Compound v. Elemental Devices

Device market strategy lessons from the iPhone, Blackberry, Pre and Zune

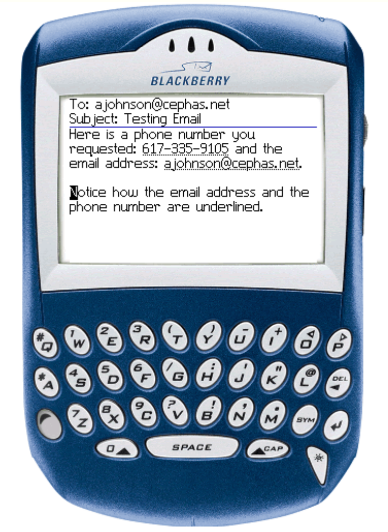
June 19, 2009

Market Lesson: Apple iPhone

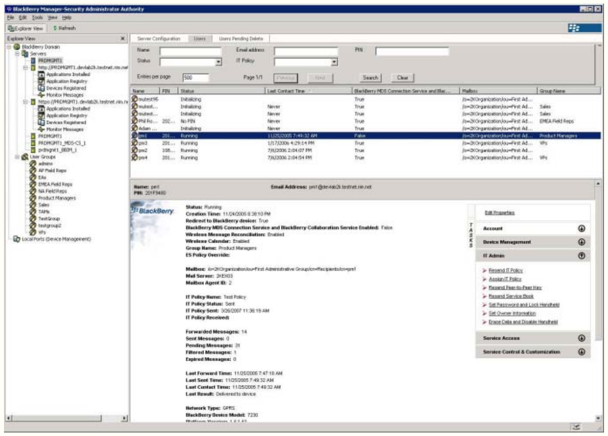
- Apple iPhone
- March 2007 intro

- iTunes software (first release in 2001)
- iTunes 500M user base in June 2007
- iPhone/iTouch app store (opened July 2008)

Market Lesson: RIM Blackberry



- RIM Blackberry
- 2002 phone intro



- Blackberry Enterprise Server (“BES”)
- 175,000 organizations with BES installed behind the corporate firewall in 2009
- RIM pager installed user base before 2002

Zune / xBox Live fits this model

- Zune HD
- 2009 Intro

- XBOX Live (first release November 2002)
- 30 million household xBox 360s in 2009
- Separate Zune marketplace from Xbox Live
- 2009 merge of Zune marketplace and Xbox Live?

Palm Pre does not fit this model

- Palm Pre
- June 2009 Intro

?

- 0 installed user base
- 0 Pre remote software ecosystem
- Will Pre apps store count?

Android phones do not fit this model

- HTC G1
- 2008 Intro

?

- 0 installed user base
- 0 remote software ecosystem unique to G1
- Will optimization around Google cloud apps count?
- Will Google apps store help?

Moto Razr did not fit this model

- Motorola Razr
- 2009 Intro

?

- 0 installed user base
- 0 integrated software ecosystem unique to Razr

Device Lessons … Set #1

- “Compound” devices are ones that
  - o are the physical symbol to the user and others of a larger lifestyle experience, and
  - o that are empowered by unique and external ecosystem
  - o examples
    - iPhone
    - Blackberry
- “Elemental” devices are ones that
  - o are the physical symbol to the user and others only of the device itself
  - o examples
    - Razr
    - Pre
    - HTC G1

Device Lessons … Set #2

- A “compound” device creates
  - a dedicated, long-term user following
  - a sustainable, long-term and extensible business model associated with its unique ecosystem
  - a visually differentiated device design that becomes the symbolic (or “trademark”) representation for a whole lifestyle experience that adds value to the user in multiple ways (functional and aesthetic)
    - Example: everyone recognizes a Blackberry as Blackberry device and associates it with (1) mobile business email, and (2) a Blackberry user type
    - Example: everyone recognizes an iPhone as an iPhone, and associates it with (1) Apple mobile apps, and (2) the Apple design cool factor
- An “elemental” device creates
  - a potentially very large, but temporary, user following
  - fits into a commoditized ecosystem

Device Lessons … Set #3

- Planning, designing and selling devices as stand-alone physical things **<u>without</u>** the tight integration into the larger lifestyle (ie., “elemental” devices”) means
  - o the device is <u>disposable</u> to the consumer when the device itself stops being a symbol for what it originally represented to users and others
  - o successful elemental device example: Motorola Razr
  - o contrast the Razr with the Blackberry
    - The Razr fits in the disposable category. It was very successful for a period of time, but represented to the user only itself as a lifestyle statement – it was not integrally part of a unique ecosystem separate from cellular service providers’ networks
    - The Blackberry fits in the iconic category. It was and still is very successful within its target market segment, and is expanding into new market segments. The physical device is identifiable by users and non-users, and represents the larger RIM service offering that powers its users’ lifestyles … still primarily email-based
  - o Most elemental devices never rise an iconic level for their users, whereas compound devices are iconic by definition
    - Elemental devices generally are perceived by their users as disposablyeutility devices

Device Lessons ... Set #4

- Planning, designing and selling devices as stand-alone physical things **with** the tight integration into the larger lifestyle (ie., "compound" devices") means
  - the device is disposable to the consumer when the device and the ecosystem of which it is integrally a part **both** stop providing the value they represent to users and others
  - successful compound device examples: iPhone, Blackberry

Device Lessons … Set #5

- To successfully introduce a “compound” (versus an elemental) handheld or mobile device
  - o introduce the device with simple, tight and imperative integration with software that
    - is resident on another device (PC/laptop, server, etc)
    - has an established installed and active user base
    - creates value for the demographic targets’ lifestyle
  - o if there is no pre-established and remotely-installed software base, release the software at the same time as the device
    - but the market acceptance curve may be longer
    - example: introduction of the iPod mp3 player at same time as iTunes software

Device Lessons … Set #6

- Interestingly, a cellular service provider's subscriber base and its system/software/services does not count towards the requirement for an installed user base and integral but external software, probably because that user base and software
  - are seen as interchangeable by consumers with other service providers
  - by definition work across multiple devices from multiple manufacturers, and so are not sufficiently tightly integrated to create a value-added ecosystem for a specific set of users of a differentiated device
- In other words, cellular service providers are interchangeable to the consumer ... their systems are not "sticky" in the context of creating a "compound" device

Device Lessons … Set #7

- Devices manufacturers can choose between
  - Elemental devices
  - Compound devices
- Neither type of device is necessarily better or worse, but
  - they reflect very different business models
  - require very different execution strategies, and
  - a device can fail if it is positioned to compete in the wrong category

Device Lessons … Set #8

- “Iconic” devices can be in either category
  - Iconic “elemental” device: Razr
  - Iconic “compound” devices: Blackberry, iPhone
- Smartphones can be in either category
  - “elemental” smartphones: Pre, Q, Blackjack, ...
  - “compound” smartphones: Blackberry
- Just adding non-proprietary features to a phone generally does not make it iconic or compound
  - widespread features with no iconic phone: camera, slider
  - counter-example: thin feature made the “Razr” iconic

Device Lessons … Set #9

- Application stores may <u>not</u> rise to the level of a unique ecosystem that adds sufficient value for the users' lifestyle for a number of reasons
  - mobile app stores come in many varieties, many of which do not add significant value to the device or to the user, based on many factors, including, poor selection of apps, difficult access, user-unfriendly design, difficult payment structure, etc.
  - many are designed as an option for the user, not an integral part of the device ecosystem - in other words, the device was designed primarily to function independently of the app store
- So, just adding the ability to access an application store to a mobile device will usually not make it "compound"

Device Lessons … Set #10

- An "elemental" device that is positioned to compete against a "compound" device is unlikely to succeed, at least at dislodging the compound device
  - "compound" devices are tightly integrated into a larger ecosystem that adds value to their users' lifestyles
  - an "elemental" device will not create the same value proposition for that user group, and has to convince the compound device's users to switch (1) devices, <u>and</u> (2) away from their preferred ecosystem of which the compound device is just the physical symbol

So, what about the Zune HD?

- The core attributes of the Zune HD may satisfy the "compound" device class requirements and market opportunity if
  - o the integration with a merger of xBox Live/Zune Marketplace is sufficiently simple, tight and imperative to leverage off the installed xBox 360 user base by providing those users with a strong value add to their lifestyle
- Otherwise, the Zune HD will likely fall into the category of "just another mp3 player trying to compete with the Apple iTunes devices"

And, what about the Palm Pre?

- The core attributes of the Pre do not satisfy the “compound” device class requirements, other than possibly the Pre application store
  - the Pre is unlikely to dislodge iPhone or Blackberry devices since those devices are “compound” ... they are already tightly integrated into a larger ecosystem that adds value to their users’ lifestyles
  - the Pre’s attempt to sync directly with iTunes is a recognition of its need to co-opt at least part of the ecosystem behind the iPhone, albeit that it also mixes messages in terms of whether the Pre is really a Blackberry competitor or an iPhone competitor (or, is it really trying to take them both on at once, because visually it is closer to a traditional Blackberry-style smartphone when the slider is open?)
- In the “elemental” category, it will be hard for the Pre to distinguish itself among qwerty-based keyboard smartphones
  - the Pre’s main visually differentiating feature is that it is vertically-oriented slider smartphone

Example follow-on questions

- Is a business model based on manufacturing branded elemental devices threatened by convergence in user lifestyles of functionality of their devices?

- Are there non-proprietary (or non-closed ecosystem) ways to boost “elemental” devices to the level of “compound” devices

- Are “compound” mobile devices inherently limited by size and/or duration of market acceptance?
  - for instance, does too large a user base create impossible hurdles for maintaining a “compound” device’s lifespan?
  - The answer to this may depend on the defining characteristics to the user of the value proposition offered by the compound device
    - If, for instance, “cutting edge cool” is a fundamental part of the value proposition, then too many users or too long a period on the market may undermine the value proposition to the point where that user base shifts away

About Yuvee

- Yuvee
  - develops and licenses advanced user interfaces and related device designs that make the mobile Internet and advanced mobile apps/data services effortless and immersive
  - provides advisory services in multiple areas relating to mobile and converged devices including
    - differentiated, physical and graphical user interface design
    - mobile and converged device design
    - innovation management processes (“IMP”) optimization
- Contact
  - Tim Higginson at (847) 962-1623 or info@yuvee.com
  - www.yuvee.com