

iPhone iPhone Changes Mobile Phone Business Model

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27/09/07



Steve Jobs and company are preparing for the iPhone's European landing. Like the current situation in the US with operator AT&T, European telcos would be exclusive sellers of the iPhone in their territory, handing over a percentage to Apple—The Guardian reports figures up to 40% in the case of O2 in the UK—from the phone's user consumption revenues, whether that be voice or data. In the mobile phone industry this business model is, to say the least, atypical, given that its value chain is made up of content providers, mobile phone manufacturers and telco operators. The latter of these are in control as far as their contact with the customers, with whom they formalize the contracts and have first-hand information regarding their habits. Even in the case of content providers, such as ringtones.

Thanks to this bargaining power, operators thus far have managed to curb the practice of manufacturers charging for the use of their telephones, even with Nokia, whose 33% market share leads the sector. The exception is Research In Motion, which earns revenues from the nine million BlackBerry users by offering email services directly.

Nokia is looking for a similar formula with its new Ovi portal, which it hopes will add service provider to its current role of mobile phone manufacturer.

What operators are conceding to manufacturers is the subsidization of mobile devices to the users acquiring them. This helps attract new users and renew the existing supply of phones with more sophisticated models, capable of boosting data traffic, although the iPhone went on sale in the US without any type of subsidy.

On the whole, the industry is concerned about the narrow profit margin, which continues to decrease. Even Nokia at the start of 2006 told BBC that its margin had fallen nearly 2% compared to the previous quarter, and the analysts consulted by the British broadcaster agreed that this problem is affecting all of the market's players. However, this does not seem to be the case for Apple. In its latest financial results, the company reported that the gross margins for its products were 36.9%, six points higher than in 2006.

Apple has great confidence in its new device and so far sales figures seem to be validating its optimism. One day after it hit stores—June 29 of this year—Apple's iPhone had already sold

Claves

1 In exchange for exclusivity in the region, Apple requires operators to share part of the revenues generated by users of its new phone, which equates to a significant shift in the business model for the mobile phone market.

2 When the French daily Le Figaro announced that France Télécom had obtained exclusive national rights to sell the iPhone, the operator's stock price rose 1.3%, despite the French stock market having a day of losses.

3 Spanish operator Telefónica appears to have the best shot at national exclusivity for the iPhone, which is set to hit the country in the first half of 2008 and will already be equipped with UMTS, a more advanced technology than EDGE, which is currently being used in the US.

4 The day after it went on sale in the US, Apple had already sold 270,000 units of the iPhone, bringing in five million dollars in the process. In September it managed to move one million units, a milestone originally projected for October. Its goal is to sell 10 million phones worldwide by the end of 2008.

270,000 units, translating into \$5 million in revenues. In reality, this was about half of what had been forecast by Wall Street, but on September 10, when the new device had been out for 74 days, Jobs announced that a million units had already been sold. This was the figure projected for October and one that the iPod took two years to reach. Apple's next goal is to have sold 10 million units worldwide by the end of 2008. The recent iPhone price cut (from \$599 to \$399), while at the risk of irritating the "pioneer" buyers, will help significantly, particularly for the upcoming Christmas campaign. Major operators also appear willing to change their business model in order to obtain the exclusive sales rights for the iPhone. If they are truly willing to give up anywhere from 10 to 40 percent of their revenues to Apple, it must mean that, after carefully studying the design of the iPhone's technology, they feel the product will be both profitable and difficult to imitate. Telco operator AT&T says that 40% of the users having purchased an iPhone in the US are new customers for them, and tend to sign up for more expensive plans than other mobile phone users do.

If this profit-sharing business model proves successful in the telecommunications market, it could become the modus operandi between hardware makers and operators, and even get carried over to other markets. Such as that of digital television decoders. If that happens, it would mean a significant shift in the relationship between access providers, manufacturers and content/service providers. Currently, all of the agents in the chain sell their own products, whether that be access, devices or content, but with the new model one of these players becomes important enough to skim off another's revenues. And taken to the extreme, it is as if Microsoft were able to charge a percentage for the transactions carried out through programs that are run on its operating system, and not just for providing said system. And that, of course, would be quite a radical change.