

splendid iSolation



By Norm Johnston

 @ntjohnston

splendid iSolation

In a far off corner of the world called Silicon Valley there is a land that lives in a perpetual state of bliss. It's a place seemingly oblivious and unbothered by the constant warfare of its neighbours. Each harvest is more successful than the last one. Even the death of its founder and spiritual leader hasn't curtailed its good fortune. This land is called Apple, and it seems to live in Splendid iSolation from the rest of the world; a paradise island with a closed ecosystem that thrives while its neighbours continue to poke each other in the eye.

// Apple's annual sales income is greater than the GDP of 160 countries. //

In Apple's case we probably should call it Splendid iSolation. Against all odds Apple has become one of the world's wealthiest companies and most recognized and respected brands. Apple's business has gone from \$20b in sales in 2005 to over \$128b in 2011; many estimate it will hit over \$200b in revenues by 2013. To put that in perspective, Apple's annual sales income is greater than the GDP of 160 countries around the world, including Poland and Belgium.

This growth has confounded investors waiting for them to trip-up over a botched product or the on-going global economic maelstrom. None of this has happened. Granted, not every new product has been as earth shattering as the previous one (hello iPad 3), but people still flock to their local Apple store willing to pay hefty prices; Apple makes a \$368 profit for each iPhone while Google makes roughly \$10 per phone. If that isn't enough, bake in the 30% Apple makes from sales of iTunes applications compared to Google's measly 5%. It all adds up to some really big numbers: as of writing this Apple has \$110.2 billion in cash and a market capitalization

of \$508 billion, making it the world's biggest company. In short, Apple could easily snap up the likes of RIM, Twitter, and T-Mobile...and still have a hefty cash balance.

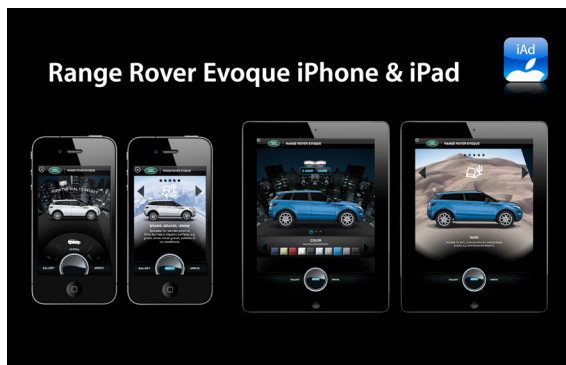
Who lives in this delightful digital kingdom? As you might expect it's slightly more male than female (55% to 45%) and dominated by those 25-55 year olds working hard enough to draw enough income to pay Apple's big price tags. However, an increasingly vast swath of society has opted-in to Apple's expensive alternative digital universe, where USB sticks are frowned upon and applications rather than the old fashioned open Web rule the roost. In fact, in the US, tablets, dominated by the iPad, are now outselling clunky old PC's, which most punters predict will soon happen throughout the world. One in two US households now own an Apple device. No longer just for geeks and fashionistas, everyone from truckers to flight attendants use Apple kit. Infants now swipe before they walk. Apple's broad appeal is partly explained by their ability to control and perfect the entire user experience via their ownership over hardware and software and a largely closed and controlled ecosystem. Unlike their competitors, Apple doesn't have to compromise to meet the lowest common denominator throughout the value chain; this generally equates to superior and differentiated innovation on a timeline largely based on their judgement rather than multiple dependencies.

// Infants now swipe before they walk. //

So what can brands do in this blissful ecosystem? To date Apple has mainly limited brand opportunities to ads and applications, their version of milk and honey. Apple's iAd advertising network is part of their iOS operating system, and allows brands to create

splendid iSolation

content that can be displayed within iPhone, iPad and iPod touch applications. iAd's are designed to combine the emotive impact of TV with the interactivity of the Internet, all on a portable device. Naturally done in HTML5, iAds not surprisingly keep users in their applications, conveniently not disrupting their user experience.



iAds have now been around for nearly two years, and Apple has wisely eliminated the confusing media pricing model, minimized the upfront commitment to \$100k from \$1m, and dialed down the hype and dialed up the data to lure more marketers into the iAd program. Mindshare data indicates that well-developed iAd's can deliver results. For example, our Range Rover Evoque iAd campaign featured an eye-popping 360° virtual tour of the car complete with a configurator tool all built into the actual advertising unit. It was an incredibly rich and award-winning experience. However, marketers need to keep in mind that such a unique creative asset requires more production to match Apple's unique specifications and quality expectations. Consequently, any ROI needs to factor in development budgets as well as media costs. To reduce such expenses, Apple has launched their iAd Production support program, which eases production time and costs via drag and drop tools. Furthermore, groups like Mindshare's Mumbai Mobile Center of Excellence have been established as one-stop shops to cost-effectively scale multiple

mobile assets, including Apple friendly content.

/// Nike+ has grown to over six million dedicated and very fit users. //

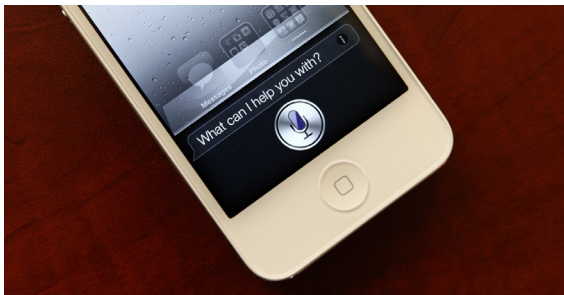
The second most discussed brand opportunity is around applications. The industry has moved beyond the initial knee-jerk "let's make an app" stage and is now collectively taking a much wiser view on whether and how to successfully develop and launch an application; fundamental given that consumers have over 600,000 apps to choose from in the iTunes store. In fact there are over 800 new apps added every day, and nearly 50% of them are free. So getting your target audience's attention with a new application is not easy. Recent research from Deloitte found that nearly 80% of branded apps get less than 1,000 downloads. So how you do launch an app and ensure users can find it, download it, and use it? Clearly iAd's play a key role via their ability to both reach consumers at scale as well as enabling those users to quickly download the app in the actual ad unit. Think of iAds as the communications tool, while the app is the on-going brand platform for consumer engagement, which can be sustained and significant. Take Nike. They teamed up with Apple to create arguably the industry's best example of a branded utility and application. Nike+ has grown to over six million dedicated and very fit users. What other digital delights exist in Apple land? Many brands have been enviously sizing up Siri, Apple's intelligent assistant. Siri's seductive voice has persuaded 87% of



Nike+

splendid iSolation

iPhone users to talk to her at least once a month. Granted, nearly a third of those users never make it beyond basic commands like making a phone call. Nonetheless, Siri will surely mature and spread her wings over the coming years. Steve Job's successor Tim Cook has made it clear she's a core ingredient to their future success. Apple has so far fended off any significant paid brand opportunities with Siri; the lady is apparently not for sale. However, surely Apple is contemplating some useful commercial applications for Siri, particularly as she's lined up to rival and usurp Google's ubiquitous search engine. Imagine Siri delivering brand-sponsored cooking assistance or health and fitness training? Siri may even go through a gender or species change and reappear as Mr. Clean or Tony the Tiger.



Apple Siri

Finally, Apple has an absolute gold-mine of data of from its iTunes store. Over 400 million users have left not only demographic information but also behavioural data and credit card purchase history, not to mention whether they are Justin Beiber or Deep Purple fans. Over 125 million have also uploaded their content and data directly into the iCloud. Apple has been very coy about how they use and protect this data, but over time they may enable marketers to ethically tap into this information to improve targeting and experiences across the Apple ecosystem, and maybe beyond. Some companies are indirectly leveraging Apple proxy data.

Travel site Orbitz has discovered that Mac users tend to spend 30% more a night on hotel rooms. Consequently, Orbitz is now showing Mac users costlier premium hotels in their search results.

The last point regarding targeting across devices is particularly important as Apple potentially expands into the living room. The long rumoured Apple iTV may finally be the device that revolutionizes the television experience, and acts as a catalyst for the entire IPTV industry, including early pioneers like LG and Samsung. Sounds ambitious until you think about what Apple has already done to turn the music, mobile, and PC industry upside down and rapidly scale next-generation device and business model adoption. If Apple iTV really does exist, marketers may finally have a chance to innovate on the good old television, an opportunity that has thus far eluded them due to industry fragmentation, lack of scale, and inferior experiences.

// Apple iTV may finally be the device that revolutionizes the television experience. //

While Apple engineers possibly experiment with TV, the iPhone and iPad experiences will continue to evolve. Graphene chips will dramatically increase the memory on these devices while making them lighter, maybe even transparent. NFC technology will turn your iPhone into a wallet guided and informed by Siri and your iTunes data, which of course will enable Apple to deliver a seamless experience, including highly-targeted branded content and utilities, across all of their devices and ecosystem. Splendid iSolation indeed for both consumer and advertiser. Even Siri must be smiling.