

COMMENTARY

The iPhone's Missing Buttons

Valuable real estate on the main screen won't stay vacant for long **BY STEVEN CHERRY**

When I look at the main screen of the iPhone, I see something missing: four buttons. In the main area, there's a 4-by-3 grid of 12 buttons: SMS, Calendar, Photos, and so on. Along the bottom, there are four buttons that give pride of place to the most essential services: Phone, Mail, Safari (Web), and iPod. In between, there's room for four more buttons, turning the top portion of the screen into a 4-by-4 grid.

Those nonexistent buttons are surely worth hundreds of millions. If you're AOL or Microsoft, can you really afford not to be on the iPhone's main screen? After all, the iPhone had one of the most successful product launches in history: Apple sold 270 000 in just the first two days (29 and 30 June).

Early last month Apple cut the price of an 8-gigabyte iPhone from \$599 to \$399. (At the same time it introduced a WiFi-enabled touch-screen version of the iPod). But the iPhone is still thought to be highly profitable. According to a teardown analysis by market research firm iSuppli Corp., in El Segundo, Calif., the hardware costs for the 8-GB version are only US \$266. There may be other expenses, such as royalties or shipping, but there may also be other revenue—big revenue. An analyst for the Minneapolis-based securities firm Piper Jaffray has opined that Apple gets a commission of \$11 per month from AT&T for each iPhone contract. Apple expects to sell 10 million phones by the end of 2008, so that would come to \$1.32 billion in 2009 alone.

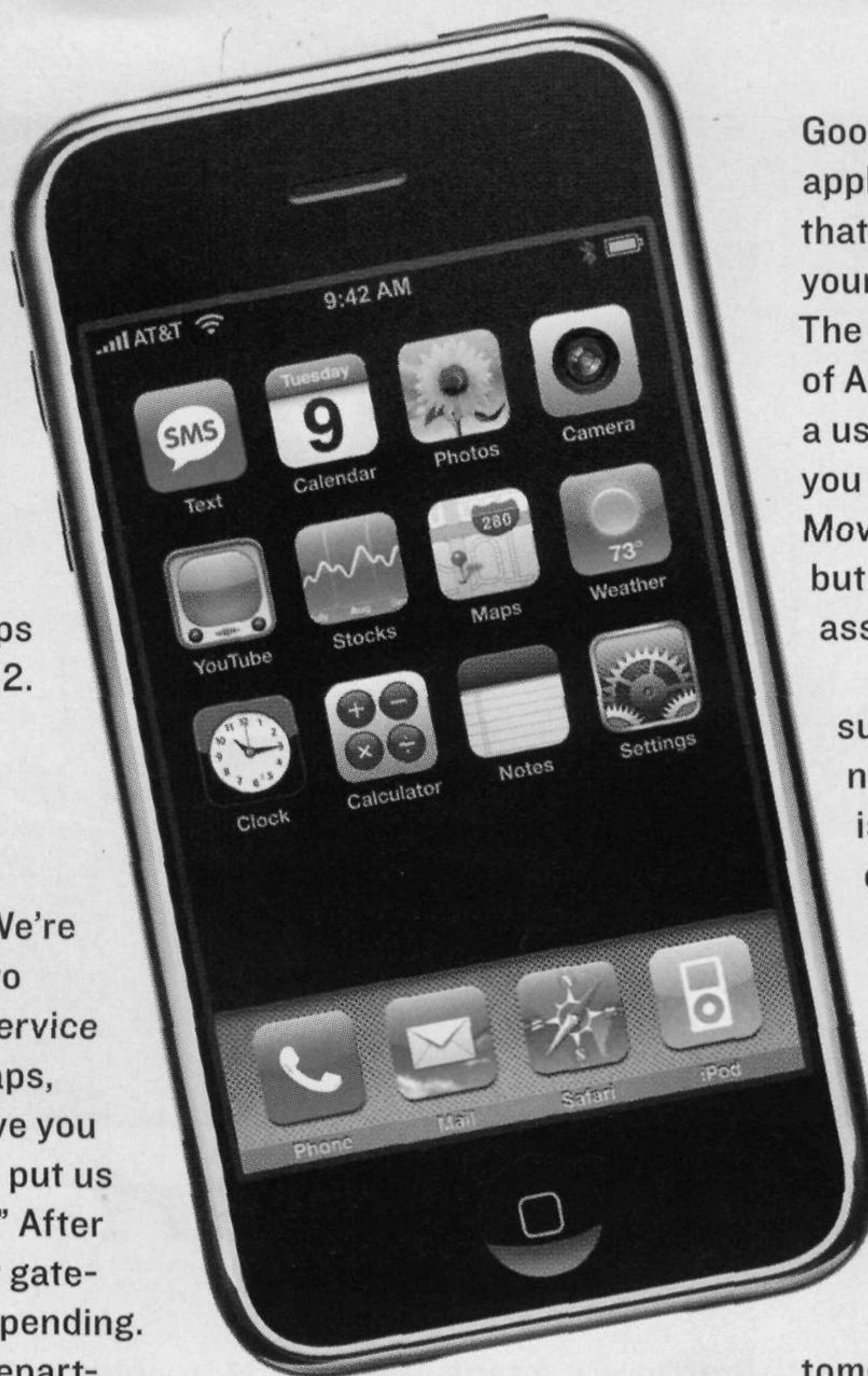
Though the company won't say, I think that there's even more revenue coming to Apple, and it's contained

in the value of those home-screen buttons. Right now, Google Maps is one of the honored 12. But the label doesn't say "Google Maps," it says "Maps." Imagine the CEO of AOL telling Apple's Steve Jobs, "We're spending \$25 million to make our MapQuest service better than Google Maps, and we're willing to give you another \$25 million to put us there instead of them." After all, mapping is a major gateway to shopping and spending. Where's the nearest department store or gas station or fast food outlet? Ask your phone. The age of mobility is still in its infancy, and some of these applications haven't been written yet. But as cell-phone users come to rely on always-on data connections as they move around, such services will become increasingly important—and lucrative.

Ian Lao, a senior analyst at Scottsdale, Ariz.-based In-Stat, a market research firm that specializes in telecommunications, agrees. "There's a lot of value locked up in each of those buttons," he says. "But it's hard to put a value on them. It's easily over \$10 million."

We saw a hint of the iPhone's potential as a gateway for e-commerce with September's announcement of a new feature. When the iPhone, or its new sibling, the iPod Touch, comes within Wi-Fi contact of a Starbucks, an additional button, labeled iTunes, will appear on the main screen. Pressing it instantly downloads the song currently playing in the coffeehouse.

Apple's control over the iPhone's 12—or 13 or 16—buttons is controversial in two ways. The first is reminiscent of the



ROOM FOR MORE? The iPhone looks as if it could fit another row of buttons. They'd surely be worth tens of millions of dollars each to companies providing online services, like Yahoo and Google.

Microsoft antitrust case. A key point of dispute was that Microsoft gave center stage to its own Web browser, Internet Explorer. That positioning was generally thought to be the single biggest reason IE's market share quickly overtook all its competitors, including one-time browser giant Netscape Communications Corp. Regulators in the United States and especially in Europe fought to force Microsoft to divorce the browser from the operating system and keep it from being the default Windows browser.

The iPhone will never have anything like the market share Windows has. In fact, Apple's 10-million-unit goal amounts to a mere 1 percent of the 1-billion-unit global cellphone market. All the same, wouldn't it be better for consumers—to say nothing of AOL—if the Maps icon were neutral with respect to mapping services, and similarly for other buttons? When you first get the phone, you would go through a series of questions. Do you want

Google Maps, MapQuest, or an application of your choosing that you can download? Should your Weather button lead to The Weather Channel instead of AccuWeather? How about a user-defined button that you could assign to AOL's Moviefone on your iPhone but that your daughter could assign to Facebook on hers?

The second controversy surrounds what's called network neutrality. The issue is whether a telecom carrier like Verizon Communications, in New York City, should be allowed to discriminate among the different data packets that cross its network. For example, given that Verizon offers cablelike television services to its cus-

tomers, it might want to cut off or impede the delivery of data from companies that compete with it in providing movies on demand, such as Netflix or Blockbuster. Or Verizon might, in exchange for a hefty sum from Google, speed the results of Google searches but not Yahoo searches. Yet Apple is already favoring Google for its maps service as well as Starbucks and Apple's own iTunes music service.

To be sure, achieving the equivalent of network neutrality on the iPhone runs up against a special complication, because these buttons often lead to services that are customized for the device's unique touch screen, which is larger than the display on any other PDA-like phone. Still, if the iPhone continues to be a big success, a service provider like AOL would probably be happy to customize MapQuest and Moviefone for it. We can expect companies to start clamoring for this kind of neutrality by January, when the MacWorld conference is held. Meanwhile, Apple zealots are already clamoring for iPhone 2.0, without, it seems, any regard for how many buttons it has.