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Smartphone revolution tests established players

October 27, 2009 — 4:13pm ET | By Keith Mallinson

With smartphones set to account for most handset sales by 2013--in terms of value if not also in terms of volumes worldwide--these devices, their operating systems and mobile Internet service delivery environments are crucial competitive elements for manufacturers and mobile operators alike. Several new entrants, rapid market growth and the precipitous share decline for leader Nokia underline that this is still an emerging marketplace. The pecking order is being reestablished with major upsets for various leading names.

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Nothing could be more disruptive than Apple's iPhone and its App Store offering 85,000 applications and 2 billion downloads to date. This is an enormous success for Apple, a mixed blessing for its mobile operator partners with the business model Apple imposes and it is a major threat for many others. As Apple takes the lion's share of ecosystem value and dis-intermediates operators from applications sales with its own user experience and billing platform, partner and competing operators alike are looking for alternatives.

And Apple is just getting into its stride. It has plenty of scope to expand distribution with competing operators when exclusive deals expire. It supplies to just 80 nations so far. Corporate purchasing is only beginning to introduce iPhone, as is higher education. Apple claims more than 50 percent of Fortune 100 companies are evaluating iPhone for widespread deployment.

The smartphone market segment has been splintered. Nokia smartphones and its Symbian operating system have taken double digit market share losses over the last year or two, albeit with significant market growth. Once ruling supreme with shares of 50 percent in smartphones and 60 percent in smartphone OS, market entry of iPhone and Google's Android, together with stellar growth for BlackBerry and modest progress for Microsoft have harmed Nokia irrevocably. Further declines are inevitable as emerging competitors strengthen.

What's particularly scary for Nokia is that Apple's relatively small iPhone volumes are generating sales in the third quarter of 2009 of $4.5 billion compared to Euro 6.9 billion ($9.7 billion) for all Nokia's handset sales. Gross profits for iPhone are getting close to Nokia's Euro 2.1 billion ($3 billion). Although Nokia shipped 110 million devices in the quarter, the average price of these was just Euro 62 ($87). In comparison, iPhones yield an average of $610 apiece at the wholesale prices paid by operators...Continued

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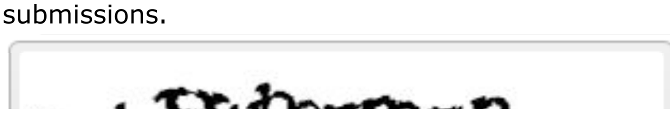

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Major operators such as Vodafone are no less challenged by the rise of Apple and others. Vodafone's moves--I'm loathe to describe most of these as strategic--aim to hedge its position against competition for customer control and margin right across the value chain. Whereas the old enterprise-focused BlackBerry provided significant added-value for operators and did not pose a competitive challenge, in its expanded guise to consumers the BlackBerry ecosystem competes for the customer relationship and bottom line profits. Vodafone and Orange picking up iPhone distribution in the UK counters O2 on expiration of its iPhone exclusivity. Whereas this eliminates a competitive advantage for O2, it also puts Apple in an even stronger competitive position versus the operator market. Apple anticipates a fall in street prices with carrier competition in iPhones, but it does not expect its wholesale prices to fall. So far, Google's Android is predominantly with the T-Mobile with the HTC G1, but this OS is also set to diversify. For example, Vodafone's Verizon Wireless joint venture with Verizon is imminently expected to announce a Motorola "Droid" phone.

Vodafone and other carriers have numerous possibilities in smartphones. Focus is required. Vodafone has had a mixed relationship with Nokia for a decade or more. Club Nokia's mobile portal threatened to circumvent Vodafone and was crushed in order to preserve the regular handset trade. Club Nokia's reincarnation with Ovi was backed by Vodafone since 2007.

Vodafone's 360 initiative is an attempt to get back into the driving seat where its Live! portal has failed. It is promising sophisticated personal contacts management, social networking and an applications store. Its payment mechanism enables content and applications charges to appear on the phone bill. Vodafone plans to rollout 360 to Germany, Greece, Italy, Ireland, Portugal and Spain by yearend and into a further nine nations during 2010.

Vodafone has signed-up phone suppliers Samsung and Nokia with LiMo and Symbian OS respectively for 360. The attraction of LiMo's Linux is the pledge that this will never be used to circumvent the mobile operator with the independent service portals and applications stores that are strategically being pursued by Apple, RIM, Google and Nokia with Ovi.

A key potential competitive strength for 360 versus Apple, BlackBerry and Google is that Vodafone can allow developers deeper access into network capabilities with applications running on a variety of OSs. Similarly, Orange has opened up applications programming interfaces under its Orange partner Program.

Easier said than done. Most carriers groups are loosely structured federations: ownership and control is not absolute. It is difficult for Vodafone's corporate centre to impose a one-size-fits-all approach across many operating companies because local history and conditions differ significantly from nation to nation.

Carriers are disadvantaged by their limited scale. Even though Vodafone is a large group with 315 million proportionate subscribers worldwide, this is still less than a tenth the worldwide market of 4 billion subscribers addressed by Nokia and increasingly other smartphone and OS vendors. Scale attracts developers, helps amortize development and operational costs and build cool brands.

The Joint Innovation Lab initiative promotes creation of mobile applications and services with a global platform for developers. Widget compliant handsets from supporters LG, RIM, Samsung and Sharp will enable developers to create applications that can be rolled out to customers across JIL member companies China Mobile, Softbank, Verizon Wireless and Vodafone with a combined user base of more than 1 billion worldwide.

Many such alliances in IT and telecoms have failed over the years in their attempts to drive cohesion and scale. Alternatively, Ericsson is helping carriers by offering mobile internet, applications and messaging services including hosting to all comers on a white label basis. Carriers worldwide brand these as their own.

Vodafone's old anxieties about Nokia should be the least of its worries with so many new strategic challenges.

Keith Mallinson is a leading industry expert, analyst and consultant. Solving business problems in wireless and mobile communications, he founded consulting firm WiseHarbor in 2007.

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