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Apple Creating Cosmos Means No Seventh Day of Rest for Rivals
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By Peter Burrows
    April 23 (Bloomberg) -- Five days after the introduction of the
iPad, Steve Jobs fielded questions at a press conference on Apple
Inc.'s Cupertino, California, campus.
    The purpose was to show off some improvements to the software that
powers the iPad, as well as the iPhone and the iPod Touch. When Jobs,
still gaunt from a cancer-related liver transplant about a year ago,
was asked why Apple hadn't yet included the ability to run small,
portable chunks of code called Widgets on the iPad, he grinned.
    "We only shipped it on Saturday," Jobs said. "And on Sunday we
rested."
    It was a joke, of sorts. Apple is not divine -- though anyone who
rode the stock from $3 to $259 since Jobs's 1997 return to the company
might disagree. What Apple has come to resemble is an endlessly
expanding cosmos, Bloomberg BusinessWeek reported in its April 26
issue.
    More than 85 million iPhones and iPod Touches are in existence, up
from zero in July 2007. IPhone users have downloaded 4 billion apps
from Apple's App Store, and more than 10 billion songs, 33 million
movies and 250 million TV shows from iTunes. IPhone owners, who make up
just 2.2 percent of total mobile-phone consumers worldwide, according
to market research firm IDC, chug 64 percent of all mobile browsing
minutes, said Net Applications, another research firm.

                         125,000 Developers

    According to Apple, 500,000 iPads have already been sold,
increasing the number of people who have access to a rich life, full of
endless media and communication options, without ever leaving the Apple
platform.
    Apple's trick is that this platform would expand even if Apple
were sitting still, which it's not. Forget Apple's 34,000 salaried
employees. More than 125,000 developers now work to make apps for Apple
products. Apple pays them nothing. They sign contracts agreeing to
Apple's rigorous terms for the possibility that users will buy their
apps or view ads on them. For the possibility, really, of becoming
another little planet orbiting Apple's sun -- with the truly lucky ones
landing a spot in the company's TV spots.
    In the quarter ended March 31, the company blew past analysts'
estimates with sales growth of 49 percent, to $13.5 billion, while
profit almost doubled to $3.07 billion. That included record sales of
the iPhone, up 131 percent from the previous year.

                         'In the Pipeline'

    Jobs even broke from his typically tight script to note:
"We have several more extraordinary products in the pipeline for this
year."

That may be because a midlevel engineer celebrating a birthday left a prototype of an iPhone model in a bar on April 18, stealing the element of surprise. Still, there's little doubt Apple remains on the march into new markets, creating even more of a reason for developers to hitch their wagon to Apple.

For Apple, it's a Wintel-like cycle in which new Apple hardware drives the creation and purchase of new apps. Except it's better than Wintel; the combination of an Intel Corp.
processor running Microsoft Corp.'s Windows operating system never really managed to leap from PCs to other devices. Apple has constructed its empire so that almost anything you buy on iTunes -- and Apple has your credit-card information with your first purchase -- can run on any future iProduct.

Competitors' Advantages

The laws of nature say Apple is "making too much damn money, that this has to be unsustainable," said David J.
Eiswert, who runs T. Rowe Price's $312 million Global Technology Fund. "But who is going to stop them?"

Plenty of companies fancy themselves contenders, including Microsoft, Nokia Oyj, Research In Motion Ltd., and Google Inc.

All have certain competitive advantages. RIM continues to be the choice of the e-mail-addicted, while Google's search profits allow it to fund free Android software, and possibly free mobile hardware in the future.

Yet Apple's head start in apps may be too great to overcome. More than 185,000 apps are available in the Apps Store, compared with 38,000 in Google's online store for its Android mobile software platform. Thirty-five thousand new iPhone apps have been produced since February, even as many developers have been working on offerings for the iPad.

"That's a lot of developer attention that's not going to Android," notes Bart Decrem, chief executive officer of Tapulous, which makes music-themed iPhone games that are played by 8 million iPhone owners every month.

Apple's DNA

That means Apple's future growth is as much a matter of managing its collaborators as beating its competitors. At a public interview in 2007, in which he shared the stage with Bill Gates, Jobs noted that in its early days, Microsoft was much better at forging partnerships than Apple.

"I think if Apple could have had a little more of that in its DNA, it would have served it extremely well," said Jobs.
"I don't think Apple learned that until, you know, a few decades later."

How well Apple has learned the lesson is evident in the ways it has encouraged app development. Developers keep 70 percent of the retail price of each app sold by Apple. This summer, Apple will roll out iAd, a mobile-advertising platform that lets marketers make inventive messages appear inside apps.
Developers will keep 60 percent of the revenue.

War on Flash

Strings are attached, however. In the fine print of the new developer contract are strictures that may hurt or even kill many developers' plans. Apple has always banned apps built with Adobe Systems Inc.'s Flash technology because it views Flash, the program that animates some 75 percent of video on the Web, as buggy and battery-draining. Banning Flash means that apps developed for the iPhone won't work with non-Apple devices.

The new contract takes Apple's war on Flash even further: Apple outlaws any software that translates Flash-based apps into iPhone-approved ones.

"Apple has gotten better at working with developers the same way a chess master gets better at playing with pawns," said David Howell, CEO of iPhone app maker Avatron Software.

The tougher terms for developers may also hurt companies that make money through data gathered from iPhone users. Because Apple knows so much about users -- from what songs they like to where they are at any time, using GPS -- its devices present a unique opportunity for targeted ads. At the moment, ad network operators are concerned Apple may soon decide it wants to keep that data to itself.

'Volatile' Rules

"We don't believe we're affected by the new rules, but man, they're volatile," said Wade Beaver, CEO of DoApp Inc., a small app developer in Rochester, Minnesota. "It makes me wonder whether I want to build my business around a company that could decide to change its business model at any time. That could put me out of business."

Google would be one of the biggest losers if Apple continues to raise the wall around its garden. The search giant snapped up mobile-advertising market leader AdMob last fall for $750 million when Apple mistakenly let a no-compete period lapse on its own roughly $600 million AdMob bid, said a person with knowledge of the deal.

Apple claims these policy changes aren't meant to hurt competitors, just help consumers. Jobs argues that avoiding Flash and refusing to let outside ad networks gather user data are moves that protect his customers. Yet Apple's omnipotence -- and the lack of an obvious structural monopoly à la Windows that would invite regulation -- leaves the Apple universe subject to the whims of its creators.

Celebrity Cause

Jobs proudly notes that Apple sells no porn-related apps through the App Store. Yet political cartoonist Mark Fiore had his app rejected last December based on a clause against apps that "ridicule" public figures.

The case became a cause célebre after Fiore won a Pulitzer Prize on April 12. Two days later, Fiore got what he said was a sheepish call from an Apple staffer, and on April 20 his app showed up on the App Store.

"But how many people are doing good satire out there and getting rejected?" said Fiore. "The only reason they're talking to me is because I'm in the middle of my 15 minutes of fame."

Even with his misgivings, Fiore resubmitted his application. Such is the lure of Apple's market power.
Developers, many of them startups, can write a single version of their app and reach the roughly 100 million Apple customers.

On other platforms, they would need to create dozens of versions to work properly on dozens of less popular devices, each with different screen sizes and keyboards. Currently, 60 devices work with Google's Android software, and dozens more are in the works, said Kevin Restivo, an analyst at IDC.

That makes Google's perceived advantage -- a bounty of Android hardware--a weakness in the eyes of many developers.

"So far we've decided it would take more time to port an app to another platform than it would be to just write a new app for the iPhone," said Avatron's Howell.

Avatron's app, designed to transmit work files wirelessly between a PC and Apple's devices, has brought in $1.5 million in revenue since its 2008 release. That's enough for Howell to pay his seven employees a Silicon Valley living wage. On the other hand, he said, "I haven't heard about any Android success stories."

Google spokesman Anthony House said, "We don't track the success of individual Android developers, but we're extremely happy with the breadth and quality of the apps available in Android Market."

Zinio's Spike

For all the restrictions, most developers feel that obeisance to the laws of the Apple cosmos is worth it. For years, San Francisco's Zinio has made digitized copies of 2,400 magazines available on its Web site.

Once iPad owners began busily playing with slick, touch-controlled versions of such publications as the New York Times and USA Today, it was a natural next step to get Zinio's iPad app. By April 11, Zinio's reader temporarily spiked to become the fourth most popular free iPad app. That led to a 300 percent increase in revenue from the pre-iPad era.

Making the app, said Richard Maggiotto, Zinio's CEO, was easy. "The back-end stuff the developer sees is as well done as the products the consumer sees," he said.

Greatest Advantage

That may be Apple's greatest advantage. In order to develop products just as he wants them, Jobs has shown a willingness to do more than his rivals. PC makers such as Dell Inc. and Hewlett-Packard Co. are powered by Intel and run Windows by Microsoft; neither has shown interest in the costly job of building unique operating systems or designing its own chips.
Apple does both.

Microsoft and Google have only recently decided to design their own mobile devices, and in most cases they're purchasing "white label" hardware from other manufacturers and branding it as their own.

The iPad's 10-hour battery life is a result of Apple's ability to have its chip, software, and industrial designers work together to limit unneeded power use.

All this eases the tech-buying public down the path toward Apple, whose iPhone has a 25.3 percent share of the smartphone market, according to ComScore Inc. in Reston, Virginia. And as long as Apple exerts a gravitational pull on consumers -- and manages to balance the

rewards to developers with pushing them around -- the apps will just keep coming.
      "How willing you are to expose yourself to that relationship is directly related to how much revenue you can make," said DoApps's Beaver. "You'll take a lot, if you're making a lot of money."

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--Editors: Josh Tyrangiel, Lisa Wolfson

To contact the reporter on this story:
Peter Burrows in San Francisco at +1-415-617-7191 or pburrows@bloomberg.net

To contact the editors responsible for this story:
Josh Tyrangiel at +1-212-318-2000 or jtyrangiel@bloomberg.net; Tom Giles at +1-415-617-7223 or tgiles5@bloomberg.net