Articles

Analysis - OS Players Jockey for Position

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by Keith Mallinson

If the example of operating systems and ecosystems for PCs is anything to go by, the corresponding markets in smartphones and tablets are still rather immature, fragmented and set for significant consolidation within the next few years. How many and which platforms will remain?

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The PC marketplace is dominated by Microsoft's Windows OS and its ecosystem of developers and OEM distributors. Since the 1980s, Microsoft has attracted the widest variety of applications from independent developers while also dominating with selfsupply for those most popular and lucrative such as its Office suite. Apple waned and most recently waxed with its unique Macintosh OS, user environment and cross-platform capabilities that also incorporate iPods and iPhones. Everything else disappeared without trace. Smartphone and tablet OSs and ecosystems also will whittle down to no more than a few commanding the vast majority of market share. Scale is as important as it is with PCs. Apple's iOS and Android are already universally accepted as No. 1 and No. 2. Apple is still the gold standard, but its carrier exclusivity – notably with no Verizon iPhone until now – provided the perfect alternative pathway for competitors Motorola and Samsung with Android. This is a high stakes game and even smartphone market leader Nokia has just folded with its choice of Windows Phone 7 over continuing with Symbian on its own or MeeGo in partnership with Intel.


Keith Mallinson

THE NOKIA WATERSHED

"The game has changed from a battle of devices to a war of ecosystems," Nokia's new CEO Stephen Elop told investors at a London press conference on Feb. 11, 2011. Economies of scope and scale in software development and distribution are increasing to the extent that Elop prefers to join forces with Microsoft by contributing billions of dollars worth of assets to the WP7 OS and ecosystem. According to Intel's CEO Paul Otellini, Nokia received an "incredible" amount of money from Microsoft and could not afford to invest what is needed by MeeGo to make it Nokia's primary platform.

As market leader with a successful legacy and plentiful access to capital, it is probably scarcity of time as much as financial considerations that drove Elop's decision. WP7 and its ecosystem are ready to go and MeeGo is not.

In a trice, Nokia has increased WP7's legitimacy and my desire to use it. My family "focus group" of five users includes two iPhones, one Samsung Galaxy, a couple of Symbian devices and my BlackBerry. My next phone purchase will be with WP7. However, I'll probably buy before Nokia has anything. Nokia has no time to lose in delivering products to market.

I've been telling Nokia to adopt Microsoft for years. For example, my November 2008 Wireless Week column states that Nokia's global enterprise strategy was "insufficient for success in North America where the brand is weak, low-end and nobody – let alone CIOs – uses Symbian S60. Adding Windows Mobile to Nokia's hardware would elevate its brand and foster enterprise device sales on 3GSM and CDMA2000." I was critical that "Nokia still lacks the commitment to do what is necessary to reconstruct following decline in North America." That move would have created a great beachhead for Elop's much bolder strategic decision to adopt WP7 much more broadly as the total replacement for Symbian. At an analyst briefing in Barcelona on Feb. 14, he told us there was no Plan B.

Driving wholesale prices below $100 also will be a major competitive factor in smartphones. This will cause explosive growth for the category in developing nations. This market is up for grabs. Nokia has scale, branding and distribution that will provide it with significant competitive strength there. One of the key issues in striking a deal with Microsoft was convincing Nokia it could reach "a very low price point." Android will surely target the lower tiers. So far, the iPhone is a one-size-for-all proposition like a high-end Model-T Ford.

AFTER APPLE AND ANDROID, EVERYBODY THINKS THEY'LL BE NO. 3

Elop suggests Nokia with WP7 is the third runner in a three-horse race, but others see things differently. Right now the three OS players Verizon sees for its network are Android, Apple and Research In Motion (RIM). HP's Palm acquisition brought it webOS with the latest products being the Pre3 smartphone and TouchPad tablet, but its ecosystem is weak in comparison to the others. And Intel's not giving up on being No. 3. "We will find another partner (for MeeGo)," Otellini said, according to a Reuters report. "The carriers still want a third ecosystem and the carriers want an open ecosystem, and that's the thing that drives our motivation."

Alternatively, several carriers are seeking to make applications development much less OS-specific. Wireless carriers are paranoid about being disintermediated and want to put themselves back in control. The Wholesale Applications Community (WAC), with 68 members including major named wireless carriers and technology vendors, aims to make it easier for developers to build applications that can readily be ported to a variety of operating systems and devices.

Developers currently have to adapt, test extensively and obtain approvals even when required changes are quite minor. Nice idea – this abstraction layer could elevate the commercial positions of carriers. But these kinds of consortia tend to fare poorly. Carriers and vendors are enormously conflicted when they also have direct deals and in some cases exclusives with Apple and other OEMs. The WAC is not conducive with strong and decisive action. It is no coincidence that Apple, with the most single-minded and vertically integrated solution, has fared best. Developers have gravitated to Apple's iOS and Google's Android because they have fertile developer communities with clear-cut and homogeneous requirements.

END GAME

My expectation is that at least a couple from among Microsoft, RIM, MeeGo and webOS will also either fold or join forces somehow. Microsoft still has enormous clout and trust from enterprises. RIM, its principle opponent there, is under significant pressures. Many enterprises remain unwilling or wary of embracing Apple, let alone Android, for reasons such as security. This should at least ensure the Microsoft-Nokia duo a kernel of strength. Beyond that, the identity or financial viability of the No. 5, No. 4 or even No. 3 player over an inevitably turbulent next five years is just too uncertain to call.

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