

## [The iPhone: Worthy Of The Hype, And Much More](#)

Everyone one is going to be better of because of the iPhone, whether you own one or not. It's like the advent of Local Number Portability - for those customers who changed providers, they were able to access a different phone, feature, or pricing plan that they wanted. But even for customers who did NOT switch carriers, they still benefited greatly from the fact that the carriers needed to compete for existing customers. Prior to that, carriers only really competed for new customers. Customer benefits such as free in-network calling, Cingular's "rollover minutes", Sprint's Fair and Flexible plans, T-Mobile's "Five", and VZW's pro-rated early-exit fees are all competitive responses to WLNP.

In a similar vein, the iPhone is forcing all other phone vendors and carriers to raise their game. Responses have been numerous such as Sony Ericsson W580, W200, or the older K790a (all much cheaper), the Helio Ocean (a great multimedia 3G phone), the HTC Touch. And with AT&T set to have a much more compelling music (and video) service through iTunes, Sprint and Verizon have to completely re-think their mobile music stores. Do you really think their recent drops in prices were made in a vacuum?

Even before it's release, other competitors have doubled their efforts, lowered prices, and improved devices in anticipation of the Apple device. Imagine what happens to the market if the iPhone actually IS successful and other vendors copy the best practices from it.

Shaking the balance of power.

Talk about important. The carriers have had an iron grip on device design, features, and a furiously tenacious grip on the content and services that are available to subscribers. This has been to the great detriment of the wireless Value Added Services (VAS) industry (just ask any developer, off the record, when there isn't a carrier within earshot). By trying to control everything, they have stifled creativity. By taking 50% cuts of all VAS, they have snuffed incentives.

You would think that in a competitive market (which I believe US wireless is), you would have one or more carriers compete by...giving customers what they want! (duh) Hutch 3UK did it in Britain because they were desperately competitive. Yet what we have, in most markets including the US, is an oligopolists Prisoner's Dilemma: all carriers are choking the market in a similar way, and none have defected from this de facto pact. Driven by fear, they think the chokehold is best for them. Yet, when one of them defects, the game is over and they will all end up worse off for having played. And AT&T just flinched.

The Apple-driven iTunes model present on iPhone will work around the carriers (somewhat) and we can expect to see more music, video, and content get on the phones through a batch-sync over USB or Wi-Fi. Because of this, AT&T has relinquished significant power to Apple. When customers learn of how easy it can be to get more into and out of their device, they will flock to this model. Other carriers will not be able to compete with AT&T on a VAS basis until they also tear down their walled gardens.

It actually steals other carrier's customers.

Carriers often launch apps and content on an exclusive basis. Think Shakira videos and ringtones with VZW, or SMS that was not inter-carrier, or VZW PTT. Each one was launched in the hope of differentiating from competitors, and stealing their subscribers. Yet we've seen these apps come and go - and NONE have been important enough to churn customers from one carrier to another. The only thing, so far, that actually has driven churn was bad service from a current provider. Hyped up phone features were supposed to rock our worlds, but in reality, only two non-voice apps have been remotely "killer". That's SMS and email, and no carrier really has any differentiation in these.

But this is different. The iPhone is probably the first positive differentiator that will churn customers. We know this from research, analogical evidence, and the fact that a million people have requested the device from AT&T. Four days before the launch, people are camping in front of AT&T and Apple stores. Has that ever happened before in the telecom space? eBay and Craigslist have "professional waiters" offering to hold a place in line for a fee. Subscribers of other carriers have lapsed their contracts so that they can be free to switch carriers for the iPhone. And if you want an iPhone, you'll need to be on AT&T. That's powerful.

And the AT&T benefit goes beyond those who churn to AT&T for an iPhone. The brand cachet gained will be significant. AT&T will be cool again for the first time in an era without horseless carriages. People will enter AT&T stores just to have a look, might even buy something else. Make a sale: minus one subscriber for VZW and plus one sub for AT&T - each churner is a double victory in Wall Street's eyes. I clearly think that the exclusive Apple deal is great for AT&T because of the reasons listed above, and I think it is actually a painless move because of the below...

And there will be ancillary benefits accrued to AT&T. I believe that the carriers historic desire for control has been self-destructive. They have shrunk the pie, and claimed a big piece. Apple is forcing AT&T to open up, and they will be the first carrier to do so, and have a leadership advantage in the new, larger pie. More content, more data services, more activity, more revenue. Hey, I warned you I was on the bandwagon in paragraph 1.

Of course, this is theirs to lose. The phone is unlikely to flop, but if the network flops (as AT&T Wireless did when their new subscriber provisioning system failed just as WLNP was implemented), they will have a lot of egg on their faces.

The deciding factor.

That said, iPhone is not for me. I find that phone choice is made mostly by the Second Feature Rule. You haven't heard of that rule because I just made it up. But basically almost everyone's first priority for a mobile phone is voice connectivity. But every phone delivers that commoditized feature. So people end up choosing the kind of phone they carry by their second feature priority. These range from (followed by an example):

- + gaming (BREW phones)
- + size
- + design (the RAZR, Vertu)
- + price (developing world)
- + email (um..Blackberry)
- + enterprise apps (Windows mobile or RIM)
- + camera (Nokia N95)
- + SMS text (Danger Hiptop)
- + music (Sony Ericsson, iPhone)
- + UI (the iPhone, Helio Ocean)
- + WiFi
- + Data speed
- + video (MediaFlo phones, DVB-H in the EU)

But a phone today, being the size it is, cannot be great at ALL these things. Even if money is no object, compromises have to be made. So some devices are better at one thing, and others at another thing. For me, my second priority is email, and I don't consider the iPhone a strong contender. But if your second priority is media, you just might be an iPhone customer.

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