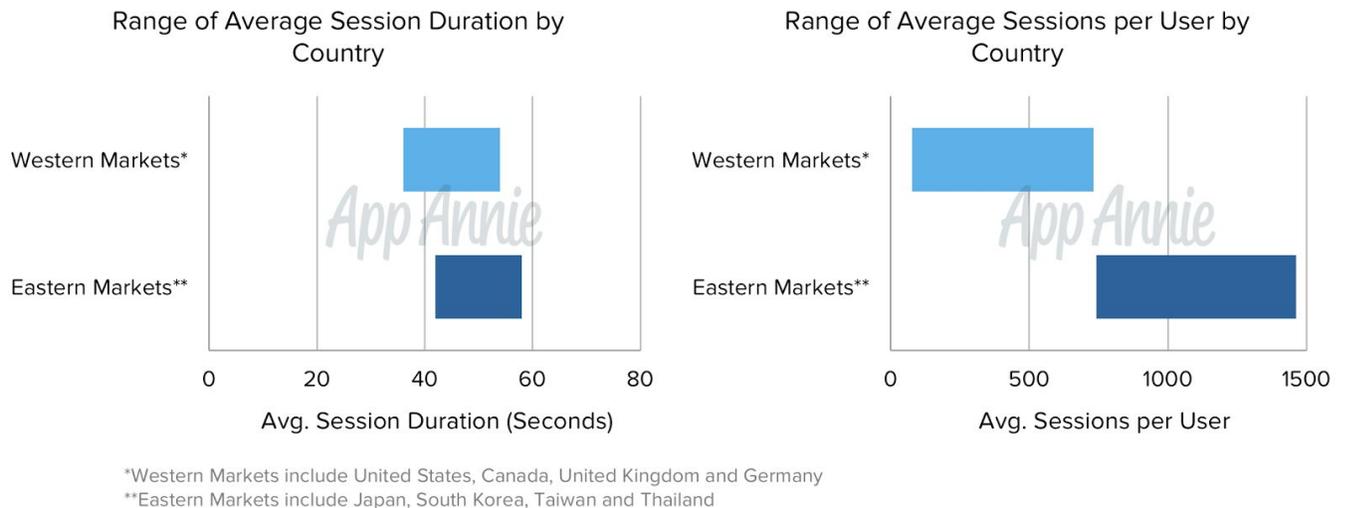
The advent of digital music made it cheaper and more accessible to a massive base of consumers. This also led to an increase in demand for scarce live events as [concert ticket sales in the US tripled](#) from 1999 to 2009. We see a very similar pattern unfolding in the gaming industry as free-to-play (F2P) mobile games reach a much wider audience than console or PC games. We expect this to trigger increased demand for competitive mobile gaming events or mobile eSports. With increased demand, event sponsorships and [broadcast rights](#) are set to become a rapidly growing revenue stream for mobile game publishers in 2016.

3. Messaging: Cultural Factors Maintain Messaging Divide

While app unbundling has been a major trend in the West, messaging apps in Asia have been "rebundling" for years. Beyond text messaging, these platforms offer games, taxi booking services, offline payments and much more. As a result, these apps are used

much more frequently than largely “pure play” messaging apps in the West. Facebook is attempting to change this narrative in 2016 by expanding the [Facebook Messenger](#) platform. Its next logical step should be to enable commerce and payments via B2C connections. This will introduce its users to more platform elements, but we believe the East-West divide is largely a result of deep-rooted cultural differences. Consequently, we expect the average sessions per user of leading messaging apps in Western markets to go up incrementally, but continue to trail those in Asia.

West vs. East: Usage of Leading Messaging App by Active Users
Android Phones, October 2015



Messaging platforms in Asia are used much more frequently than largely “pure play” messaging apps in the West.

4. Online-to-Offline (O2O) Services: Asia Primed for a Wave of Consolidation

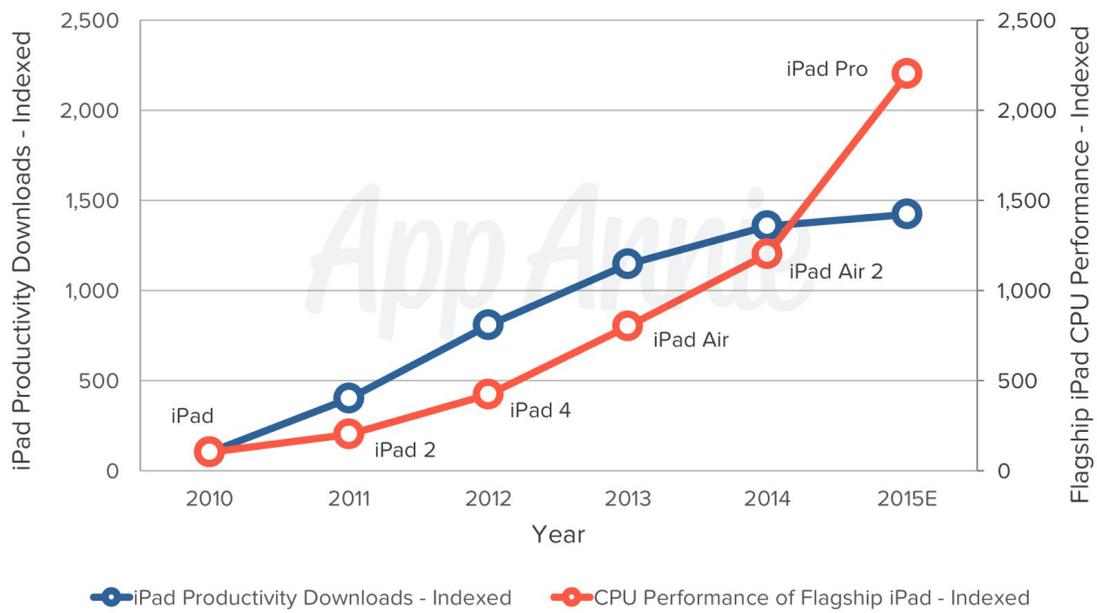
In the past 18–24 months, we’ve experienced the innovation phase of the O2O commerce industry. Its rapid growth has also drawn increased competition and, consequently, climbing customer acquisition costs. This is especially true in Asia, where heavily subsidized pricing has become a common user acquisition tool. But discounting also induces lower customer loyalty and, consequently, lower customer lifetime value.

To correct this, we believe 2016 will bring a wave of consolidation in the Asian O2O space until only a handful of dominant players remain in a given region. This trend is already in its early stages as major acquisitions have occurred in transportation (Didi-Kuaidi merger), e-commerce (Snapdeal's acquisition of FreeCharge), food delivery (Foodpanda's acquisition of Just Eat India) and even local services (Meituan-Dianping Merger). We believe that industry consolidation will foster manageable customer acquisition costs, sustainable unit economics, higher quality app usage and a healthier ecosystem.

5. Productivity Apps: New Input Methods Spur App Innovation

The CPU performance of tablets has [improved dramatically](#) since the iPad first hit the market in 2010. In fact, the CPU performance of flagship iPads has increased by a factor of 22x since the first-generation device. However, interest in productivity apps hasn't grown as quickly as their share of overall iPad downloads is still roughly at 2010 levels (even though iWork and Microsoft Office are now free downloads). Document creation and charting apps have been held back because of the need for larger screens and more precise input. Therefore, it is no coincidence these are the primary selling points of the iPad Pro. With this push from platform owners, we expect productivity app downloads to meaningfully grow through 2016 and beyond. Microsoft, in particular, is primed to take advantage by improving their Office suite and mobile-first productivity apps like [Office Sway](#).

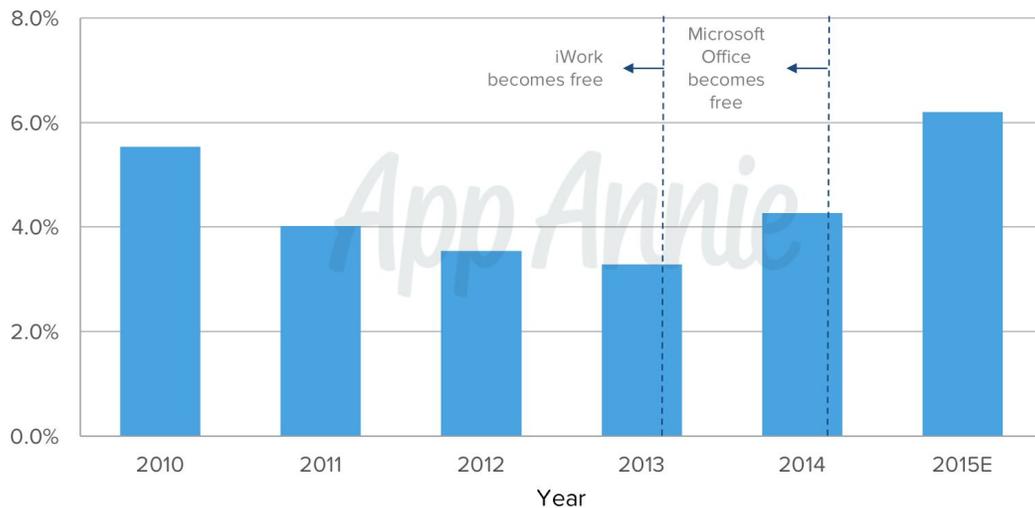
Worldwide iPad Productivity Downloads vs. Flagship iPad CPU Performance



Source: Apple, App Annie Intelligence

CPU performance improvements have outpaced the growth of Productivity app downloads on the iPad

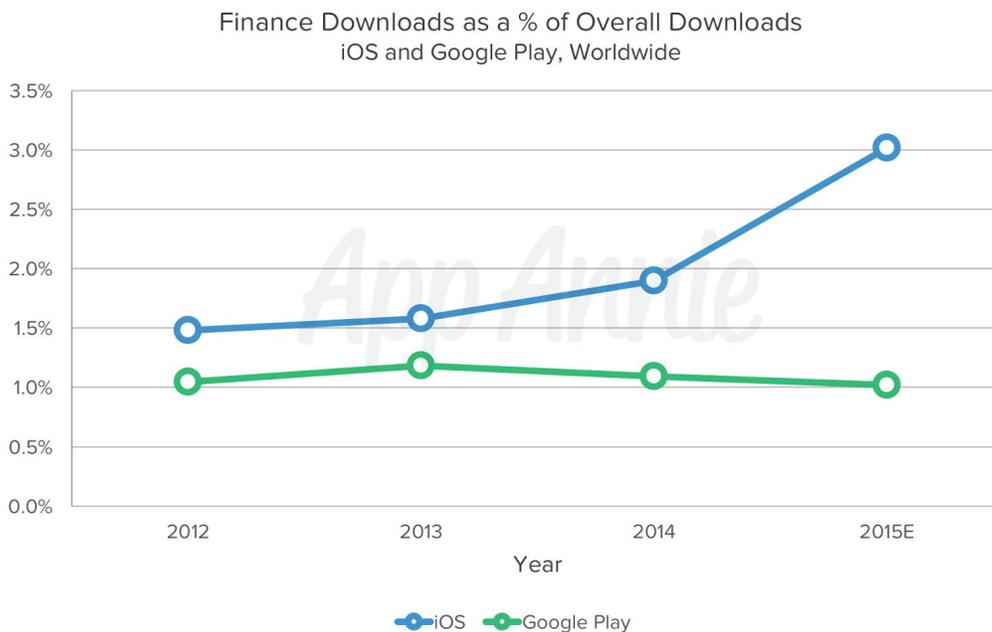
Productivity Downloads as a % of Overall Downloads
iPad Only, Worldwide



The share of Productivity downloads on the iPad is still roughly at 2010 levels even though iWork and Microsoft Office are now free downloads

6. Financial Services: Retail Banks Face “Death By a Thousand Cuts”

So far, finance apps have seen strong, broad-based growth on iOS. A lot of this growth was driven by banking apps, with “fintech” apps still in early stages of adoption. But going forward, banks face the threat of disintermediation as a host of fintech startups have begun to target the industry’s lucrative revenue streams. Apps are increasingly being used for remittance ([Transferwise](#)), travel forex ([WeSwap](#)) and even asset management ([Wealthfront](#)). In addition, easy-to-use P2P lending apps, like [Jiedaibao](#) in China, are primed to gain popularity for small, short-term loans. While banks still hold an “omnichannel” advantage because of the presence of brick and mortar branches, fintech apps are poised to chip away at many banking needs. In 2016, we expect these apps to see strong growth on both iOS and Google Play thanks to the combination of increased transparency, lower transaction costs and improved consumer awareness. Long-tail apps targeting the unbanked should also contribute to this trend across emerging markets.



Downloads of Finance apps have outpaced overall iOS downloads over the past two years.

7. tvOS: Unleashing the Second Screen

tvOS finally brings third-party apps to the Apple TV with gaming and video streaming apps expected to lead the charge in 2016. While we do not see Apple TV replacing game consoles, we believe it will do for game publishers what the mobile phone did for the games market: create a huge gamer population from a group of people that do not self-identify as gamers. The platform's potential to generate deep engagement and grab a significant share of user time is likely to be viewed favorably by developers as they struggle to cope with multiple operating systems and form factors. We note that in the US market alone, pay TV services and TV advertising drive approximately [\\$170 billion](#) a year. This large screen is associated with value and we expect it deliver higher revenue per app per user and strong CPMs. The new Apple TV's greatest value may be in unleashing the smartphone (and to a lesser extent, the tablet) as a second-screen device. This is likely to manifest itself as information related to on-screen content initially, but should eventually extend to "contextual commerce" and targeted advertising.

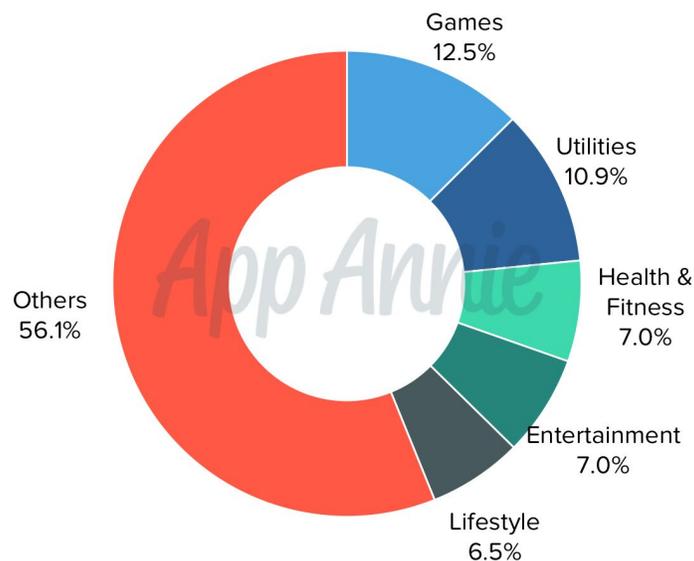
8. YouTube Red: Catalyst for Indie Long-Form Content

One of the barriers to cord cutting is that content is fragmented across cable channels and over-the-top (OTT) distributors such as [Netflix](#). This is partly driven by the high cost and risk involved in producing a large library of premium, original content. YouTube Red is an attempt to pioneer a new cost structure by creating original series and movies in partnership with YouTube celebrities. Additionally, offering a cut of subscription revenue based on subscriber time spent is likely to motivate other YouTube channels to create their own premium content. Indie, long-form content at this scale should attract younger viewers, especially those who are already familiar with YouTube celebrities or brands. By targeting this underserved segment, we expect YouTube Red to expand the market for OTT video streaming. This should help subscription models drive app store revenue as growth of in-app consumables stabilizes.

9. Wearables: Watch for Vertical-Specific and Enterprise Use Cases

Smartwatches are a challenging platform for developers. This is because they tend to be used in largely the same contexts as smartphones and rely on a similar input model, only with a smaller display and a much shorter interaction window. This makes app innovation particularly challenging, except in situations where a smartphone is inaccessible. As a result, app development for wearables is fragmented across categories as developers hunt for use cases. We expect the focus of consumer app development to shift toward vertical-specific contexts that don't overlap with smartphone usage or where the phone is not the optimal choice, particularly fitness and health monitoring. More importantly, targeting a range of enterprise use cases requiring hands-free access is likely to be the way forward for app developers in 2016 — end users may range from factory floor workers to warehouse or field staff.

Apple Watch Apps Available by Category
As of 15 November, 2015



App development for the Apple Watch is fragmented across categories as developers try to uncover use cases.

10. Augmented And Virtual Reality (AR/VR): Major Content Players Spur Initial Adoption, but Still More Hype in 2016

The upcoming commercial debuts of Facebook’s Oculus Rift, Samsung’s Gear VR and Microsoft’s HoloLens should give us some early indications about AR/VR platforms. Unlike mobile devices, AR/VR devices seem to be designed for stationary use which eliminates social challenges on the consumer front. Immersive gaming is likely to be an immediate target for the technology, but long term, use cases are likely to evolve and assimilate those of today’s “lean-back” devices – including communication and media consumption. Even though it is still very early in the technology’s lifecycle, major publishers like Google ([specifically YouTube](#)) and [The New York Times](#) already support VR. Upcoming titles like [Pokemon Go](#) from Nintendo and Niantic Labs should also contribute to consumer awareness about AR. In 2016, we expect even more content players to follow the lead of these companies in pursuit of more immersive user engagement.

The information contained in this report was compiled from [App Annie Intelligence](#), the leading market data solution for the app store economy. To see how our app store download, revenue, demographic and usage estimates can help guide your critical business decisions, [take a tour](#) or [request a demo today](#).



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Report methodology and updates are available [here](#).