

**Bressler Decl. In Support of  
Apple's Opp. to Samsung's  
Mot. For Summary  
Judgment**

**Ex. 19**



John Dvorak's Second Opinion



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## Apple should pull the plug on the iPhone

### Commentary: Company risks its reputation in competitive business

By John C. Dvorak

**BERKELEY (MarketWatch) -- The hype over the unreleased iPhone has actually increased over the past month despite the fact that nobody has seen or used the device. This, if nothing else, proves the power of branding and especially the power of brand loyalty.**

It's the loyalists who keep promoting this device as if it is going to be anything other than another phone in a crowded market. And it's exactly the crowded-market aspect of this that analysts seem to be ignoring.

Apple Inc.'s (NASDAQ:AAPL) past successes have been in markets that were emerging or moribund. Its biggest hit has been the iPod. But let's examine what happened here.

First the MP3 player business was segmented and unfocused with numerous players making a lot of cheap junk and not doing much to market any of it.

Apple does what? Advertise. Gosh, what a concept.

Then there was the online music distribution business, again unfocused and out-of-control with little marketing and a lot of incompatible technologies. So Apple comes in with a reasonable solution, links it to the heavily promoted iPod and bingo. A winner.

It advertises on TV, on billboards and on the Internet. Within no time the company takes over the business that would probably still be languishing without Apple.

Thus Apple does what it does best. It produces a jazzy product and promotes it like any good business should do. And in the process manages to get a high margin.

This is nothing more than the fundamentals.

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AAPL **618.63**, +19.08, +3.18%

**AAPL**

Now compare that effort and overlay the mobile handset business. This is not an emerging business. In fact it's gone so far that it's in the process of consolidation with probably two players dominating everything, Nokia Corp. (NYSE:NOK) and Motorola Inc. (NYSE:MSI)

During this phase of a market margins are incredibly thin so that the small fry cannot compete without losing a lot of money.

As for advertising and expensive marketing this is nothing like Apple has ever stepped into. It's a buzz saw waiting to chop up newbies

The problem here is that while Apple can play the fashion game as well as any company, there is no evidence that it can play it fast enough. These phones go in and out of style so fast that unless Apple has half a dozen variants in the pipeline, its phone, even if immediately successful, will be passé within 3 months.

There is no likelihood that Apple can be successful in a business this competitive. Even in the business where it is a clear pioneer, the personal computer, it had to compete with Microsoft and can only sustain a 5% market share.

And its survival in the computer business relies on good margins. Those margins cannot exist in the mobile handset business for more than 15 minutes.

And note that the Microsoft Corp. (NASDAQ:MSFT) versus Apple battles are laughable compared to the frenzied marketing mania in the handset business. Even Microsoft itself has troubles with its attempts to get into a small sub segment of the handset business with its operating system.

What Apple risks here is its reputation as a hot company that can do no wrong. If it's smart it will call the iPhone a "reference design" and pass it to some suckers to build with someone else's marketing budget. Then it can wash its hands of any marketplace failures.

It should do that immediately before it's too late. Samsung Electronics Ltd. (OTN:SSNGY) might be a candidate. Otherwise I'd advise you to cover your eyes. You're not going to like what you'll see.

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