

TELECOM VANTAGE™

A view of the telecommunications consumer marketplace

By Miro Kazakoff & Ryan Burke

After 6 months of iPhone hype, fewer are ready to buy, but more are ready to pay

The iPhone is generating an enormous amount of industry buzz, but consumers will ultimately decide the device's fate. After the announcement of the iPhone in January, Compete surveyed 379 people about the device. The survey targeted consumers who had been observed researching an iPod online in the preceding month. In the first week of June, Compete surveyed an additional 680 iPod researchers to look at attitudes toward the iPhone just before its launch on June 29th. Compete targeted recent iPod shoppers in both surveys to identify trends and target consumers who were more likely to be aware and informed of the iPhone. So what are consumer perceptions of the device now, and how have they changed?

The true market size grew

The most significant change among respondents: the percentage of shoppers reporting they were "very likely" or "extremely likely" to purchase an iPhone shrank from 26% to 15% between the period right after launch and the first week of June. However, eight percent of those who said they were very likely to buy an iPhone were willing to spend over \$500 on it. Overall, 1.2% of respondents reported they were likely to purchase the iPhone and willing to pay over \$500 for the device, an 8x increase from the January survey.

As shoppers have become more aware of the device's price and feature set, it is no surprise that some unrealistic expectations have evolved into a more realistic assessment of the iPhone's actual features and price.

New carrier? No problem!

For those interested in the iPhone, switching carriers was not a major impediment. Sixty percent of those likely to buy an iPhone (and not already AT&T Mobility customers) said they would switch carriers to get their hands on the device. The primary reasons for not switching remained the same from the prior study: early termination fees, steep iPhone price, and an adequate handset line-up at their current carriers. The danger for AT&T's competitors is that when customers' contracts lapse and the price of the iPhone drops, two of the major switching barriers will be removed.

Potential buyers demand functionality

When it comes to the iPhone itself, respondents primarily cared about the device's ability to function as a high-quality phone. Surpassing issues of design and music integration, consumers said the top criteria in their decision to purchase an iPhone were price, phone performance, battery life and ease of use. All of these are consistently among the top criteria consumers use to evaluate any phone. "Overall design and look of the device" scored much lower than usual as an area of concern, presumably because consumers are already confident in the iPhone's design and have shifted their concerns to other aspects of its functionality.

One additional concern that has garnered considerable press coverage but did not rank high on respondents list of worries was the touchscreen. Only 16% of respondents said they were concerned about the difficulty of texting using a touchscreen compared to 25% who were worried about the phone's calling functionality not being as well-developed as its music functionality.

Consumers did express concern over the device's data connection speeds. Compete asked "If internet browsing speed on the iPhone was closer to a dial-up modem than to a cable/broadband modem, what impact would this have on your decision to purchase the iPhone?" Fifty-eight percent of those who said they were likely to buy an iPhone reported that this information made them less likely to purchase an iPhone.

Compete did not ask whether the device's Wifi capability mitigated this issue. Regardless, AT&T will have to carefully set consumer's expectations about when and where the device will be able to surf the Internet at broadband speeds (and where consumers will have to pay data charges). This opens the door for the other service providers to talk about their networks and potentially challenge the iPhone.

Overall, the iPhone must work as a phone before it can expand its market beyond diehards. In the meantime, other manufacturers still have an opportunity to leverage their capabilities and reputations as makers of great phones to deliver rival products at more desirable prices.

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