TECHNOLOGY TRADER | SATURDAY, JULY 10, 2010

# How a Droid Could Eat Apple's Lunch

By MARK VEVERKA

Apple's iPhone reigns supreme, but a veteran telecom analyst argues that the momentum belongs to Google's Android system.

APPLE 'S IPHONE IS THE undisputed king of the smartphones, but there is swelling sentiment that **Google**'s Android platform may steal the crown in the end.

"The iPhone wins today, but the momentum has swung heavily toward Android," says Charter Equity Research Managing Director Ed Snyder.

Snyder is a former telecom engineer, who has been covering the telecom industry since Alexander Graham Bell called for Watson. And I have found him mostly right about things telephony, with wires or without. One of his basic tenets throughout the evolution of wireless phones has been that music is the killer application. The key to Apple's (ticker: AAPL) strategy of linking the iPod Touch, iPhone and iPad with one operating system, the iOS family, has been iTunes' central role in managing music, applications and software updates. The easy, seamless ability to transfer music from the iPod via iTunes to the first iPhones was a huge factor in the Apple smartphone's acceptance and continued success. That, in turn, is driving iPad sales.
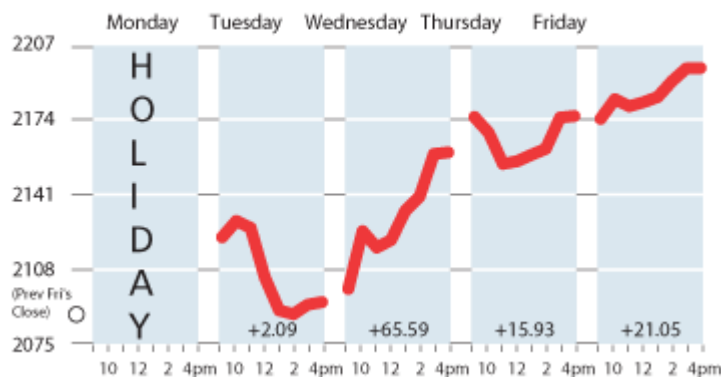
Google.cn: China renewed Google's license, easing fears that the company would lose a growth opportunity in its clash with China's censors. The Nasdaq rose 5% on the week.

Now, Snyder suggests that music is the application that could provide Google's (GOOG) open-source Android OS the chance to leap over Apple. The analyst predicts that the next-generation music platform, which is likely to be cloud-based, will be the major battlefield in the smartphone war over the next year or so.

Google, which reports earnings this week, recently revealed that it is activating about 160,000 Android devices a day,—more than 14 million a quarter. That demonstrates Android's power to attract users when it gets "focused" marketing from the service providers, such as **AT&T** (T) and Verizon Wireless, Snyder says.

Android's next hurdle will be demonstrating that its platform is "sticky," like that of iTunes, for which entire families (like mine) plunk down small fortunes for songs, movies, videos, gadgets and computers using the same OS. Snyder says that Google must offer a content-delivery system similar in function to iTunes, but based in a cloud—meaning music is stored in one of Google's famous data-center clusters somewhere and delivered via the Internet and over airwaves to various devices. (ITune libraries sit on the local hard drive of personal computers). He thinks that Google should strike deals with (or, I suppose, buy) one of the many cloud-based streaming-music services already used on wireless devices.

Where other handset makers, such as Palm, which is being bought by **Hewlett-Packard** (HPQ), tried to create devices that were seamlessly tied to iTunes, Google must take a giant step over Apple and be the first to store and deliver content from the cloud, Snyder insists. ITunes requires physical synchronization largely because it was developed before third-generation networks and super-fast Wi-Fi technologies, which make streaming content practical. Plus, technological advances in data-centers have made cloud-based services more practical and affordable. ITunes, which predates most popular streaming music services, such as Pandora, is vulnerable to a cloud-based music-storage system open to Android handsets, Snyder maintains.

Apple's reluctance to upgrade iTunes to a radically different concept would be a golden opportunity for "Google to undercut Apple," he says. Google could offer free premium features to users, like streaming services, so long as the customers use an Android-based device. Google would have to pay licensing fees for the services, but Snyder argues that the cost would be minimal, compared with other customer-acquisition expenses. Because Google is targeting mobile customers for advertising and isn't trying to profit from streaming music, it can afford the cost if it locks users into the Android platform. There are intellectual property-rights problems with building a cloud-based storage system, but they aren't insurmountable if music companies and film studios are compensated for any illegally obtained content that gets migrated to the cloud, Snyder says.

Both Google and Apple, which are more secretive than papal conventions, are assumed to be working on cloud-based systems. Snyder predicts that both will make big announcements in three to nine months regarding cloud-based storage systems for music, video, games and other things, if they can solve the licensing issues. "Android has the potential to take the offensive against iTunes, provided Google can deploy a successful cloud-based system before Apple," Snyder says.

There are other reasons why Android is gaining momentum. Many Silicon Valley veterans envision Apple's repeating the mistakes it made during the rollout of its first personal computers, when it chose to keep a closed proprietary system over a more pervasive operating system pushed by **IBM** (IBM), **Microsoft** (MSFT) and **Intel** (INTC). The WinTel collaboration took Apple to the brink of bankruptcy, and some fear that Apple is going down the same path with the iOS. "Android attacks Apple at its weakest point, which is its walled-garden ecosystem," warns Snyder.

On top of that, well over a dozen manufacturers make mobile devices using the Android operating system—compared with one, Apple itself, for iPhones. The sheer magnitude of that competition could overwhelm Apple over the long haul.

While the more than 200,000 iPhone apps dwarf the roughly 70,000 apps developed for Android, that could change. Already, there are signs more developers are using Android than iOS, because it

requires less software code to write an app. Android also takes fewer months to learn, states a recent report published by MobileVision, a consultancy.

All told, Snyder says, the iPhone eventually will be ripe for the picking. "These two guys are going to be duking it out for a while, but it is just a matter of time," he concludes.

SO MUCH FOR THE CORPORATE refresh cycle. It's beginning to look like a summer of discontent for personal-computer makers. On top of Barclays Capital adjusting its PC unit-growth forecast downward (see **Plugged In**), the PC supply chain is plagued by weak sales and high inventory, asserts Rodman & Renshaw technology analyst Ashok Kumar.

The consumer PC market, particularly in Europe, has yet to show signs of stability. Retail orders destined for Europe have been slashed because of excess inventory on the shelves. Even China, which is supposed to be the first economy to bounce back from the recession, is facing rising inventories, owing to slackened demand, Kumar says. All eyes will be on U.S. back-to-school sales in August, which will tell the tale for the second half of this year.

So, do something good for the economy. Rather than buy your kid yet another overpriced backpack this fall, buy her a new laptop instead.

E-mail: mark.veverka@barrons.com