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Motorola's iTunes Phone on the Rocks

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The tech match made in heaven has prompted a hell of a standoff.

Bowing to pressure from its wireless telco customers, **Motorola** (MOT) yanked its new **Apple** (AAPL) iTunes phone from its scheduled unveiling at the CeBIT technology show in Hanover, Germany, on Thursday.

And to the disappointment of gadget lovers here in the U.S., Motorola's much-anticipated entry will be missing from the lineup of new music and media-playing phones from **Nokia** (NOK), **Samsung** and **SonyEricsson** debuting this week at the wireless industry CTIA show in New Orleans.

Building on the design success of its thin metal-clad Razr phone, Motorola tapped Apple for iTunes, the music system inside the iPod digital music player. The scorchingly hot idea came together in a new music phone called Rokr.

The stunning Rokr no-show at two of Motorola's prime product showcases offers a behind-the-scenes glimpse at the power struggle between phonemakers and the phone companies that want to play a big role in the music download business.

A Motorola representative says there is "absolutely nothing wrong with the phones," and that the decision "had nothing to do with anyone other than Motorola." But analysts say the telcos canceled the iTunes phone debut party because they are in no mood to celebrate another feature that doesn't drive up network revenue.

"This is a manifestation of conflict we'll see more and more as the phone takes on additional functionality," says Yankee Group analyst John Jackson.

For the phone companies pouring billions of dollars into network upgrades for faster wireless access, every advance in digital media seems to represent another revenue opportunity they can't control, says Charter Equity Research analyst Ed Snyder.

Snyder predicted that music phones would be an even bigger success than the wildly popular camera phones that preceded them. But just as we saw with the camera phone, the wireless telcos are confronting difficulties in cashing in on the trend.

"It's a losing game for the carriers," says Snyder. The iPod and MP3 crowd uses PCs to download music, and they won't be inclined to pay the phone company for tunes they already own, says Snyder.

"The carriers hate that answer because it means they don't get any part of the multimedia phone pie, just as they haven't gotten squat with imaging," says Snyder.

The Motorola rep said the company continues to working with its carrier customers, and industry observers say they expect Motorola's iTunes phone to be available to customers as early as this summer.

Sprint (FON) and **Verizon Wireless** -- a joint venture between **Verizon** (VZ) and **Vodafone** (VOD) -- did not return calls or reply to emails for comment.

Just as Internet service providers found it hard to charge for services beyond Internet access, the wireless shops are likely to discover that they have a very limited piece of the business, say analysts.

"Operators have to resign themselves at some level to the fact that the handset is a good customer retention tool," says Yankee's Jackson.

But analysts say it's ultimately the phone buyers that push the buttons and if they want cell phones that hold eight hours of their music, they'll get it.

"Consumers will end up demanding it," says Jackson. "The question is, when do the carriers stop resisting?"

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