

iPhone: Software and Data Reactivate the Mobile Phone Market

Sandra Sieber and Josep Valor
e-business Center PwC&IESE
29/06/07



The Apple mobile phone is now available for purchase in the United States. It is called the iPhone, “the best iPods designed to date and a fantastic phone”, according to Steve Jobs, who is hoping to repeat the success he had with the iPod. His company has already sold 100 million units of this music player, far and away the leading product of its kind on the market.

With the iPhone, Apple hopes to take an even bigger bite of the pie. The number of mobile phone users worldwide this year was last estimated at 3 billion by the British consulting firm, The Mobile World. The current champion in this category is Nokia.

For two or three years now, the industry has accepted the fact that the mobile telephone will also fulfill the role of digital music player. Nokia, Samsung, Sony-Ericsson or Motorola already include mobile phone models with integrated digital music players in their catalogs, and these devices are increasingly sophisticated. In addition, these manufacturers have united to launch Music Station Service, a music download system that offers a million songs via a flat rate of three euros a week that is added to clients’ telephone bill.

This service has the support of thirty operators and the four major record labels, Universal Music, Sony BMG, EMI and Warner Music. This initiative is a clear effort on behalf of the traditional mobile phone manufacturers to confront the feared entry of Apple into the sector. The question is how big a niche Apple can capture among the major traditional mobile phone manufacturers. Business Week affirms that expectations of the majority of analysts are excellent, with projected sales of 40 million units in 2009.

Some, however, are not so optimistic. The North American consulting firm, Parks Associates assures that 41% of those who own portable digital music players prefer a single function device. Half of those consider that a multi-function device would be too expensive, and a third fear that there would be performance problems with batteries, etc. In terms of the iPhone’s price, these opinions are not far off the mark. The 4-gigabyte model of the iPhone costs \$500, while the 5-gigabyte model costs \$600. However, there is hope that within 18 months more economical models will be available, and Jobs has already announced an improvement in the batteries.

Highlights

1 The Apple iPod occupies 70% of the market share, according to NPD Group. In distant second is SanDisk with 11.7%, followed by Creative, with 4%, and Microsoft, with 2.3% of the market.

2 In the first quarter this year, Nokia enjoyed 37.4% of the market, while its closest rival, Motorola, settled for 15.3%, according to CIBC World Markets.

3 Analysts foresee sales of three million iPhones in 2007, 10 to 12 million in 2008 and 20 million in 2009, according to BusinessWeek. The consulting firm, Piper Jaffray, elevates this estimate to 40 million iPhone’s sold in 2009.

4 Among those who use their mobile phones for something more than calling, 88% send text or other types of messages, 25% navigate the Internet, and only 7% play videos.

Still, the true revolution of the iPod goes far beyond voice and music, taking aim at the field of mobile Internet. Jobs has added a third category to the iPod definition. More than being just an iPod and a mobile phone, Jobs claims that this represents "Internet in your pocket for the first time". His most recent creation includes a Wi-Fi card and Internet connection, although it uses a second generation AT&T network that is slower than that of his rivals.

This represents a difficult challenge because, at present, only 44% of mobile phone owners use data services, according to Forrester Research. The size and low resolution of screens in addition to lack of interest in mobile content explain this current inhibition. The iPod design attempts to solve these problems. It eliminates buttons and keys in exchange for a tactile screen, and its sensors allow users to see the screen either vertically or horizontally, with automatic visual format change. The telephone includes an SMS message manager, Google Map service, and the Safari electronic mail and web navigating application. As for content, Apple has announced that it will include a Youtube link on the telephone's main screen.

Will Apple be able to repeat the success it had with the iPod? Will it be capable of shaking an already mature market like that of mobile phones? If it gets people to start using their mobile phones to navigate the Internet the same way they currently listen to music or view digital video, wireless data trafficking will finally lose its elitist character. It seems that Apple is the only company in today's market that is capable of rising to the iPhone's challenges.