

Europe slower to answer iPhone call

March 27, 2008

Phones were ringing off the hook when Apple launched its iPhone in the United States last summer. Yet the iPhone's arrival in Europe a few months later has not rung quite so many bells.

In January 2007, Apple's venerable CEO, Steve Jobs, threw down the gauntlet when he announced that his new iPhone, to go on sale in the summer, would do more than any of the other so-called smartphones on the market.

Though the computer maker was a relative newcomer when it came to multimedia cell phones, Apple's previous partnership with Motorola to produce the ROKR showed it was keen to muscle in on the market.

Following a tepid reception to its ROKR in 2005, Apple has been working away for two and a half years to come up with this new product -- the iPhone -- which it hopes will redefine multimedia mobile communications entirely.

The iPhone does more than merely coupling music with communications, mainly related to functionality and form. As Jobs explained, "[Smartphones are] not so smart and not so easy to use. We want to do a leapfrog product that's way smarter than these phones and much easier to use."

So, the iPhone has only one button and its flat touch screen allows users to tap, slide, scroll and drag commands intuitively and swiftly using what Jobs called "the best pointing device in our world. We're born with 10 of them -- our fingers."

Commenting on its form factor, a prominent technology journalist from *The New York Times*

remarked: "The phone is so sleek and thin, it makes [Palm] Treos and [RIM] BlackBerrys look obese."

The device runs off Apple's operating system, so in addition to calling and SMS capabilities, it features a number of functions such as music and video playback, e-mail, Safari web browser, Google maps, a calendar, address book, camera, photo management application and "visual voicemail," which allows users to look at a listing of their voicemails instead of having to listen to each one.

Sales of the iPhone in the States certainly exceeded expectations, lending credence to Jobs' boast that his device would do no less than "reinvent the phone."

Yet even in the upbeat U.S. market, iPhone was not without teething difficulties, and soon *BusinessWeek* was carrying doubting headlines such as, "Not everyone wants an iPhone."

The iPhone's arrival in Europe -- starting in Britain, Germany and France at the end of last year -- was even less enthusiastic.

With Spain and a host of other European countries still on hold to receive the iPhone at time of writing, Barcelona-based IESE Business School decided to make this the subject of a new business case study, "Apple's iPhone: Calling Europe or Europe Calling?" written by Jordan Mitchell together with IESE's professors Sandra Sieber and Josep Valor.

Complaints over power, performance, price

While many would agree that the iPhone has indeed leapfrogged over other smartphones on the market, several criticisms quickly arose. Complaints included the low storage capabilities compared to the iPod, as well as the short battery life of eight hours' playback time and 24 hours of talk time.

Furthermore, users could only read Microsoft Office documents, and could not create anything using applications such as Word or Excel. The web browser could not handle Java or Flash, limiting user experience on the web.

And, of course, many balked at the price of the device: 499 dollars for the 4GB model and 599 dollars for the 8GB one, until September 2007, when Apple cut the price of the 8GB model by 200 dollars and phased out the 4GB model altogether. To compensate early adopters who had paid the original price, Apple offered 100 dollars credit in the Apple store.

Also, it wasn't until September that Apple opened up a dedicated iTunes Wi-Fi Music Store to provide over-the-air music downloads, something not possible when the iPhone was first launched.

In addition to all of the above, one of the most debated subjects was that the iPhone did not run off 3G networks, which permitted greater data transfer such as accessing video, music, games and other media.

The iPhone was designed for AT&T's EDGE network, considered to be a 2.5G network. *The New York Times* once described the EDGE as "ancient." U.S. customers wishing to buy an iPhone were forced to sign up for a two-year contract with AT&T for packages ranging from 59.99 dollars to 99.99 dollars per month -- 20 dollars more than the average AT&T plan, although still about half the rate that most BlackBerry and Treo users paid.

Far more fascinating to industry observers was this unheard-of deal that Apple formed with AT&T. For being the exclusive mobile carrier, AT&T agreed to a revenue-sharing scheme, whereby AT&T would pay Apple as much as 20 percent of all iPhone subscription packages.

One investment banker calculated that Apple could likely receive 18 dollars per month per subscription, amounting to 432 dollars over the life of the two-year contract. On top of that, Apple would earn revenue from sales of each device.

Not so cutting EDGE

Given that Apple had set a new precedent with mobile carriers in the United States, attention quickly moved to the first three expansion markets -- Britain, Germany and France. Telefónica-owned O2 would be the exclusive carrier in the United Kingdom, while T-Mobile would cover Germany and Orange would serve France.

In all three markets, observers wondered how the iPhone would fare, given that Europe generally had more developed 3G networks than the United States. Already, European customers were accustomed to 3G functionality with their current phones and service packages.

O2 stumbled at the first hurdle. As EDGE did not exist in the United Kingdom, O2 committed itself to rolling out an EDGE network to cover 30 percent of the British population.

However, technologists scoffed that EDGE was a step back rather than forward. And though U.K. users could also use The Cloud to surf the Web, again critics pointed out that this

particular wireless broadband network was mostly limited to city centers, airports and hotels, and did not provide full national coverage.

Other obstacles for iPhone in the United Kingdom were the high cost of the phone (269 pounds, or about 540 dollars), the high cost of the monthly service packages and the potential that Apple would soon release a 3G iPhone, making the current model redundant.

Given all this, what are Apple's chances of making the iPhone a hit across the rest of Europe?

The iPhone's revenue-sharing deal is a noteworthy development, but will it change the dynamic of the industry in all of the markets in which it is present?

More importantly, as iPhone continues to make its way around Europe, what will it take to ensure that when iPhone rings, the markets pick up?

www.iese.edu/insight