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#41 *Livin' the WiFi LifeStyle: the iPod Bows to the Router*

Here's an interesting bit of data from the wild: 8 out of 10 folks that own both an iPod and a wireless router would give up their cool music tool before they'd do without their boring, clunky router. The same percentage of those sampled would also give up their home phone before they'd sacrifice their ability to surf the Web from their favorite couch. The data can be found in a [survey](#) conducted by Kelson Research for the [WiFi Alliance](#), the consortium that promotes IEEE WiFi 802.11 standards and, more importantly, certifies compliance with them as well.

Surprised? Don't be, because the iPod/iTunes system comprises a closed, proprietary environment, while WiFi products are based on a continuously evolving family of open standards, and that makes a far bigger difference than you might imagine.

If this sounds like too simplistic an explanation, consider this:

Let's look at the numbers first (gross sales and rate of change). What we see is that there are many, many more wireless-enabled devices in the field than there are iPods. According to research analyst [In-Stat](#), wireless chipset sales [hit 140 million](#) last year, and should reach 430 million per year in 2009, by which time there should already be over a billion chipsets in active use. 40 million of the chipsets sold last year found their way into home and small office/home office (SOHO) routers, and another 45 million into laptops and other mobile PCs. That leaves roughly 55 million more to be incorporated into phones and other mobile devices. Moreover, that 140 million number was up 50% from the year before.

In contrast, another analyst (UBS Investment Research) [expects iPod sales](#) to come in about a million units under projection this year, with about 39.8 million new iPods being bought in 2006, and a flattening in iPod sales growth after rapid expansion in prior years.

While comparing music players and mobile Internet access points is not a totally fair comparison, the ability of WiFi to achieve such dramatically larger sales numbers is still instructive, since few new capabilities of any kind enjoy such explosive growth. When they do, though, it's often because they are based on open standards, and from two resulting, related effects: the ability and likelihood of multiple vendors to build new products, because the standard upon which the new products are based is open, and the tempting size of the market demand that can rapidly evolve because of the rich selection of competing products. The result is sometimes referred to as a "virtuous cycle" of incentives and rewards to both sides of the sales equation.

With that as an introduction, let's take a look at the WiFi marketplace, which is shared by many competitors, and the portable digital music play niche, which is dominated by the iPod and iTunes, a commercial combo that has delivered Apple the highest quarterly earnings in its history.

First, it is worthwhile noting that there are also very successful players in the WiFi space (such as Linksys), a result made possible in part by the fact that multiple competitors have developed diverse WiFi-based products and services, allowing for more than a single company to achieve success. We can assume that one reason this is true is because the WiFi wireless market is based on open standards,

while the mobile music market includes several controlled formats - the most popular of which is not available for license.

As one measure of comparison to drive home this point, the WiFi Alliance has over 250 members, including hardware, software, silicon, consumer electronic, and other vendors (you can see a list [here](#), but be prepared for a long scroll). While it's true that the dynamics of most IEEE 802.11 working groups are highly competitive (to put it mildly), the standards these committees set out to develop have thus far all been finally approved (unlike the abandoned [UWB project](#)), after which everyone works hard to get them widely adopted.

Of course, in the case of the iPod, "everyone" (other than Apple) is a competitor at the format as well as the product level, unless they're making iPod accessories. As a result, the products, services, advertising, promotion and ingenuity dedicated to making the iPod more attractive and more useful are limited, while there are hundreds of companies, from the largest to the smallest companies in many industries, that are all working to tout the WiFi value proposition.

Next, it must be noted that not everyone is willing to buy into a proprietary system that traps the customer more thoroughly (just as Apple intends) with every iTunes she buys. And while Apple is incredibly creative in what it designs, an iPod owner's ability to satisfy her appetite for new techno delights is still limited to the candy that Apple decides to offer her. If the iTunes format was not proprietary, other vendors could challenge Apple more effectively on price, features, and design - and anyone could play songs purchased from iTunes (or elsewhere) on those other wares as well.

But most of all, the rewards of buying a WiFi-enabled system continue to multiply exponentially, while the value of buying into the iTunes system can, at best, increase arithmetically as the stock of iTunes is expanded. Why? Because you can still only listen to an iTunes on an iPod, or on another Apple product. With WiFi, the standard is available to anyone, and therefore everyone is making use of it. Not only are multiple chipset makers churning out price-competitive chips, but hardware makers automatically include those chipsets in almost all (90%) of the laptops they ship.

Similarly, Starbucks offers WiFi access in order to sell more lattes, and entire cities, like Boston, plan on providing free, universal WiFi access for the benefit of their citizens, in order to polish the city's image, and thereby boost the local economy through competing more effectively in the ongoing competition to attract employers and talent. In short, the popularity of WiFi encourages multiple constituencies to invest in providing access, and to reap the indirect benefits that such an investment can provide. You can't do anything comparable to that with an iTunes, nor would you want to (why invest in what you cannot control?)

Still, this is just the beginning. The home is on the verge of becoming [pervasively enabled](#) with wireless capabilities, and wireless mobile devices of all types continue to proliferate. That's where those extra 300 million chipsets per year will be going by 2009.

There is another lesson to be drawn from the wireless example that helps to explain why someone could be more strongly attached to their humble router than to their sexy iPod. Let's call it the rise of the "WiFi Lifestyle." True, you won't find any striking ads on billboards of wildly gyrating silhouettes holding laptops, and it's doubtful that a Dell would be the best accessory to take to a trendy club in any event. But just as white ear buds score high on the teenager index of cool, freedom of access to the Internet has huge appeal to all ages when it comes to how they want to live their lives today. More and more, we want, and expect to have, ready access to an exploding range of information, services, games and more from the Internet, wherever we may be.

As a result, the perceived value of having always-on Internet capability becomes greater on a daily basis, while an iPod remains just an attractively designed, not very durable, rather expensive, and regularly obsolete music box. In short, a music box that will never provide more value to you in the future than it delivered on the day that you bought it.

That's the more obviously germane part of my last point. The more subtle (and to me, interesting) part of my lifestyle point is this: the actual value of any single WiFi access point to us is not, in fact, all that great. We could easily live without Internet access at any particular Starbucks, or even lose it at home entirely (after all, we could always pull our chair closer to the cable jack). But we are placing an increasingly high value on being surrounded by wireless access wherever we may be. Wherever we are, we want it, and that's it – because we've bought into the *WiFi Lifestyle*.

While it's doubtful that many of the 8 out of 10 respondents in the survey realize that their affection for their home router is based more on a lifestyle decision than their affection for surfing the Web from the couch, I'm pretty confident that this is what explains the Kelson Research survey results.

All of which provides yet another splendid example of how an open standard makes participation in the creation of a new network attractive and profitable, thereby enabling a logarithmic increase in innovation, implementation, value and customer appeal. This "network effect" has been recognized at least since the advent of the railroads, and it is becoming a bigger and bigger reality in our world today, because networks of all sorts are becoming essential to virtually everything that we do.

What does this say about the future of the newly-renascent Apple Computer? I think it's possible that the iPod may represent the high-water mark of that company's proprietary design strategy. With the market's ever-increasing expectations for interoperability, and even governments (such as in France) threatening to restrict the sale of music in the proprietary iTunes format, Steve Jobs may find himself on the verge of being forced to compete on design alone, even as his Company enjoys historical highs in its sales.

The good news for Steve is that, given Apple's chops in the design department, I'd guess that Apple's future will be far rosier when, as and if he ever gets through that knothole.

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