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AT&T Hoping the iPhone Has Coattails

By [MATT RICHTEL](#)

SAN FRANCISCO, June 22 — When the [iPhone](#) goes on sale next Friday, people are likely to flood [AT&T](#) Wireless and [Apple](#) stores to check out the new device. But will the curiosity translate into big business for AT&T?

Industry analysts and executives offer mixed opinions about how much the iPhone will shake up the wireless business. They are torn, too, about how much it will benefit AT&T — Apple’s exclusive partner — in its fierce competition with [Verizon](#), [Sprint Nextel](#) and other carriers.

But analysts can generally agree on one thing: the sleek touch-screen iPhone will change what consumers expect from the mobile phones offered by wireless companies.

The shift will be like the one caused by the skinny Razr from [Motorola](#), the once wildly popular phone that became perhaps the first that people regularly asked for by name, said Chetan Sharma, a wireless industry consultant.

“The Razr redefined expectations,” Mr. Sharma said. “The iPhone will have a similar and larger impact.”

For Mr. Sharma, that impact will benefit AT&T only if its competitors fail to offer solid alternatives: “If they don’t have a compelling product in the market, it’ll start to show.”

The other carriers argue that they already have competitive devices that take sharp pictures, allow music downloads and are tailored for heavy use of text messaging and Internet access.

But it is a testament to the power of Apple’s brand name and reputation that many consumers appear to be giving it a chance to redefine phones as the [iPod](#) did music players. AT&T said 1.1 million potential customers had signed up on the company’s Web site asking to be contacted when the phone is for sale.

[Steven P. Jobs](#), Apple’s chief executive, has said that he expects Apple to sell 10 million iPhones by the end of 2008. That projection could include sales outside the United States, but Apple has not yet announced any deals with foreign carriers.

M:Metrics, a market research firm, found in a recent study that 64 percent of American mobile phone users had heard of the iPhone and 14 percent of those would be “highly interested in buying one.”

The iPhone could bring AT&T more subscribers, but perhaps more important it could allow AT&T to position itself as a younger, hipper company, said John Hodulik, a telecommunications industry analyst at UBS.

For AT&T “the iPhone launch is bigger than the launch of a new device,” Mr. Hodulik said. “It’s something

more strategic. It's about moving the whole brand.”

The new phone comes at a challenging time for AT&T and an inflection point for the industry.

AT&T's share of new monthly wireless subscribers has fallen steadily over the last year, notably since it purchased [BellSouth](#) and changed its wireless brand to AT&T from Cingular. In the second quarter of last year, 29.5 percent of new cellphone subscribers chose AT&T, but that figure was 25.8 percent in this year's first quarter, Mr. Hodulik said.

At the end of the first quarter, AT&T had 62.2 million subscribers, slightly more than Verizon's 61.5 million, said Jonathan Atkin, an analyst at RBC Capital Markets. But Verizon is catching up a little bit each quarter.

AT&T is already doing worse than Verizon in terms of customer turnover, or churn, Mr. Atkin said. AT&T is now losing around 1.7 percent of its subscribers each month, compared with 1.1 percent at Verizon. T-Mobile's churn is 2.6 percent, while [Sprint](#)'s is 2.3 percent.

AT&T executives say the buzz created by the iPhone will generate interest in their other products and inspire customers who do not buy the Apple device to perhaps buy a different phone from the company. To accommodate the expected demand this summer, AT&T is hiring an average of one extra temporary worker in about 1,900 of its wireless stores who will be trained to sell the iPhone.

“This is going to drive a tremendous amount of traffic and energy to our stores,” said Glenn Lurie, president for national distribution of AT&T's wireless group. He added: “It'll help our growth not just in iPhones but in our overall business.”

Mr. Lurie declined to say how much money AT&T is spending to market the iPhone or how many phones it expects to sell. He said he was not concerned that consumers would balk at the price of the iPhone, which costs \$499 or \$599, depending on how much memory it has. The phones require a two-year service contract and, unlike most other phones AT&T offers, it will not be subsidized by the company.

“Price is not an issue,” Mr. Lurie said. “It combines multiple functions and it's the best iPod ever built.”

On this issue, and others, Verizon begs to differ.

“AT&T set the initial price very high, so it'll likely do better once they lower the price, and align it with the value they offer,” said Mike Lanman, the chief marketing officer for Verizon Wireless.

Mr. Lanman said Verizon already had at least 18 music-capable phones. In the next few weeks, he said, it plans to introduce a new model of its Chocolate phones that allows not just downloading of songs over the air but also transferring music from computers.

Mr. Lanman said he was not worried that AT&T would steal customers because Verizon's network infrastructure is superior and offers better connection coverage and stability. “For Apple, I think the big risk is the AT&T network.”

Some industry analysts agree that the iPhone is not necessarily destined to be an instant or significant buoy

to AT&T's business.

Edward Snyder, an equity analyst with Charter Equity Research, said that many people would be turned off by the price; older customers who can afford it, he said, will not care about all the fancy features of the iPhone, while younger ones who are excited about the device will not like the cost.

Over all, Mr. Snyder said, the iPhone will appeal to maybe 3 percent to 5 percent of wireless phone users. And he said he was skeptical that it would work as well as advertised.

“Implementing a cellphone is absolutely more difficult than anything Apple’s done to date,” he said, noting that, in particular, the phones might have trouble delivering consistently good voice communications and that the devices could suffer overall reliability problems. “Go out and buy an iPod and hold it at waist level and drop it. That’s the end of the iPod.”

“I don’t think Apple’s going to be a big player in this at all.”

The deal could actually go badly for AT&T because it will spend a lot of money to market the phone and then not wind up with the returns it hopes for, Mr. Snyder said. But Mr. Snyder joins other analysts who agree that, if nothing else, the iPhone will accelerate innovation in the handset market.

Bill Plummer, vice president of [Nokia](#)’s multimedia group in North America, disagreed with the assertion that the iPhone would bring fundamental change to the market. He said Nokia already sold high-end phones with a wide range of functions, including the N95, which has a five-megapixel camera and a hard drive to store and play music. The phone works on either the AT&T or T-Mobile network and sells for \$749.

The iPhone, he argued “is an evolution of the status quo.”

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