

iPhone 3G takes a step backwards to pick up steam

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Are the unprecedented expectations created by the second-generation iPhone in the mobile phone market justified? Yes and no. The iPhone 3G presented in San Francisco on June 9 can help Apple consolidate its position as a mobile phone manufacturer, which in and of itself is a victory given the competitiveness of this market. However, Apple does not aspire to become just another player. Instead it wants to revolutionize the entire market. Will the new iPhone be able to make the same splash as the iPod did?

We have to admit that the many improvements made on the new iPhone 3G weigh heavily in its favor. The most important of these include its third generation technology (which is much faster than the previous Edge connection) and its version 2.0 mobile operating system that is open to third party developers. This last feature will quickly allow many new applications to become available for iPhone users either on a cost-free or paid basis. These applications are already functioning on other platforms and, like the ones being developed in Apple's own Cupertino factory, will be available for online downloading via the AppStore, an iTunes-like concept for mobile software that Apple is panning as its next source of income.

The iPhone's new GPS navigation system also plays into its favor. Add to this its greater autonomy, a lighter, flatter design and server supported Exchange messaging. All of these new features will be decisive in the product's reception among companies, especially in terms of message applications such as *push* mail, calendar synchronization, remote banking, and virtual private networks.

The popularity of the iPhone will probably skyrocket with the expansion of its initial 6-country market to one of 70 countries, thanks to new contracts signed with operators in these new locations. One such operator is Vodafone, which will sell the product in 10 countries with a current total of 130 million registered customers.

Telefonica is another good example. Its contract with Apple covers 16 countries, one of which is Spain, where Telefonica has exclusive rights and will launch the product on July 11th. Although no fixed price has been established, Telefonica is considering offering it for under 100 euros to users of its rival companies who agree to switch over to Movistar under a minimum 18-month contract. In the US, ATT has already reduced the price

of the new 8 GB model from 399 euros to 199 euros. For many observers, the most important new feature of the iPhone is precisely its far more accessible price.

Nevertheless, in the iPhone's first year of existence, the company from Cupertino has had to make some important concessions. The exclusivity contract with one company in each country (one of the iPhone's initial points of distinction) is already running into some exceptions, most notably the Italian scenario in which both Vodafone and Telecom Italia have been allowed to sell the product in the national market.

Another concession arises from the fact that price reductions largely derive from the financing of operators who will subsidize the phone – a habitual practice in Europe. In exchange, Apple must renegotiate or renounce its initial revolutionary business model, which was based on a participation (estimated in the area of 30%) in the income stemming from consumption generated by iPhone users.

With these concessions as well as the reaction of rivals such as Nokia, HTC, Blackberry, Samsung and others who are announcing alternative multimedia products with tactile screens and 3G, the iPhone appears more like the competition than it did a year ago. At that point, it was a major surprise with its tactile screen, revolutionary design and user-friendliness all backed by a business model that complimented the traditional structure of mobile manufacturers with its new role as partner to operators.

From the numbers perspective, the impact of the iPhone is relative. The charismatic Steve Jobs will be very satisfied if he achieves his initial goal of selling a total of 10 million units by the end of 2008. Although some consultants affirm that iPhone sales will reach 12 million in 2008 and 45 million by 2009, the reality is that, as of March, Apple had sold 5.4 million units and experienced greater success in the United States than in Europe.

Meanwhile, Gartner affirms that in the first quarter alone, 294 million mobile phones were sold worldwide. Of these, 115.2 million were sold by Nokia (world leader with a 39.1% market share) followed by Samsung with 42.4 million units sold.

Finally, Android, Google's new open mobile platform, is looming large on the horizon. It will arrive at the end of 2008. And Google is a fierce competitor that is not accustomed to failure.

Apple has never underestimated the complexity of this scenario, but now that the company from Cupertino is one year into it, the battle lines are clear. The experience of the past year has forced Apple to reorient its strategy, including a few steps in reverse, in order to pick up steam and

move forward properly with respect to the masses, companies, and the world. However, the objective remains the same: getting people to connect to the Internet via their mobile phones. Thus, from this viewpoint, the response to our initial question is that, yes, the expectations created by the San Francisco announcement of the iPhone 3G are certainly justified.