# What to watch in mobile in 2013

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Mobile

# Introduction

While mobile has always been a dynamic industry, 2012 was a particularly eventful year that saw the emergence of some important and potentially disruptive new trends. Carrier SMS revenues appeared to plateau as third-party messaging services continued to grow in popularity. Carriers such as France-based Free Mobile embraced Wi-Fi and other offloading technologies to bring services to market at vastly cheaper prices than traditional network operators. And we saw the emergence of supersized handsets that bridge the gap between smartphones and tablets.

Other trends continued unabated in 2012: Google's Android platform cemented its position as the world's most popular mobile operating system, Apple remained the most profitable company in the industry, and Research In Motion watched its market share crumble. Meanwhile Microsoft's Windows Phone struggled mightily to emerge as a real threat to Android and iOS, and carrier consolidation heated up as spectrum became more valuable than ever.

That consolidation is likely to persist among smaller carriers looking to fortify themselves against AT&T and Verizon Wireless. But there are plenty of other things to watch for in the mobile industry next year as well.

# Bigger phones, smaller tablets

Samsung's Galaxy S III dethroned the iPhone to become the top-selling smartphone in the third quarter, with 18 million units sold, compared to Apple's 16.2 million units. The handset is the latest in a line of oversized phones from Samsung, which has astutely used size to differentiate its new handsets. That market didn't exist until recently, and, as the numbers indicate, it has enabled Samsung to challenge Apple's status as the world's dominant smartphone vendor.

And as smartphones get larger, tablets are becoming smaller and more portable than Apple's original iPad. Apple saw its share of the tablet market fall to 50 percent during the third quarter, according to IDC, as a variety of Android tablets — many of which are 7-inch devices — grew in popularity. Apple finally joined that low end of the market in the fourth quarter with the release of the iPad mini, a 7.9-inch tablet starting at $329.

We believe these two seemingly contrasting trends actually underscore a larger trend of increasing diversity among mobile devices based on use-case scenarios and personal preferences. The iPad mini will surely fuel the market for smaller tablets, as IHS recently predicted, filling a demand for slates that can fit in purses or large pockets and be used with one hand. But we also expect to see manufacturers experimenting with larger tablets focused on gaming and video. Those tablets will expand on the "coffee table" functionality of the iPad, where devices are often shared among friends and family members. And we'll see smaller phones and other mobile devices for consumers who view the phone primarily as a voice and messaging platform rather than as a full-blown data-centric device. The increasingly diverse lineup of smartphones and tablets will create opportunities for developers of games and other mobile apps that take advantage of larger, high-resolution screens, as well as developers of mobile websites.

# Niche MVNOs on the rise

The first wave of mobile virtual network operators (MVNOs) in the U.S. was a disaster, resulting in glorious train wrecks from heavy hitters such as Disney and ESPN. Those failures underscore both the difficult business proposition of reselling network access and also the unwillingness of consumers to pay a premium for themed content and services. But 2012 saw the birth of several new MVNOs looking to differentiate their products based on price, demographic, and ethnicity. Earlier this year Ting became the first LTE MVNO and is experimenting with metered voice and data plans. Ultra Mobile is one of several new SIM-only service providers encouraging users to activate their own devices on the network. Voyager Mobile eschews traditional handset subsidies, instead asking users to pay the entire cost of the device up front in exchange for rock-bottom monthly plans.

Perhaps the most noteworthy player is Republic Wireless. Republic leverages Wi-Fi wherever possible and relies on traditional cellular networks only when absolutely necessary. Using such a model allows Republic to offer unlimited voice, text, and data for only $19 per month to users who buy their handsets without a subsidy. Republic's business model is similar to French Free Mobile's, which operates a modest network but relies primarily on residential Wi-Fi connections to provide affordable service. Free Mobile has seen its customer base grow substantially in 2012, grabbing 60 percent of France's new mobile subscribers. Its ultracompetitive pricing has forced its larger competitors to lower their rates.

Republic Wireless hasn't enjoyed that kind of success, since it only recently opened its service to the public after a year of beta trials. It's still not clear that a viable business model can be built with a Wi-Fi-centric service. And the new wave of MVNOs is no immediate threat to Verizon Wireless and AT&T, which continue to rake in profits and add lucrative postpaid subscribers. But Republic and some of its fellow MVNOs could be a disruptive force in the U.S. mobile industry starting next year, potentially stealing customers from Sprint, T-Mobile USA, and smaller operators.

# Microsoft, Research In Motion, and the mobile enterprise

Research In Motion wants to reclaim its lost relevance in early 2013 with the launch of BlackBerry 10, an entirely new mobile operating system that will replace the antiquated BlackBerry OS. RIM's share of the U.S. smartphone market is now a paltry 1.6 percent, and the company posted its third consecutive quarterly loss in September. But as I wrote a few weeks ago, there are a few important factors in RIM's favor as it tries to stage a comeback: It still has strong carrier ties as well as the necessary bankroll to market its devices.

Most important, though, is the fact that the mobile enterprise is still largely untapped. The bring-your-own-device (BYOD) revolution has led to an influx of Android and iOS devices into the corporate world, creating headaches for IT departments charged with managing an increasingly wide range of devices on multiple operating systems. We're likely to see business spending on mobile devices ramp up over the next few years as those organizations try to take back some control, as IDC recently predicted. Corporate spending will be driven in part by the need to simplify management policies and keep devices and content as secure as possible. These are areas where RIM still excels.

Meanwhile Microsoft is still struggling to compete with Windows Phone. The company had hoped to get a boost from the release of new devices running Windows Phone 7.5 over the summer, but IDC figures indicate Microsoft claimed only about 2 percent of the worldwide smartphone market in the third quarter. The company desperately needs a better showing from its new line of Windows Phone 8 handsets this holiday season.

Indeed, 2013 is likely to be a make-or-break year for both Microsoft and RIM. Lackluster sales of BlackBerry 10 devices next year will also surely be the death of RIM as we know it. And it's highly unlikely that Windows Phone will ever emerge as a third major platform alongside Android and iOS if sales don't increase substantially next year. Making inroads to the mobile enterprise would be a huge leap forward for either of these players, and realistic opportunities exist for either player to make that happen in 2013. However, that would require flawless execution and a strong focus on the enterprise, and we believe both companies will come up short. Ultimately, we believe Apple will continue to build on its presence in the mobile enterprise next year and likely well beyond that.

# Companies to watch

## WhatsApp

Analyst Chetan Sharma has reported that U.S. carriers saw text message revenues decline in the third quarter for the first time, with the average number of messages sent per user each month dipping by 3 percent. The declines are directly linked to the increased use of messaging services such as Apple's iMessage, Facebook Messenger, and BlackBerry Messenger, as well as stand-alone messaging apps such as WhatsApp.

While cost is certainly a driving factor in the rise of these alternatives to SMS, WhatsApp improves on carrier text offerings by including group messaging and file-transfer features. The company said in August that it handles 10 billion messages per day, and it is widely credited for disrupting carrier-messaging businesses in the Netherlands. Facebook was reportedly in negotiations to acquire WhatsApp several weeks ago, but those rumors have fizzled. Regardless, WhatsApp looks to be ripe for acquisition in the coming months, and the price could be very steep.

Meanwhile consumers will increasingly embrace third-party messaging platforms as a way to cut their mobile budgets. We're unlikely to see another stand-alone messaging app duplicate WhatsApp's success, but companies like Apple and Facebook will continue to chisel away at carrier SMS revenues. Those revenues won't erode overnight — SMS is simply too ubiquitous and interoperable — and U.S. operators may actually see a rebound in the fourth quarter. But those revenues will plateau in 2013 if they haven't already and will then begin an inevitable decline.

## T-Mobile USA

The nation's fourth-largest carrier bled lucrative postpaid subscribers in 2012 even as it added prepaid users at an impressive clip. But it will address a huge shortcoming next year when it begins to offer the iPhone, becoming the last tier-one operator to carry the iconic gadget.

Potentially even more important will be T-Mobile's move to drop the handset subsidies that have become an underpinning of the U.S. mobile market. Doing away with those subsidies will eliminate T-Mobile's up-front costs of carrying high-end devices, which can easily run $250 or more. And it will enable the carrier to offer substantially reduced rates to users who buy their phones outright or simply take them to T-Mobile from another network.

The strategy has a chance to be a game changer for T-Mobile, which desperately needs to differentiate its offerings from its bigger competitors. I don't expect Verizon Wireless or AT&T to abandon handset subsidies anytime soon, as they're doing just fine with the traditional model. But if T-Mobile can effectively explain to users why it's in their best interest to pay full price for a handset, it could begin to deconstruct the subsidized model.

## Other players

Other companies to watch include:

- **Amazon.** The online retailer stepped up its pursuit of the tablet market in September with the release of a new line of tablets aimed at users reluctant to shell out top dollar for Apple's iPad. But while Apple has long enjoyed substantial margins on its hardware, Amazon hopes to leverage its tablets to push digital-content sales. While it's too early to say how successful that strategy is — Amazon is notoriously tight-lipped regarding its revenue breakdown, and we're heading into the all-important holiday season — the company is laying the groundwork for a very profitable 2013.

- **Nokia.** It was only a few months ago that the prospects for the struggling handset maker seemed hitched to Window Phone: If Microsoft were to become successful in mobile, it appeared that Nokia would be along for the ride. But the heavily anticipated release of Windows Phone 7.5 was unimpressive, and the company's third-quarter revenues were down 19 percent over the year-prior period. Meanwhile Nokia made a major error in allowing AT&T to be the exclusive U.S. carrier of its flagship Lumia 920, severely limiting distribution in an all-important market. And

other manufacturers have joined the Windows Phone bandwagon, reducing the luster of Nokia's cozy tie-up with Microsoft. Windows Phone may ultimately thrive, but that no longer guarantees Nokia's survival.

- **Open Garden.** One of a handful of mobile software startups that could be hugely disruptive, Open Garden's technology essentially crowdsources connectivity. Users can share connections to the network via 3G, 4G, or Wi-Fi, and they can use multi-hop to access the internet through a chain of devices if no direct connection is available. Dominant, profitable carriers are unlikely to embrace solutions like Open Garden's, viewing them as a threat to overall data revenues. But smaller operators may see the value in offloading data traffic and perhaps even boosting data revenues. If Open Garden can partner with a sizable carrier or two, it could be a powerful force.

# To 2013

The fundamental business model at the heart of the U.S. mobile industry is largely the same as it has been: Consumers pay for monthly buckets of voice minutes and data usage, signing lengthy contracts in exchange for buying a high-tech phone for a pittance. But 2013 may bring real disruption to the industry for the first time since Apple introduced the iPhone and iTunes App Store. Upstart carriers are embracing noncellular technologies to provide cut-rate services, third-party developers are gaining traction with cheap (or free) alternatives to SMS, and a major U.S. operator is preparing to drop handset subsidies. Next year could be the most important, eventful year we've seen in mobile in a long time.

# About Colin Gibbs

Colin Gibbs cut his teeth in tech journalism during a five-year stint at the trade pub *RCR Wireless News*, where he covered mobile content, applications, marketing, and advertising. During that time, he co-founded the Denver chapter of Mobile Media Mondays, a networking group designed to connect members of the wireless community. His work has been cited by the *New York Times*, among other mainstream publications, and he has been quoted in outlets including the *New York Daily News*. Prior to the RCR gig he spent several years as a general assignment reporter with the *Denver Daily News*, an independent publication, and as a freelance sports reporter with the *Denver Post*.

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