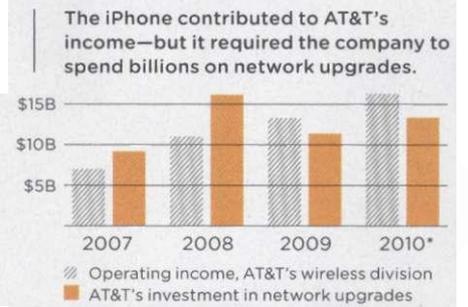


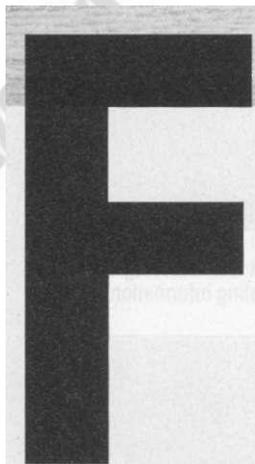
## BAD CONNECTION

Why AT&T's partnership with Apple went so terribly wrong.

BY FRED VOGELSTEIN



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FOR IPHONE FANS, it really was too good to be true. A pair of Apple executives had just described the latest model of the iPhone—the 3GS—onstage at the company's Worldwide Developers Conference in June 2009. The audience loved it. The 3GS was twice as fast as its predecessor, it included a camera that shot video, and the updated iPhone operating system enabled multimedia messaging and tethering—the ability to use the phone as a modem. Just one problem: While many customers in Europe and Asia could enjoy all those features, AT&T, the iPhone's sole US carrier, wouldn't allow video messaging or tethering at launch. In other words, the most advanced features wouldn't be available to AT&T customers. What's more, some current iPhone users who wanted to upgrade wouldn't get the subsidies that new customers enjoyed. Incensed iPhone fanatics vented their fury on Twitter. "AT&T has been

ment after another." "Is AT&T trying to squeeze more money from us poor suckers?" And they punctuated their complaints with a hashtag—the Twitter convention for grouping conversations—that became an eight-character protest slogan: #attfail.

About a week later, AT&T backed down and agreed to extend the subsidy to some existing iPhone users, but that didn't appease its many critics. In the following months, the #attfail tag would serve as a kind of primal-scream therapy, a chance to rage against every perceived indignity that AT&T had forced upon them. Dropped call? #attfail. Data service unavailable? #attfail. Bad customer service? #attfail. The hashtag popped up on Twitter more than 5,000 times over the next six months, according to research firm Trendrr. In an attempt to assuage its critics, AT&T produced a video featuring its online spokesperson, Seth the Blogger Guy, to explain that the company was facing "an astounding amount of data demand" and to detail the "time-consuming process" involved in enabling video messaging. But Seth didn't seem to win many converts. "AT&T LIES to consumers! Seth is not a REAL Blogger Guy!" one tweeter wrote in response. "#AT&T #FAIL miserably."

AT&T had seen something like this coming. Almost as soon as the first iPhone was introduced in 2007, the carrier realized it might run short of bandwidth. Within just a few months, the first wave of iPhone customers was already sucking down about 15 times more data than the average smartphone customer and 50 percent more than AT&T had itself projected. In a bid to avert the looming problem, a team headed by senior vice president Kris Rinne met with Apple to ask for help. Of course AT&T was planning to upgrade its network to handle the increased demand, Rhine's team told Apple executives, but that was going to take years. In the meantime, would Apple take measures to help throttle back the traffic? Perhaps Apple could restrict its YouTube app to run only over Wi-Fi. Maybe the iPhone could

feature a smaller, lower-resolution video-stream or cut off YouTube videos after one minute. Rinne, who had already met with Apple's iPhone team at least half a dozen times, fully expected the company to play along. After all, manufacturers agreed to such restrictions all the time. It didn't make sense to build phones and offer features that carriers couldn't support.

But in meetings with Apple engineers and marketers over the subsequent year, Rinne and other AT&T executives discovered that Apple wasn't playing by traditional wireless rules. It wasn't interested in cooperating, especially if it meant hobbling what had quickly become its marquee product. For Apple, the idea of restricting the iPhone was akin to asking Steve Jobs to ditch the black turtleneck. "They tried to have that conversation with us a number of times," says someone from Apple who was in the meetings. "We consistently said 'No, we are not going to mess up the consumer experience on the iPhone to make your network tenable.' They'd always end up saying, 'We're going to have to escalate this to senior AT&T executives,'

and we always said, 'Fine, we'll escalate it to Steve and see who wins.' I think history has demonstrated how that turned out."

Indeed it has. Just as Rinne and her colleagues predicted, AT&T's network proved unable to cope with the deluge of data traffic generated by the iPhone, particularly in cities like San Francisco and New York. Even as the #attfail meme burned up Twitter, AT&T accelerated its network upgrades—it has spent nearly \$37 billion on new equipment and capacity since the iPhone launch and expects to invest around \$13.5 billion in 2010. The effort may have already boosted performance, with at least some independent studies showing that the carrier's network has improved. And yet AT&T's image remains deeply damaged, and the body slams keep coming—including insults from mischievous blogger Fake Steve Jobs, *The Daily Show's* Jon Stewart, and Facebook's Mark Zuckerberg.

Meanwhile, the groundbreaking alliance has deteriorated into a loveless celebrity marriage. Each company has publicly described the other as the ideal partner (and neither would comment for this story beyond reiterating that talking point), but behind the scenes both have jockeyed for

Foto

# The #ATTFAIL Uprising

Over the past year, nearly every time AT&T has made an announcement regarding its 3G network, furious customers have taken to Twitter to express their frustration with the company's service. It's all chronicled under the now-famous hashtag #attfail. Here are some key AT&T moves and the savage tweets they provoked. —Angela Watercutter

## ● JUNE 8, 2009

Apple unveils the iPhone 3GS; AT&T stalls on multimedia messaging and offers weak perks for existing users.

- Wow, #attfail you really did it this time ... Good job. At Failing.
- After crazy MMS delay, if there's going to eventually be an extra fee for it, it had BETTER be free for 6-12 months. #attfail

## ● NOVEMBER

A new AT&T ad campaign debuts, with Luke Wilson touting the carrier's coverage and service.

- #att stop paying Luke Wilson, stop bugging me, fix your #attfail network.
- A VM my dad left @ 4:56PM just now appeared on my phone @ 11:36PM. Luke Wilson will pay 4 this shit service! #ATTFAIL

## ● DECEMBER 9

AT&T wireless head Ralph de la Vega says customers should reduce their data usage.

- Another shining example of how AT&T just doesn't get it. Their plan? Get customers to use their service less. #ATTFail
- Maybe De la Vega didn't understand what an iPhone does? #attfail #sueatt



## ● JANUARY 27, 2010

Apple reveals the iPad and announces that AT&T will provide its 3G service.

- #ATTFAIL for 3G on the #iPad? I can't get AT&T service on iPhone at home. Does that mean no service for iPad either? Verizon, take me away
- New form of #attfail. 4 bars 3G but no Internet. The iPad's gonna rock.

## ● JUNE 7

AT&T ends unlimited data plan, rolling out new, tiered pricing. Tethering costs extra.

- AT&T? You totally suck. Dropping iPhone unlimited data plan? Pure greed. #att-sucks #attfail
- Thanks ATT for sealing the deal. Charging for data plans and 20 MORE dollars for tethering, no thanks. #att #fail

## ● ONGOING

The wireless network frustrates customers endlessly.

- #attfail in Tampa, haven't been able to make a call or send a txt msg since 4pm
- Visual Voicemail on AT&T not working. Bad when EDGE Internet doesn't work, but not being able to listen to voicemail is some major #attfail

position while consumers have lashed out, looking for someone to blame.

The two corporations have argued about almost everything. Jobs has been apoplectic about the state of AT&T's network and what he views as its slow-footed upgrade efforts almost since launch day three years ago. One Apple source says that Jobs has discussed dropping AT&T at least half a dozen times.

AT&T executives aren't so crazy about Jobs, either. They complain that Apple hasn't accepted its fair share of the blame. They say — and Apple sources confirm — that the software running the iPhone's main radio, known as the baseband, was full of bugs and contributed to the much-decried dropped calls. What's more, Apple had chosen to source the radio from Infineon, whose hardware was used widely in Europe but rarely in the US, where cell towers are placed farther apart and reception is therefore less forgiving.

Even more irksome to AT&T, though, has been Apple's relative silence in the face of

thousands of frustrated customers. "AT&T went in thinking the deal was a true partnership: 'We're in this together, and we defend each other throughout.' That wasn't the way Apple did things at all," says someone who worked on the project for AT&T. "We'd say, 'Let's resolve these issues together,' and they'd say, 'No, you resolve them. They're not our problem. They're your problem.'"

The true cost to AT&T of this exhausting relationship will be debated for years. If the short-term bottom line is the only yardstick, it will be deemed one of the most lucrative business partnerships ever conceived. For its part, Apple has seen the iPhone become its largest and most profitable business generator almost overnight. It now represents more than \$13 billion in annual revenue and has been a huge factor in Apple's recent success. The company's profit has doubled since 2007, and its stock price has nearly tripled since the end of 2006. (Indeed, Apple surpassed Microsoft in May to become the world's most

valuable technology company.) The iPhone has also been very, very good for AT&T's wireless division — helping to generate record revenue, customer growth, and profit — despite the unprecedented amount of control it surrendered in exchange for the exclusive right to sell the device. Since early 2007, AT&T's wireless revenue is up 43 percent, profit has risen roughly 200 percent, and the number of subscribers has grown 40 percent.

But for AT&T, the question is whether participating in such a spectacularly successful partnership outweighs the damage to its reputation and the aggravation it has suffered at the hands of Apple. Much of AT&T's growth can be attributed to its exclusive arrangement with Apple — if customers want an iPhone, they have no choice but to sign up with AT&T. But someday, when that agreement ends, iPhone customers will have the opportunity to jump to a rival network. If a significant number defect, it will be hard for AT&T to argue

that its iPhone experiment was worth it.

Even if the iPhone continues to be a lucrative business for AT&T, some executives will be disappointed forever with how the relationship evolved. Back in 2007, when AT&T (then Cingular) and Apple executives disclosed the deal publicly, they spoke of a radical collaboration—one based on trust and respect as opposed to the usual dynamics of control and fear—that could serve as a new model for the wireless industry. And it succeeded, to an extent, leading companies like Google to exercise greater control over phone and software design and other carriers to allow new products like the Droid and the ill-fated Palm Pre.

But the partnership also exposed a fundamental disconnect between phone makers—who want to make indispensable devices that customers use constantly to their fullest capabilities—and carriers, who want to

about how the iPhone was to be displayed in AT&T's stores: Apple insisted the phone be presented on its own display stand, away from other models. They have even fought about wardrobe: When an AT&T representative suggested to one of Jobs' deputies that the Apple CEO wear a suit to meet with AT&T's board of directors, he was told, "We're Apple. We don't wear suits. We don't even own suits."

The two companies were simply unable to overlook their differences, even when banding together would have helped both of them. In fall 2009, Verizon was pummeling AT&T with a series of "map" ads, claiming that AT&T's spotty 3G network was to blame for poor service. But rather than respond with advertisements trumpeting the iPhone—AT&T's key strategic asset—the company sued Verizon, a move that made it look petty and defensive while seeming to concede the overall argument. Even if AT&T had wanted

had been pushing for tethering, Jobs was furious that De la Vega would make such a momentous announcement before a deal was in place—and without consulting Apple. He even ended a high-level meeting days later with a rant about it. Jobs "was absolutely livid," a witness says. "He paced around the room for five minutes talking about what an incredibly stupid company AT&T was and how frustrating it was to do business with them. Then, when he was done, he said, 'I'm going to go call Ralph and yell at him.'" (AT&T announced in June that it would allow tethering for an additional fee.)

Indeed, Jobs actively considered splitting with AT&T early in the partnership. Just months after the iPhone launched, and not long after Rinne asked Apple to limit YouTube usage, Jobs was investigating another possible solution: dropping AT&T and striking a deal with Verizon. But

because Verizon's network ran on a different transmission technology, making the move would require an entirely new chipset. So around the end of 2007, when the iPhone was only a few months old, Jobs asked a team of executives and engineers to look into it.

The group—which included iPhone software boss Scott Forstall—took the job seriously, even visiting the San Diego headquarters of Qualcomm, the company that supplies the chips for Verizon phones. But in the end, switching to Verizon would have been just too complicated and expensive. The new chips were a different size, which would require Apple basically to rebuild the iPhone from scratch. Meanwhile, changing carriers could mean voiding AT&T's exclusivity agreement and inviting a nasty lawsuit. And it wasn't clear that Verizon would be an improvement; at the time, it wasn't any better equipped than AT&T to deal with the iPhone's bandwidth demands.

Jobs and his team would continue to discuss switching to Verizon, but these were always short conversations. "Every time the issue of switching came up, it always seemed to cause as many problems as it solved," according to a source who attended some of these meetings.

Meanwhile, no matter how frustrated

Letting AT&T use the iPhone in its ads, one Apple source said, would have been "putting lipstick on a pig."

limit the data demands on their networks. This dysfunctional relationship is not unique to Apple and AT&T; the tensions that have undercut the iPhone will likely bedevil every manufacturer and carrier. And what that means is, at some point, everyone with a smartphone will probably experience the same frustration as AT&T customers. Get ready for a lot more angry hashtags.

LOOKING BACK, it's clear that the cracks in the Apple-AT&T relationship began forming as soon as Jobs announced the iPhone in January 2007. It was the first time the public got to see the long-rumored device—and, shockingly, the first time AT&T's board of directors saw it as well. (Apple refused to show the phone to all but a handful of top AT&T execs before the launch.) The split only deepened from there. Apple and AT&T have bickered

to respond with iPhone ads, Apple would have refused. "Put yourself in Apple's shoes," says an Apple executive involved in those conversations. "The reason the Verizon ads were so effective wasn't because of the iPhone. It was because of AT&T's network. We would have been letting them use the iPhone to put lipstick on a pig."

And on it went. They argued over whether to allow tethering—using the iPhone as a wireless modem. Carriers around the world offer this feature to cell phone customers, but Apple and AT&T were at an impasse over it for at least two years. AT&T wouldn't allow it without tacking on another monthly charge. Apple believed that it should be included in AT&T's flat-rate data plan. The two were still wrestling with the problem at the end of 2008, when AT&T wireless boss Ralph de la Vega told Web 2.0 Summit attendees in San Francisco that tethering would be coming to the iPhone "soon." Even though Apple

AT&T got with Jobs, it had little choice but to stand by him. It would have been devastating to lose the iPhone after investing billions of dollars and endless reputational capital. And so the relationship carried on, dysfunctional and loveless though it was. Divorce, at least for the time being, was not an option.

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FOR A WHILE, it looked like Apple and AT&T, resigned to their codependency, had learned to live with each other. AT&T's multibillion-dollar revamp of its wireless network was difficult and time-consuming. It involved adding or upgrading cell-tower radios and increasing the capacity of the wires that connect those towers to the Internet. As recently as May, AT&T's De la Vega acknowledged that he was still not satisfied with the network's performance in San Francisco. But

have made a parlor game of guessing when AT&T's exclusivity agreement will expire; most expect it to happen within the next several months. And last year, Qualcomm began working with Apple on a chip that could allow the iPhone to operate on both the AT&T and Verizon networks; *The Wall Street Journal* has reported that Apple should have a Verizon-ready phone in the fall.

But AT&T isn't satisfied with the status quo either. In June, the company announced that it would no longer allow new customers to sign up for unlimited data plans, a key element of Jobs's vision for the iPhone and iPad. Instead, AT&T will offer tiered plans that let customers download up to 2 gigabytes a month. (Particularly heavy users can pay extra for even more data, but AT&T pointed out that only 2 percent of its customers currently use more than 2 gigs.) For AT&T it is an important step in resetting

cell phone customers to route calls through home broadband connections. And in the next few years, they will switch to new wireless transmission standards like LTE that can relay more than twice as much data over the same amount of spectrum. But even these measures aren't likely to be enough.

AT&T still seems to get surprised by how quickly the demand for wireless data is growing. When the iPad was unveiled, the company announced that it would provide unlimited 3G access for \$30 a month—a price point it had to rescind about five months later when it stopped offering all-you-can-eat data plans. Meanwhile, CEO Randall Stephenson has shrugged off the potential impact of the iPad, arguing that most users will access the Internet via Wi-Fi, not his company's 3G network.

What is clear is that AT&T's role will always be that of parsimonious gatekeeper, dictating to its customers how much data they can have and how much they'll pay for it. It is precisely the role the company hoped to avoid, the reason that carriers long refused to give phone manufacturers and software developers the kind of influence that Apple now wields. In a fate that will soon befall the rest of the wireless carriers, AT&T has become a mere toll-taker on the digital highway, an operator of dumb pipes that cost a fortune to maintain but garner no credit for innovation or customer service. Meanwhile, the likes of Apple and Google will continue to pump out products that push the limits of what the carriers can provide, training customers to use more and more data. The carriers will be locked into a grim series of adjustments—continually raising prices or invoking ever more stringent data usage caps.

And every time they do, they can expect to be the targets of customer rage. That's what happened to AT&T when it did away with its unlimited data plan in June. Once again, Twitter erupted. "AT&T? You totally suck. Dropping iPhone unlimited data plan? Pure greed," a user with the handle @mdenyse wrote. "#attfail."

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**FRED VOGELSTEIN** ([fred\\_vogelstein@wired.com](http://fred_vogelstein@wired.com)) wrote about Google and antitrust in issue 17.08.

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## If AT&T customers are this angry when they're paying \$30 for data, imagine their reaction when the bill tops \$100.

Apple has publicly supported its partner, with COO Tim Cook going out of his way to praise the company and its aggressive network improvements shortly before AT&T was announced as the carrier for the iPad.

Yet it's clear that tensions are still bubbling beneath the surface. Jobs was not nearly so supportive of AT&T when he addressed the All Things Digital conference in June. "They are doing pretty well, actually, in some ways, and they have some work to do in other ways," he said. "They have the fastest 3G network, and it's improving. I wish I could say 'rapidly,' but I think it's moderate-rate improvement." When Jobs was asked whether there might be an advantage in having more than one US carrier offer the iPhone, he responded, "There might be."

Most troubling for AT&T is that the restrictions that have prevented Apple from courting other suitors are starting to fall away, one by one. iPhone watchers

customer expectations. If they want to suck down apps, music, and high-quality video, they are going to have to pay for it.

But even this new model is likely not sustainable. Two gigabytes may seem like a lot of data now, but it won't for very long; witness the recent release of the iPad 3G, with its data-rich apps, and the iPhone 4, with its video chat. As consumers' appetite for data grows, they will be asked to pay more and more for service that is not likely to be much more dependable than it is today. If AT&T's customers are this angry when they are paying \$30 a month for data, imagine their reaction when the bill tops \$100.

Carriers are doing what they can to fend off this deluge. They have successfully lobbied the FCC to begin the process of opening up new spectrum—radio frequencies that can carry wireless data—over the next five years. They have rolled out technology like femtocell base stations that allow

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