

iPhone to Reset Road Map for Mobile Content

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iPhone's arrival on store shelves culminates six months of hype and speculation. To capitalize on the buzz, Apple and AT&T must evolve products and services rapidly and create unique value for consumers and media companies.

Event

On 29 June 2007, Apple will officially unveil its iPhone, which combines iPod, cellular phone and Internet access functions and runs a version of OS X. Under an exclusive multiyear deal, the iPhone will be available in the U.S. on the AT&T/Cingular network. With a two-year voice and data contract, the 4GB version will cost \$499 and the 8GB version \$599. The monthly price of AT&T's service starts at \$60 per month, including unlimited data, and goes up from there. The device will launch in Europe later in 2007 and in Asia in 2008.

Analysis

Despite early harping about price, missing features or lack of the latest 3G protocols, the iPhone's strongest feature — its user interface and brand — will be what carries Apple's nascent mobile phone business going forward. The iPhone's use of capacitive touch-screen technology and sensors and the work on user interface software and design are what is most striking about the device.

To be sure, its core technology platform is relatively conservative for a mid-2007 smartphone. The iPhone lacks some high-end features such as GPS, video capture, 3G support and a replaceable battery. (Apple claims that recent battery tests indicate the iPhone can deliver eight hours of talk time, six hours of Web browsing, seven hours of video playback and 24 hours of audio playback.)

As important is how the iTunes and Web access — as a media management and acquisition application, respectively — will evolve U.S. consumers' interest in rich media on a mobile device. To that end, the inclusion of a full Safari browser engine on the device, allowing for full Web-page access, is a crucial first step. Complementing this is an agreement with YouTube and Google to re-encode YouTube videos into H.264 versions. (H.264 is the video compression standard selected by the 3rd Generation Partnership Project.)

All that said, we believe that critical yardsticks to measure the success of the device and AT&T's service will include:

- Steady and rapid innovation of new products: Apple must keep delivering a steady stream of new products so it does not lose the incredible momentum it has built over the past five months. Based on Apple's history and the short product life cycle of nine to 12 months in the handset market, it is Gartner's opinion that Apple needs to launch a second, lower-priced handset within nine months to keep the line fresh.
- The Apple-ATT relationship will need to manifest unique new media-related and other services to prove value and innovation — the promised seamless Web access is an impressive start. Given that Apple is requiring all iPhone users to establish iTunes accounts before activating the phone, the partnership will have to immediately show the benefits of this requirement to first-time iTunes users; otherwise it will be seen as a requirement with no benefit.

Apple's accomplishment during a short period of time is impressive. Without having launched a product, Apple is already a premier brand in an extremely competitive North American handset market. Also, Apple was able to negotiate a truly unique deal with AT&T. Operators control the power in the North American handset market and Gartner believes that Apple has secured a deal that lets it set wholesale pricing, and terms and conditions — along with a host of other

advantages. What makes that remarkable is that it all happened before the first paying customer ever completed a call on the iPhone. The question remains as to whether Apple can replicate this in Western Europe.

RECOMMENDATIONS

- **Content companies:** Avoid music, movie and video services that compete directly with iTunes but are not guaranteeing an increased level of investment in ease-of-use, cross-product transaction capabilities and advertising. That's what will be required to legitimately compete against iTunes. Focus instead on Web-based extensions of related media services. Ensure your content is compatible with the iPhone's Safari Web browser. Leverage the iTunes store for delivery of your media content and complement with appropriate Web 2.0 applications.
- **Mobile phone manufacturers:** Consider the iPhone a wake-up call. Remember that the user interface is as important as technical details.
- **U.S. network operators:** Plan for increased sales of smartphones as the iPhone increases consumer awareness of this category of device. Challenge handset manufacturers to innovate. Re-examine restrictive service-plan policies, especially where Web access and "sideboarding" of content are concerned. The days of features designed around consumer captivity are rapidly ending. If the iPhone is successful, expect U.S. consumers to become more receptive to high-priced mobile devices.

RECOMMENDED READING

- "How to Plan for User Interest in the Apple iPhone" — Firms should resist admitting Apple's iPhone into the corporate environment due to manageability and security issues. **By Frederica Troni and Ken Dulaney**
- "Dataquest Insight: Apple iPhone Creates Opportunities for Mobile Phone, Semiconductor and Consumer Electronics Firms" — By the end of 2009, there will be mass-market opportunities for OEMs to offer products similar to Apple's iPhone. **By Alphonso Velosa and others**

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