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Apple: One Step Forward, Two Steps Back!

There has been a lot said about the iPhone 4's antenna design problems over the past few weeks (dubbed Antennagate), including a high profile confirmation of those complaining about problematic antenna/signal issues by Consumer Reports. Apple finally responded to weeks of rumors and stories in the press about the iPhone 4's problems (and Apple denials) by calling a press conference, at which Steve Jobs delivered some key messages: that only .55% of all purchasers have called AppleCare to complain, that return rates of the device is 1.7%, and that the iPhone 4 only drops under 1 in 100 more calls than the iPhone 3GS. In the press conference, Apple also said that its phones were no worse than the rest of the industry and specifically singled out BlackBerry Bold 9700, HTC Droid Eris and Samsung Omnia II devices to show how the laws of physics cause those devices to lose signal as well when you hold them in a "death grip". Only after all that, did Steve Jobs announce that Apple loves its customers, and was willing to give them free cases to alleviate the problem they are experiencing with the antenna on the iPhone 4, even though he doesn't think there is a problem. Let's take a closer look at what transpired.

First, Apple did the right thing by giving out cases. It's a low cost fix at \$1-\$2 per user times the 3M+ users, so it may cost Apple upwards of \$6M, but this is a very modest sum to solve such a problem (much less than the hit the stock took or the bad press value), and many iPhone 4 users may not even ask for a case. The free cases will help stem the anger over the seemingly arrogant stance of the company towards people who have real problems with their devices, even if it is a small number (of course even if it's only .55% of 3M+ users, its still a large number). But why did it take 22 days, the time Jobs admitted they "knew" about this problem, to "study" it before helping its users out with a fix that many had already discovered how to solve? This problem has been visible for some time, and Apple could have fixed this far earlier and avoided all this bad press. And of course, why did AT&T, who tests all of its devices extensively before offering them for sale on its network, not also get called out on this problem? They had to have known about it, especially since no doubt they received many more complaint calls from their customers than Apple did.

Second, what was really interesting in listening to Jobs speak was the he spent the vast majority of time talking about how good the iPhone 4 is, even saying it is the world's best smartphone. But then he compared the antenna problem to competitor's devices saying everyone in the industry has this problem. Yes, physics is physics and radio waves are hard to control, but none of the phones he demonstrated have had the same problem in the marketplace, and none have been called unacceptable by Consumer Reports. Apple claims to be much better than everyone else in

the industry and the only one to do it the right way. Sorry, Steve, but you can't have it both ways. Yes, all phones in weak signal areas have issues to a greater or lesser extent. But they don't claim to be perfect and the best phone ever invented. It was pretty predictable that Jobs would try to defend his baby from ridicule, but he and Apple brought much of this on themselves by not acknowledging the problem and doing the right thing sooner. Further, we have not seen any so called "Antennagate" problems with any of the other devices he mentioned. This was clearly an attempt to deflect pressure away from Apple by claiming all antennas suffer problems, when the truth is that other vendor's devices may have signal degradation when put into a "death grip", but do they drop calls like the iPhone does? There is no indication that they do.

Third, while Jobs spent a good deal of time talking about the dropped calls issue, he completely ignored the data side of the equation. The more severe problem for many users is what the signal degradation does to the data rates when you are trying to do YouTube or surf the web. Voice calls are more forgiving than trying to maintain reasonable speed data connections. He said nothing about that, and surprisingly no questions were asked about that either. Even minor degradation of signals, whether because they are weak or because they are affected by antenna loss, will have major implications for downloading emails or looking at Facebook pages. It would have been good to get some input here on how the antenna issues affected this performance.

Finally, and extremely importantly, we must take a closer look at the dropped call rates issue. Jobs said that the iPhone 4 had more dropped calls than the iPhone 3GS, but it was less than 1 more call per hundred. For rounding purposes, let's assume it's 1%. So iPhone 4 has 1% more dropped calls on the network. Normal call drop rates on networks are 2%-4%, and vary by network and location (see ChangeWave Research for actual end user survey data on call drops). So if iPhone 4 is adding 1% to dropped calls, then it's increasing dropped calls by 25% to 50% over the iPhone 3GS. That's a huge jump in dropped calls and highly significant. This should not be ignored, as it indicates a potentially significant end user satisfaction problem, further compounding the issue for both Apple and AT&T.

Bottom Line: While the majority of iPhone 4 users seem to be happy with their devices, that is no excuse for Apple to have obfuscated the antenna problems that created issues for users particularly in weak signal areas. And the use of statistics when "spun" differently, show that iPhone 4's actually do cause significant degradation in calling and substantially increase dropped calls. Finally, comparing "Apples to BlackBerries" is not a viable way to look at whether your device is doing the right thing for your users. Apple needs to do better and acknowledge when there is a problem to keep its customers happy long term. Otherwise, while it may not lose its most loyal fan base, those customers who may be looking at iPhone because of its reputation could easily be swayed at looking at competing devices.

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For more in-depth comments or analysis on this or other subjects, feel free to contact us.

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