Technology Currents...

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The N-Phone Vs. The iPhone

Rumors are hot and heavy that Nokia will soon launch a competitor to iTunes, Apple's highly successful and lucrative music service. It is unlikely Nokia will be offering an iPod music player clone, but is interested in music capable phones for any such service. The multimedia phone is definitely the next wave (including for Apple), and Nokia intends to compete fiercely. This raises some very interesting questions about the ensuing battle:

- Can Nokia take on Apple and win?
- Can Apple fight the much larger and better connected Nokia?
- Can Nokia win over the younger crowd?
- Are iPhoneys that loyal to Apple that they wouldn't change for something better?
- In the end, does Nokia stand a chance to compete with Apple, or is the Apple Juggernaut just too powerful?

"…… We think Nokia has the wherewithal, particularly in Europe, to make a strong go at Apple....."

Certainly Nokia doesn't have the "cachet" of Apple, but they have been in the phone business MUCH longer and are known as producers of great phones. They sell in nearly every country in the world and there are very few carriers with which they do not have a relationship. They also have built some very high end and feature rich phones on a par with the features of the iPhone, though not with its user friendliness. From this perspective (usability) Apple wins hands down.

But Apple is currently feeling intense pressure, especially in EU, over its monopolistic practices with iTunes and iPod – keeping others out and forcing users to only use the iPod with its iTunes SW. If it does the same with its iPhone (which is highly likely) it is quite probable that regulatory agencies will get involved and press Apple to open up the system. Further, the majority of users in Europe are used to buying "unlocked" phones, unlike in the US, and it will be hard for Apple to "lock" its device to one carrier, although it certainly will try. Finally, Nokia is at the forefront of 3G phones, and Apple still has not demonstrated one. For web connectivity, such a disparity is a compelling argument. So can Apple simply roll over the competition, mainly Nokia?

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We think Nokia has the wherewithal, particularly in Europe, to make a strong go at Apple. Nokia's brand recognition is second to none, with over a third of the world carrying around a Nokia phone (Nokia produces 1M phones per day). Of course, Nokia has not done a stellar job in the past of providing value added services to its installed base, nor has it done a good job of partnering services with the carriers. However, this time could be different. It is under pressure to raise its margins, and only sales of higher end feature phones can do that. It has very deep pockets to fund and sustain new ventures. And its management is slowly coming to realize it needs to be more than just a phone and infrastructure provider. It also needs services and content.

"…We believe the market is far from won, and although Apple has the head start in North America, we expect it to have a much harder time selling in the rest of the world, particularly in Europe where Nokia is dominant…."

We would expect, once the new service launches, for Nokia to blitz the EU market with its N-Series feature phones and the services it provides. Nokia will eventually make its way to the US, but that would likely take a year or more. In a battle for innovation and "coolness", Apple is clearly in the lead right now. But it is highly likely that lead won't last all that long in the fiercely competitive consumer mobile market. And since Nokia also has enterprise/business phones available to supplement its consumer lines, it has the edge in selling to the lucrative "executive toy" market. We think, given Nokia's ability to market its goods, that it will go all out to win in this market (and since Motorola has fallen behind as of late, Nokia's current target is pretty clear – Apple, though Samsung and LG are coming on strong).

Bottom Line: We can expect to hear big things from Nokia in the next few months, and of course Apple won't be silent either. Apple is running with the ball right now, but it may not keep it for long. It should be an interesting couple of quarters coming up. We believe the market is far from won, and although Apple has the head start in North America, we expect it to have a much harder time selling in the rest of the world, particularly in Europe where Nokia is dominant.

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