

There's Gold in Them iPhones

GE WANG NEVER DREAMED OF BECOMING A HIGH-TECH SILICON VALLEY ENTREPRENEUR. He's an assistant professor at Stanford, a specialist in computer science and music whose biggest passion has been organizing nerdy "laptop orchestras" comprising 20 people each "playing" a notebook computer. But last summer his friend Jeff Smith—who'd run two successful high-tech companies before dropping out of the corporate world to take music classes at Stanford—talked Wang into trying to create applications for Apple's iPhone. Smith and two others put up some seed money, and Wang, 31, set to work with a handful of engineers. They called the company Smule, and created four applications, priced at a buck apiece. There's a virtual lighter, a virtual firecracker, a voice changer that can make you sound like anything from Darth Vader or an elf on helium, and the big winner of the bunch—a program called Ocarina that turns the iPhone into an electronic wind instrument. Released in November, Ocarina racked up 400,000 downloads in less than a month. Smule, which originally set a goal of taking in \$100,000 in revenue this year, instead will end up making closer to \$1 million. "It's amazing," Smith says. "The business is already profitable."

Wang and Smith are riding the latest phenomenon to sweep across the tech industry. Thousands of people are writing applications for the iPhone and selling them through Apple's App Store, which is part of the iTunes online market. Apple launched the App Store in July and has already delivered more than 300 million downloads of more than 10,000 applications (some choice samples: a free Bloomberg stock-market terminal, and a 99-cent "iBeer" that sloshes around when you tilt the phone). "We've never seen anything like this in our careers," Apple CEO Steve Jobs told Wall Street analysts on an earnings conference call in October.

Apple introduced the first iPhone in June 2007 and followed up in July of this year with a 3G model that offers faster data-transfer speeds. Apple has sold 13 million iPhones, and in the third quarter of this year sold more units than Research in Motion, maker of the BlackBerry. In terms of revenue, Apple claims now to be the third-biggest mobile-phone maker in the world, after Nokia and Samsung.

Apple won't say how much money the App Store is taking in, nor will it say how many of the 300 million downloads were free apps and how many were apps that cost money (most apps are free; the others cost anywhere from a buck to \$10).



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Apple gets a 30 percent cut of any revenue generated by apps. But for Apple right now the money isn't the point. The big thing is the race to become the dominant mobile-computing platform, the way IBM-standard PCs running Microsoft operating software—first DOS and then Windows—came to dominate personal computing in the 1980s and early 1990s. The mobile-computing space looks a bit like the early days of personal computers, when different operating systems were competing to be king. A half-dozen smartphone platforms compete in the market, including Symbian (used by Nokia), Windows Mobile, the BlackBerry and Google's Android. Yet another is on the way from Palm, maker of the Palm Pilot and the Palm Treo. Next year Palm will introduce an entirely new operating-system platform for mobile computing. Whichever platform draws the most developers will likely rule the market. Right now "it's a 100-yard dash and Apple is already 75 yards

down the track while the other guys are still trying to get out of the blocks," says Ken Dulaney, analyst at researcher Gartner in San Jose.

Half the fun of owning an iPhone is trying out all the cool new apps you can put on it, and developers are cranking things out at a feverish pace. "It's kind of a gold rush," says Brian Greenstone, who runs a tiny outfit (it's just him and a few freelancers) called Pangea Software in Austin, Texas, that has created several hit games for the iPhone, including Cro-Mag Rally and Enigma. Greenstone, 41, has been writing games for Apple's computers for 21 years. But he says he's never seen anything like the iPhone apps phenomenon, which this year will deliver \$5 million in revenue for him. "It's crazy. It's like lottery money. In the last four and a half months we've made as much money off the retail sales of iPhone apps as we've made with retail sales of all of the apps that we've made in the past 21 years—combined." Business is so good that Greenstone won't even bother writing for the Mac anymore. Besides, Greenstone says, iPhone apps are easy to create: some get cranked out in just two weeks by a single developer. "Some kid in his bedroom can literally make a million bucks just by writing a little app," Greenstone says.

Steve Demeter, a 30-year-old programmer, built an iPhone application in his spare time. By the \$250,000 in more money much. But it's at Wells Fargo code for ATM neers to deve games. "We i get acquired, able," he says than a year ago, year from now, the little on Apple's co

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