

Verizon big winner from having iPhone? Not so fast

Written by Administrator

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NEW YORK (AP) -- Verizon Wireless would seem to be a big winner now that it will start selling the iPhone and break Apple Inc.'s monogamous relationship with AT&T Inc. in the U.S. But for several reasons, the iPhone's arrival to Verizon is poorly timed, and Verizon's gains won't be as clear-cut as one might think. There's no doubt a Verizon iPhone will attract millions of buyers, and it will give the country's largest wireless carrier a chance to catch up with AT&T in attracting high-paying smart-phone customers. Since the iPhone's debut in 2007, AT&T has been its exclusive distributor in the U.S. Many people held off on getting one because they already had service with a carrier they liked or were apprehensive about congestion on AT&T's network, particularly in New York and San Francisco. On Tuesday, Verizon announced a deal with Apple to start selling iPhones on Feb. 10. Prices for the phones will be about the same as with AT&T. The iPhone is big business for AT&T: The carrier activated 11.1 million iPhones in the first nine months of 2010. Analysts now estimate Verizon will sell 5 million to 13 million iPhones this year, some coming from what AT&T would have sold. Many believe Verizon could sell more iPhones in the U.S. than AT&T this year, given pent-up demand from customers not wanting to switch to AT&T. Yet several factors may give prospective Verizon iPhone buyers pause.

The first Verizon iPhone will only work on the older, "3G" network. That network has wide coverage, excellent reliability and less congestion than AT&T's, but data speeds are much slower than new "4G" networks both AT&T and Verizon are building. You also can't talk and surf at the same time with Verizon 3G phones.

Also, Apple has been launching a new iPhone model every summer. Presumably, an iPhone 5 is coming this year. But Apple won't say whether Verizon would get it. Verizon may have to wait until next January, if it's on the same one-year upgrade cycle that AT&T has been on. That would give AT&T a head start.

Most importantly, cell phone companies do their best to tie subscribers up with contracts. AT&T executives last year stressed to investors that most of their iPhone users are on family and employer plans - more difficult for an individual to switch from.

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"The consensus is that AT&T is reasonably well-prepared for Verizon's iPhone onslaught ... for now," said Sanford Bernstein analyst Craig Moffett.

For this reason, John Hodulik at UBS expects that 77 percent of his estimated 13 million Verizon iPhones this year will go to current Verizon subscribers, rather than new ones. That's a concern because Verizon has to subsidize the cost of each iPhone, hoping to make it up through service fees over time.

Verizon will essentially be paying heavily to upgrade its own subscribers. Hodulik figures that even with the iPhone's boost to service revenue, iPhone subsidies will reduce Verizon earnings this year by a net 15 cents per share, or about \$425 million.

Still, analysts don't expect the Verizon iPhone to affect stock prices much, reasoning that investors have already factored in the news.

Verizon Wireless is a joint venture of Verizon Communications Inc. of New York and Vodafone Group PLC of Britain. Since mid-July, Verizon Communications' stock has gained 40 percent, while AT&T's has gained 20 percent.

Analyst vary widely in their estimates of how many AT&T iPhone users will jump ship: Christopher King of Stifel Nicolaus thinks as many as 6 million will flee to Verizon over two years, while James Ratcliffe at Barclay's expects just 1 million this year.

Hodulik says AT&T will actually benefit in the short term from paying fewer subsidies, saving about 10 cents per share, or about \$590 million, this year.

The No. 3 and No. 4 carriers in the U.S., Sprint Nextel Corp. and T-Mobile USA, may have as much to lose from a Verizon iPhone than AT&T. They won't have iPhones of their own and will face the added competition from Verizon's model. Sprint recently started reversing a multi-year subscriber loss, but its recovery is still tentative, and T-Mobile's subscriber figures are stagnating.

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Other potential losers are Google Inc. and Motorola Mobility Inc. To counter the iPhone's popularity, Verizon has worked closely with Google to promote its Android phone operating system. Motorola was one of the main beneficiaries, having bet on Android phones to turn around a multi-year slide in its sales. Verizon now accounts for about 45 percent of Motorola's smart phone sales, according to analyst Tim Long at BMO Capital Markets.

The Verizon iPhone "will be the first true test for Android," Kaufman analyst Shaw Wu said. It will demonstrate whether gains in its market share are real or just temporary, stemming from weak competition from other iPhone rivals such as the BlackBerry, he said.

The biggest winner will be Apple. With the benefit of hindsight, the tie-up with AT&T was a strategic mistake.

Cell phone makers often give U.S. carriers exclusive rights to sell a model, but usually only for six months or so. Apple signed a multi-year contract with AT&T, probably so AT&T would carry a phone that broke many industry rules. Apple had complete control over the software on the phone, and it was linked to Apple's music and video stores, not AT&T's. When the App Store came along a year later, that was completely controlled by Apple as well.

But AT&T exclusivity limited sales in the U.S., both because many people are tied to other carriers, and because AT&T's network buckled under the onslaught of data-hungry iPhone users.

Apple didn't sign multi-year exclusivity deals in other countries, and the U.S. is now one of few countries to have a single iPhone carrier. In just weeks, even that distinction will end.