APPLE V. ANDROID

WHY NO ONE WILL WIN THE SMARTPHONE WARS
and what it means for the wireless marketplace

A whitepaper from

NetShelter
Technology Media
Executive Summary

In barely more than a year, the Android smartphone operating system has transformed from a curiosity to become what seemed impossible a short time ago: a challenge to the dominance of Apple’s iPhone.

At first blush, the unfolding Android v. iPhone battle would appear to be a classic conflict between open and closed platforms, playing out as the PC market did. But this tells only part of the story, particularly in the U.S. It is missing the most critical element: the service providers.

Customers don’t just buy a phone. They buy a phone paired with connectivity from one of the wireless carriers.

Individually, the carriers compete aggressively for customers. But each of them shares a common goal they learned from the era of the PC’s rise to dominance – and again during Apple’s recent reign in the smartphone market: Never allow a platform to gain so much influence that it can wrest control of the market from their hands.

You don’t have to be AT&T to appreciate the control Apple wielded as the two companies carved out their exclusive agreement. It is why Verizon, which remains the nation’s largest carrier (pending AT&T’s planned acquisition of T-Mobile), elevated Android while it awaited the addition of the iPhone to its lineup. Verizon’s efforts serve as a blueprint for how carriers can maintain – or, in the case of Apple, regain – their upper hand when it comes to the balance of power in the smartphone market.

For the rest of the smartphone ecosystem it serves as a prescription for competing effectively. The carriers will give down-and-out platforms every chance to regain shelf space, provided they can dust themselves off, re-invest and re-emerge with a compelling alternative.

The flipside for successful platforms is that it’s not simply a matter of staying competitive. Decision-makers need to be aware that it will be very difficult to grow market share in the U.S. once their platform hits a ceiling the carriers will try to enforce.

This has profound implications for players across the mobile landscape – applications developers, handset makers, chipmakers, marketers and retailers. The reason is that the situation turns the business on its ear: Investments in lagging platforms promise greater returns while funding for successful platforms promise less.
For the past year, Android has dominated the buzz about smartphones, as measured by NetShelter’s N2i data, which tracks stories, topics, authors, sites and brands by the number of engagements they attract on a site and across the social media ecosphere. (Based on partial data for May, 2010 and February, 2011)\(^1\)

\(^1\) N2i stands for NetShelter Influence Insights. N2i identifies the most influential people within various technology sectors and topics – such as tablets, cloud computing, smart TVs, to name a few – based on their ability to consistently create content that drives user engagement. N2i tracks more than 30 signals, including comments, trackbacks, Tweets, Facebook likes and shares, bookmarks, and votes. By mapping these signals back to an individual URL, N2i measures the attention a single original piece of content receives.
The iPhone shook the smartphone world at its 2007 debut. At the time, smartphones built around Nokia’s Symbian operating system dominated the market with more than 60 percent share, although its grip was already eroding as devices built around RIM’s BlackBerry and Microsoft’s Windows Mobile gained momentum.

As tens of thousands of customers lined up outside AT&T and Apple stores across the country to snatch up the first iPhones in late June 2007, Android was little more than a gleam in Google’s eye. The first Android device – T-Mobile’s G1 – didn’t come to market for another 15 months. And while it was generally well received, it couldn’t match the elegance or capability of the iPhone or its successor, the iPhone 3G that launched a few months before the G1.

Building on its annual cadence of new releases, Apple refreshed the lineup in the summer of 2009 with the iPhone 3GS. By that time, the iPhone’s share of the smartphone market had risen sharply and was beginning to challenge BlackBerry, which also enjoyed a dramatic climb over the prior two years. That’s particularly impressive, given that the iPhone was available only through AT&T, while all four major U.S. carriers offered BlackBerry devices.

iPhone and BlackBerry, each closed ecosystems, both eclipsed Windows Mobile, Microsoft’s open platform. Windows Mobile’s share slowly eroded as its capabilities fell farther behind the others.

At that point, Android’s share was still miniscule. T-Mobile introduced its second Android phone, and Sprint followed a couple of months later with Android-based devices from HTC and Samsung.
The Rise of Android

Verizon really set things in motion for Android when it joined the fray in late 2009. It had the heft to go toe-to-toe with AT&T. (AT&T and Verizon are each roughly twice the size of T-Mobile and Sprint, which also have comparably-sized subscriber bases.) And now, for the first time, the company believed it had a smartphone compelling enough to take on the iPhone: Droid.

Verizon set the phone apart from other Android-based devices with the Droid brand, which it licensed from Lucasfilm. Verizon quickly blossomed into the largest Android phone supplier in the U.S.

As the 2009 holiday season approached, Verizon launched a two-prong attack against AT&T and Apple.

First it hit AT&T in the teeth with its "There’s a Map for That" ads, a parody of Apple’s “There’s an App for That” campaign. The “map” ads boasted that Verizon had more comprehensive 3G coverage than AT&T. The ads resonated because they poked at a festering wound for AT&T, which had come under near-constant fire ever since the first iPhone customers overwhelmed its network with far heavier data usage than other smartphone users.

The second set of ads focused on things the iPhone couldn’t do, like process tasks in the background or take pictures in low-light environments, but the Droid could. Each ad ended with “Droid Does.”

Verizon’s heavy investment in the Droid paid off handsomely, as its early sales rivaled those of the original iPhone. By the spring of 2010, AT&T introduced its first Android-based smartphone. And over the next several months, a flurry of compelling new devices began appearing on the shelves of all four major U.S. carriers. Android’s share grew rapidly, mushrooming in the space of a year from almost nothing to surpassing the iPhone franchise.
The timing couldn’t have been better for Verizon. In January 2011, the carrier announced what by then surprised no one: it would be adding an iPhone to its lineup. Certainly, the move would benefit Verizon. But now, with Android a fixture, Apple also needed Verizon to regain market share. That put Verizon on level footing as the two companies crafted their deal, in stark contrast to the lopsided AT&T-Apple arrangement.
Open and Shut Case Study

Certainly, the wide selection of phones played a major role in Android’s rapid ascent in 2010. While Apple offers a single model, there are at least 45 Android phones available, which gives it a broad appeal.

Consider that in the space of a year – the time between Apple platform releases – handset manufacturers introduced phones with five different versions of the Android OS, the latest being version 2.2 (code-named Froyo). Android version 2.3 (Gingerbread) rolled out in early 2011, with availability of version 3.0 (Honeycomb) on its heels.

The benefits of an open environment compared to a closed platform aren’t always so clear-cut, however. The blistering pace of operating system advancements that helped Android gain ground against Apple, which issues new releases once a year, could backfire on Google. Some Android phones can be updated with new releases. But because the latest OS versions typically require better performance and support for new hardware features, many phones can’t be upgraded. This risks alienating customers by making an even recent purchase obsolete.

‘Apple is only marketing one phone, so you either like it or you don’t. Android’s many flavors give it the ability to appeal to a wide variety of buyers.’

– Michael Oryl, editor-in-chief, MobileBurn.com
There’s an App for That

Nowhere is Apple’s closed approach more disparate from Google’s than it is with third-party application developers, an aspect of the smartphone market that Apple actually elevated in importance before Google ever got to market.

Apple believes each third-party app reflects on its iOS platform. As a result, the company rigorously assesses each app – poring over every line of code in some cases – to ensure that none hampers overall performance or degrades battery life.

Coming from behind, Google closed the gap by building its third-party development environment around Java, which has attracted in the three years of its existence some 10,000 developers.

With a low barrier to application development and virtually no impediments to post apps for sale on the Android Market, Google quickly attracted thousands of apps, both ported from the iPhone operating system, as well as original work.

But as with most things, there are tradeoffs to that approach. Without governance, well-meaning developers inadvertently draw down battery life or hinder system performance. To make matters worse, it is difficult for consumers to discern the good apps from the bad. No good recommendation engine prevails in the Android apps market and, as such, it’s easy for users to get overwhelmed.

‘On Android, it’s a bonus for developers to make money using something they already know. Plus it’s a lot easier to go to market because there hasn't been much of an approval process.’

–Antonio Wells, editor-in-chief, AndroidTapp.com
It’s The Carriers, Stupid

In a short period of time, Google’s Android has enjoyed a mercurial ride to prominence. It is now ahead of the iPhone in market share. But that doesn’t mean that the iPhone’s days are numbers. In fact, neither are they numbered for RIM’s BlackBerry, Microsoft Windows Phone 7, HP’s Palm WebOS, Nokia’s Symbian or any other lagging smartphone players.

The reason: The carriers won’t allow Android – or any other platform, for that matter – to dominate the spotlight ever again. In addition to Android and the iPhone, the carriers will ensure that others remain relevant, as well. Consolidation among the carriers hasn’t changed this dynamic. And the next big merger won’t change things either, assuming the federal government allows AT&T to purchase T-Mobile. The deal isn’t expected to be completed before 2012.

Maintaining a balance of power is a lesson the carriers learned well – and not just just from Apple’s iPhone play but by looking at back a mere 15 years, when Microsoft and Intel managed to dominate the PC market at the expense of other players. Intel’s “Intel Inside” marketing campaign shifted buyers awareness and then diverted revenue from PC makers into the chipmaker’s coffers.

Never mind their PC-era reputations for anti-competitive practices. In the smartphone market, the carriers will give Microsoft – and, yes, Intel, too - every chance to succeed, because the more alternatives the better. It gives them two more knobs to turn to keep their own market power intact. Microsoft rebounded in the fall of 2010 when it unveiled Windows Phone 7, a much-needed facelift for Windows Mobile. Although not wildly successful at launch, the compelling upgrade made Microsoft’s platform relevant again. And Intel is championing MeeGo, a mobile Linux derivative.

Still another option is BlackBerry, particularly now that RIM is modernizing the platform. WebOS, which became HP’s when it acquired Palm, is showing signs of life again. Symbian’s share is still large globally, though Nokia’s open-then-shut smartphone platform doesn’t garner much attention in the U.S. any more. In fact, Symbian hasn’t even kept the attention of Nokia, which is now focusing on Windows Phone 7 in the short term while keeping an eye on MeeGo development for future use.

‘No one is going to kill the iPhone. Or Blackberry.’

–Dieter Bohn, editor-in-chief, SmartPhoneExperts.com
Conclusion

As the carriers continue to manage the balance of power, the rest of the ecosystem should understand what that means to them:

- **Carriers needn’t fret about their role as power-brokers. Nor should they apologize. By helping to maintain a highly competitive environment, they are providing a gift to consumers. They are fomenting the remarkable progress in the smartphone market, in terms of selection, innovation, and price.**

- **Handset providers should recognize that while there’s always room for a great design in a market defined by four carriers and two-year agreements, so too is there a ceiling on the share they can expect to garner. Suppliers would be wise not to put all of their eggs in one basket, and invest in multiple platforms while promoting their own brands. Samsung, for example, offers both Android and Windows Phone 7 devices, as does HTC. Both add proprietary interface enhancements to the OSes, a move that distinguishes their devices from the crowd.**

- **Platform marketers also must maintain an appreciation for the upper limits of market share. At the same time, the risk-averse can take solace in the fact that a platform can be down but not out. In that respect, decision-makers for BlackBerry, Windows Phone, and even WebOS can invest with confidence that they will regain shelf space at the carriers if they deliver competitive environments.**

- **Application developers would do well to appreciate the ebb and flow of platform share, and evaluate the risks and rewards of writing for a single platform or adopting a multi-platform strategy. Emerging tools, which make it easier to port applications to other platforms, should be high on every developer’s shopping list.**
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