

Boom in the bust

Despite the recession, the mobile industry is enjoying a promising transformation.



Illustration by David Simonds

When the mobile-telecoms industry recently met in Barcelona for the Mobile World Congress, its biggest global shindig, head and body seemed oddly separated. Bosses bemoaned the downturn and demanded free radio spectrum to stimulate the industry. But on the show floor it was hard to keep track of all the new “smart” phones and services.

This disconnect is likely to continue for some time. Despite hopes to the contrary, the industry is not immune to the recession. Makers of handsets, which consumers are replacing more slowly, will be hard hit: unit sales are expected to fall by at least 10% this year, having increased by 6% in 2008 to 1.2 billion. But at the same time the industry is going through a transformation that promises to fuel rapid growth in the years to come. To draw a parallel from computing, it is as if the personal computer (PC), its graphical user-interface, high-speed internet access and open-source software had all taken off at the same time.

Conventional handsets are very good at making phone calls and sending text messages, but doing anything more complex, such as browsing the web, is painful. And do not even think of adding new software: installing applications is agony. With the latest smart-phones, however, which account for around 15% of handsets sold, voice calls and texting are just two features among many. New applications, often linked to a service on the internet, can be downloaded from an online “store” with a few taps on the touch-screen or miniature keyboard. Users are presented with an embarrassment of riches: there are thousands of mobile applications, ranging from the useful (to-do lists and e-book readers) to the ridiculous (beer-glass simulators and farting-noise generators).

Predictably, such flexible devices, and the programs that run on them, were pioneered by a newcomer to the mobile industry: Apple. By the end of 2008 it had sold more than 17m of its elegant iPhones, and there have been over 500m downloads from its “App Store” since its launch last July. Others have followed in Apple’s footsteps. In Barcelona, for instance, Microsoft and Nokia, the world’s largest software firm and handset-maker respectively,

announced their own application stores. Research in Motion (RIM), the maker of the BlackBerry, and Google, the world's biggest internet firm, have done the same.

The popularity of software downloads to smart-phones, along with the rapid growth of mobile broadband (see article), have industry leaders making forecasts for the growth of mobile-data traffic that are reminiscent of some of the more outrageous predictions during the internet boom. Nokia Siemens Networks, a maker of network gear, expects mobile-data traffic to grow 300-fold by 2015.

But not everyone will be a winner. As handsets slowly turn into computers, the mobile industry will at last undergo the shift that has been predicted for several years: from being vertically integrated to being sliced into distinct, horizontal technology layers, such as networks, devices, operating systems and applications. The vertical "sausage" that was the industry is becoming a layered "hamburger", says Carl-Henric Svanberg, the boss of Ericsson, the largest maker of mobile-network gear.

This will transform the economics of the industry. Historically, network operators have been in the strongest position, explains Ben Wood of CCS Insight, a market-research firm. They owned the radio spectrum, built the networks, maintained the relationships with customers—and then grabbed most of the spoils. But in the new world, predicts Mr Wood, they will have to share revenues and profits with providers of software and services, such as Apple, Google and Facebook.

When the internet first reached mobile phones in the late 1990s, operators tried to keep subscribers in "walled gardens" of services that they controlled. When this ultimately failed (having held back the entire industry), it became fashionable to predict that operators would end up as "dumb pipes"—simple data conduits that do not add much value. That outcome may be desirable, but it is not the most likely. Operators are too powerful simply to roll over, says John Delaney of IDC, a market-research firm. They have assets other firms need, such as the infrastructure for customer support, and the means to pinpoint users or target advertising. In fact, operators have started to offer such building blocks to underpin other firms' mobile services and have launched an effort to standardise them, called OneAPI.

If operators cannot control the mobile internet, might others, such as Apple, Google or Nokia, become gatekeepers? After all, the rise of the PC catapulted two firms into dominant positions: Microsoft and Intel, the world's biggest chipmaker. With a share of about 90% and 80% in the markets for PC operating systems and processors respectively, they make most of the money.

But it seems unlikely that the mobile-phone industry will produce such quasi-monopolies. For one thing, everyone saw what happened with Microsoft in PCs. It was to avoid a similar situation that Google developed its own operating system for smart-phones, called Android, and then proceeded to give it away as open-source software. Google did not want to be "blocked by another business model", as Andy Rubin, the firm's Mr Android, puts it. Nokia has also opened up Symbian, the operating system that powers its smart-phones. So even though Apple and Microsoft are maintaining a tighter grip on their own smart-phone operating systems, this layer of the industry hamburger seems bound to become a commodity.

An Intel-like monopoly in chips also seems implausible. Although Intel is making a big push into the mobile industry with its latest line of low-power chips, called Atom, plenty of other firms already supply such chips—most of them based on designs developed by ARM, a British firm. Conversely, it seems unlikely that handsets will ever become as much of a commodity as PCs. The handset market is maturing and most growth will come from software and services (which is why Nokia has launched Ovi, an attempt to create a global one-stop shop for such

offerings). But handsets are much more personal than PCs and offer more scope for innovation.

Then, of course, there is the question of how big the new hamburger will be. Informa, a market-research firm, projects revenues from content and data services of \$240 billion by 2012. Although most applications on Apple's App Store are free, consumers spend some cash there: a sixth of American iPhone users spent over \$100 in the past year, according to ABI Research, another market-research firm. It remains to be seen whether this promising new source of revenue proves sustainable. But despite the economic turmoil elsewhere, the industry seems justified in its confidence that the smart-phone is finally emerging as a powerful, innovative and lucrative new computing platform.

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