



Why Doesn't Apple Enable Sustainable Businesses on the App Store?

Monday, July 1, 2013

This series of posts is about enabling sustainable businesses on the App Store. In [Part 1](#), I discuss why Paper and other productivity apps may not be doing as well as you might think. [Part 2](#) explores why casual games, in contrast, are a sustainable business, but not a differentiator for platforms (I added a follow-up [here](#)). [Part 3](#) analyzes why Apple in particular seems hesitant to enable sustainable businesses on the app store.

I love apps, especially productivity apps. If games are all about user input, with minimal app output, and consumption apps about app output, with minimal user input, productivity apps are about both. You put something into an app, and the app returns something back to you, better.

Think about Photoshop, or Excel: you put in data, and the data is returned to you, transformed. Same thing with a text-editing app, or a calculator, or a mileage tracker. Productivity apps add value, and the more you use them, **the more valuable they become**.

Unfortunately, productivity apps are **a terrible match** for app store economics. The app store favors:

- Simple, inexpensive apps that are downloaded by a lot of people
- Free front-ends for for-pay or advertising-based services
- Games with repetitive mechanics that can **monetize existing users** through in-app purchases

The solutions for enabling sustainable productivity apps are actually pretty obvious – just look at how productivity apps make money elsewhere:

- More expensive apps with trials
- Paid updates
- Built-in subscription support

And yet, iOS 7 introduces radical change in nearly everything *except* for app monetization. Why doesn't Apple do more to enable sustainable businesses on the app store?

I see a few reasons, ranging from the concrete to the more speculative.

Apple's business model devalues developers

Apple makes money on hardware. It's in their interest that said hardware be sold for as much of a premium as the market will bear. However, it's equally in their interest that the complements to that hardware are sold as *cheaply* as possible, and are preferably free.

That is why, for example, iOS updates are free, and OS X updates nearly so. Both cost hundreds of millions of dollars to develop, but they only exist to sell more hardware, not to make money in and of themselves.

This is **standard strategy**, especially in technology. Look at Google: the vast majority of their services are free because they want to drive usage in order to **capture signals and serve ads**. Microsoft, which has felt the pain of Google commoditizing services and Apple commoditizing OS updates, did the same thing to hardware makers: Windows supported everything under the sun because the increased competition would drive down the cost of hardware, leaving all of the profit to Microsoft.

In the case of apps, the current app store, full of a wide variety of inexpensive apps, is perfect from Apple's perspective. It's a reason to buy Apple hardware, and that's all that matters. Anything that on the surface makes the store less desirable for hardware buyers – such as more expensive apps – is not in Apple's interest.

Developers don't have an advocate on Apple's leadership team

Scott Forstall started at NeXT. He was a major contributor to NeXTStep, and then to OS X. He had every reason to be a fierce proponent of Cocoa, the NeXTStep-derived API that was native to OS X. Yet it was Forstall, in his role as director of API frameworks, that pushed for Carbon, the API that maximized backwards compatibility with Mac OS 8 and 9. More recently, it was Forstall, as head of iOS, who pushed most forcefully for 3rd-party apps to be allowed on iOS.

Forstall proved himself, again and again, to be a huge proponent of 3rd-party developers. And he's gone.

I get why Forstall had to go, but to be clear, it was a massive loss, especially for apps. There certainly remain many, many people at Apple that care deeply about apps, but the policy changes I and others are calling for will be decided at the top.

In Forstall's absence, who in the leadership team is making the case? I haven't seen any evidence that anyone else in **that Monday morning meeting** prioritizes developer issues.

Apple has been burned by productivity apps before

As I just noted, the great thing about productivity apps is that they add value, and the more you use them, the more valuable they become – the potential value of a productivity app is limited only by the amount of data you are willing to put into it.

The trouble for Apple – or any platform provider – is apps that cross that line from nice-to-have to completely irreplaceable. It's at that point a user's loyalty shifts from platform to app, and there are no greater examples than the aforementioned Photoshop and Microsoft Office.

Last week I transcribed **significant portions of the Steve Jobs keynote** at Macworld Boston. In that keynote, he described how Apple was dependent on Adobe for many of its sales, and, more famously, introduces Apple's "partnership" with Microsoft.

Jobs' closing speech, where he said that "We have to let go of this notion that for Apple to win Microsoft has to lose," is well-known and still cited; however, I think the full quote is more telling (emphasis mine):

You know, **where we are right now**, is, we're shepherding some of the greatest assets in the computer industry. And, **if we want to move forward and see Apple healthy and prospering again**, we have to let go of a few things here.

We have to let go of this notion that for Apple to win Microsoft has to lose. OK? We have to embrace a notion that for Apple to win Apple has to do a really good job, and if others are going to help us, that's great, cause **we need all the help we can get**. And if we screw up and we don't do a good job, it's not somebody else's fault. It's our fault. So, I think that's a very important perspective.

I think, **if we want Microsoft Office on the Mac**, we better treat the company that puts it out with a little bit of gratitude. We like their software.

So, the era of setting this up as a competition between Apple and Microsoft is over as far as I'm concerned. **This is about getting healthy**, and this is about Apple being able to make incredibly great contributions to the industry, to get healthy and prosper again.

The emphasis brings home the point: Jobs' statement was completely driven by Apple's desperate state and the fact that Apple's potential users cared *more* about Photoshop and Office than they did the Mac. For Jobs especially, it must have been humiliating.

I had a unique vantage point into how Apple looks at this time in its history due to my time spent on the **Apple University team**, and something that struck me was the powerful impact Apple's near-death experience had on all those involved. That **Wired cover**, and the fact Apple lost nearly a billion dollars in 1996, came up unprompted again and again. For those that were there, it *still* fundamentally shapes how they view the world and how they make decisions.

To be clear, this has tremendous value: there is nothing like near-death **to realize** you have nothing to lose – a great recipe to avoiding disruption. In fact, one of my concerns for Apple is what will happen when all of the old guard is gone, leaving those who have only known success.

But there have been downsides to this paranoia: Apple's inefficient use of its cash is the most famous, but I think developer hostility is an aftereffect as well. I would go so far as to argue that that Boston keynote was at the root of Jobs' opposition to any 3rd-party apps on the iPhone, much less app store policies that enable sustainable businesses. Never again would Apple be held hostage to an app that was bigger than Apple.

To be fair, Cook has already reversed Jobs' position on cash. However, the enthusiasm with which he promoted \$10 billion paid to developers – which I believe is **mostly driven by in-app purchases in casual games** – suggests he doesn't appreciate there is a problem with the app store.

Then again, who is to say it's a problem? I've already pointed out that cheap apps align with Apple's business model.

And that's fine, as long as the iPhone is dominant in other areas. But is it?

To bring back my favorite chart, the **mobile hierarchy of needs**:

The Mobile Hierarchy of Needs - click image for original article

When the iPhone launched, it was, as Jobs said, five years ahead when it came to hardware and the OS. However, that was six years ago; today it's apps that are the biggest reason to buy an iOS device (and services the biggest reason not to).

Were Apple to invest more in its ecosystem and enable sustainable productivity apps, I believe iOS could build a moat comparable to the one enjoyed by Microsoft for over two decades. Namely, for customers who care about apps, it ought to be unthinkable to consider any other platform.

While pondering this article, I was struck by this tweet from Aaron Levie:

Aaron Levie [Follow](#)

Incumbents get disrupted because the very moats a company builds up to be successful in one era become a liability in the next.

9:26 PM · Jun 26, 2013

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Three years ago, I wrote an academic paper on **Apple and the Innovator's Dilemma**, and argued that Apple's narrow focus on the end-user shielded them from disruption:

Apple's focus on user experience as a differentiator has significant strategic implications as well, particularly in the context of the Innovator's Dilemma: namely, it is impossible for a user experience to be too good. Competitors can only hope to match or surpass the original product when it comes to the user experience; the original product will never overshoot (has anyone turned to an "inferior" product because the better one was too enjoyable?). There is no better example than the original Macintosh, which maintained relevance only because of a superior user experience. It was only when Windows 95 was "good enough" that the Macintosh's plummet began in earnest. This in some respects completely exempts Apple from the product trajectory trap, at least when it comes to their prime differentiation.

Indeed, it seems that Apple simply isn't very interested in moats. They do what they think is right by the user, strategy nerds like me be damned. This **kills them on Wall Street**, but perhaps is the only possible route to avoiding stasis, and ultimately, disruption.

This is why Apple is so fascinating.

This is a three-part series on enabling sustainable businesses on the app store.

- Part 1: [Papering Over App Store Problems](#)
- Part 2: [Casual gaming is sustainable, but not a differentiator & Additional Notes on Casual Games](#)
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Steve Jobs at Macworld Boston in 1997

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