

Cleverly simple

As internet-capable handsets become more popular, they are also changing.

If the recession is the cloud hanging over the mobile-phone business, "smart" phones are the silver lining. Sales of mobile phones were 10% lower in the second quarter of this year than in the same period last year, but sales of smart-phones were up by nearly 15%, according to IDC, a market-research firm. By some estimates, half of all handsets sold will be "smart" in four years and by 2015 almost all will be.

The market for smart-phones is expected to grow so quickly in part because they are changing. Expensive pocket computers such as the iPhone and BlackBerry, which let users watch videos and download whatever applications they want, are giving way to new models that come with popular services built in, but are less versatile or run on open-source operating systems, and are often cheaper. All this reflects a broader trend in the industry, where value is migrating from firms that run networks and make hardware to those that make software and offer services.

New handsets from Motorola, an industry veteran, and INQ, a rising star, illustrate these changes. They both feature built-in support for online services, including popular social-networking sites such as Facebook and Twitter. On the iPhone, in contrast, the necessary software has to be downloaded and installed. What is more, both phones can automatically add contacts from such sites to their address books.

This sort of thing will become increasingly common, analysts predict, because consumers want it. Mobiles are becoming tools to help people synchronise their different on- and off-line networks, says John Delaney of IDC. Technical specifications are not important provided customers can use their favourite online services with ease. Ever more people are accessing social networks using a handset; Facebook already has more than 65m mobile users.

INQ and Motorola are also both betting on Android, an open-source operating system developed by Google. Although the internet giant's operating system only has a small piece of the market, it is clearly gaining momentum. According to Google, as many as 20 handsets based on the software will be available by the end of the year. Carolina Milanesi of Gartner, another market-research firm, predicts that Android phones will outsell the iPhone and the BlackBerry within three years.

Android will also accelerate the third trend. Motorola's new phone, the Cliq, is still an expensive device in the mould of an iPhone or a BlackBerry. In contrast, INQ's mission from its inception has been to build smart-phones "for the rest of us", in the words of Frank Meehan, its chief executive. INQ's first device costs only £70 (\$112) on pre-paid plans in Britain, where it was introduced last year. The firm's new models will be equally affordable. Prices have yet to be announced, but the most advanced, which is called Chat and comes with a full keyboard, should sell for not much more than £100.

Prices are now on a downward spiral, says Ben Wood of CCS Insight, a research firm. Several other handset-makers are already offering cheap smart-phone-like devices. Android allows cut-price Chinese firms such as Huawei and ZTE to enter the smart-phone market, which they had previously stayed out of for lack of the necessary software. Last month T-Mobile, a mobile operator, gave a taste of things to come. Its British subsidiary started selling the Pulse, an Android-powered smart-phone made by Huawei, for only £180. (The cheapest iPhone model sells for £340 in Britain if bought without a contract.)

Although INQ and Motorola are trendsetters, their success is by no means guaranteed. INQ has only signed up one operator that is not controlled by Hutchison Whampoa, the Hong Kong conglomerate that owns it. Motorola, for its part, has struggled to come up with an attractive portfolio of devices in recent years.

But if pared-down smart-phones become the norm, handset-makers risk becoming sellers of commodity hardware while operators face a future as dumb pipes for data. Hence the recent rush into services. Nokia, the world's biggest handset-maker, recently revamped its set of services, called Ovi. In late September Vodafone, the largest operator by revenues, relaunched its own bundle of services.

Smart-phones are now spreading across the globe, just like ordinary handsets before them. Indeed, it will soon be time to stop using the term, which has never been very precise in any case. After all, if everyone has a smart-phone, they will not seem so smart anymore.

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