

Analysis - Varied & Glamorous Beats Androgynous

By Keith Mallinson Monday, December 3, 2007

Competition – still dominated by carriers providing voice services – is under pressure from disparate disruptive forces. Device vendors and others are seeking a share of service fees.

The first notable success story in the mobile Internet was NTT DoCoMo's iMode. It has a vertically integrated business model with the Japanese operator firmly in control of content delivery and payment systems versus device vendors, developers and publishers. DoCoMo was enlightened enough not to stifle market development by being greedy with its service fees. It benefits from the bigger pie with 30% of average revenue per user (ARPU) in non-voice services.

RIM – with a stunning \$56 billion market capitalization that's equivalent to more than \$5,000 per "CrackBerry" user – dominates corporate e-mail. With C-suite cachet, dual branding, ownership of the user interface (UI) and device revenues, it takes a substantial share of customer service fees. Annual revenues are \$550 per subscriber.

Apple is establishing similar power in the U.S. consumer market with its flourishing iPhone. According to Financial Times reporting, Apple takes 15% of AT&T's service charges. That's half as much again as the \$400 purchase price, assuming two year's worth of use at \$60 ARPU.

With at least 25% revenue sharing with O2 in the UK, Apple will collect 75% on top of the \$550 tax-inclusive purchase price. Customers love the devices and don't seem to mind the SIM locking that enables this redistribution of wealth; OK, maybe a small minority of hackers and ideologues might bawk.

Microsoft and Symbian have respectable operating software (OS) sales at approximately \$5 per phone. However, neither has yet to achieve high penetration or the service revenue shares achieved by RIM and Apple. Although corporate purchasers favor Microsoft, it is limited by slow enterprise adoption beyond the elite who already have BlackBerrys and by back-door consumer purchases of Treos and others. Symbian supplies the majority of smartphone OS, but is frustrated by smartphone's sub-10% handset share globally and particularly low uptake in the United States.

BREW, with its associated ecosystem, enjoys much deeper subscriber penetration within those operators that have adopted it. But even those are in the minority and limited almost entirely to a subset of those using CDMA2000. Sprint Nextel, for example, employs Java.

Nokia is reinvigorated after an operator backlash. Several years ago, the Finnish phone maker failed when it attempted an end-run on these partners when it sought subscriber service fees from its Club Nokia mobile content business. Nokia's new and wide-ranging umbrella is branded Ovi. It comprises a digital music store, the new N-Gage gaming platform, mapping offerings and social networking, which it has pieced together by incorporating several recent acquisitions, including Navteq for a price of \$8 billion. Nokia now draws support from Telefonica and Vodafone on account of its lackluster Live! platform. Nokia promotes carrier neutrality with its "unlocked" value proposition.

The new competitive challenge is from disaggregated suppliers. The battle cry from these wannabes is also openness. Verizon Wireless has responded to increasing pressure to give customers more control by stating it will allow them to use "any (compatible) apps, any device" on its network. According to Google, its Android platform, supported by the Open Handset Alliance (OHA) including 30 technology and mobile leaders, offers a "truly open



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and comprehensive platform for mobile devices. It includes an operating system, user-interface and applications.” Google asserts that “proprietary obstacles have hindered innovation.”

Rubbish. Mobile devices are enormously varied and stylish compared to dull and androgynous PCs. Apart from Macs, PCs are almost all alike. My daughter’s burgundy laptop is a novelty. Nevertheless, this is a great opportunity for Android to prove itself in many ways. For example, advertising – Google’s primary revenue source – is still worth less than \$200 million on U.S. mobile phones.

COMPETITION

Participation by Sprint Nextel and T-Mobile in Google’s initiative illustrates that Android will have the chance to define a new business model. This axis of innovation will enrich competition in devices and services.

Which industry structure will serve customers best? Let the market decide. It would be a grave mistake for regulators or politicians to prescribe the winning business model, even in the name of openness. Free markets accommodate all legal business models.

In the absence of proven anticompetitive behavior, there is no reason for intervention with regulation or imposed standards in response to pleas by “rent-seekers” wanting easier or cheaper market access.

Mobile is already very competitive, with no dominant players in the United States and major innovations including BlackBerry and iPhone starting here. No operator exceeds 30% market share. If there are anticompetitive claims, they should be dealt with by the agencies that have the expertise, responsibility and with due process for those accused of market abuse.

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