

APPLE COUP

How Steve Jobs Played Hardball In iPhone Birth

In Deal With Cingular He Called The Shots; Flirting With Verizon

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Steve Jobs

During a visit to Las Vegas last December for a rodeo event, Cingular Wireless chief executive Stan Sigman received a welcome guest: Steve Jobs.

The **Apple** Inc. chief stopped by Mr. Sigman's Four Seasons hotel suite to show off the iPhone, a sleek cellphone designed to surf the Web and double as an iPod music player.

The phone had been in development by Apple and Cingular for two years and was weeks away from being revealed to the world. And yet this was the first time Mr. Sigman got to see it. For three hours, Mr. Jobs played with the device, with its touch-screen that allows users to view contacts, dial numbers and flip through photos with the swipe of a finger. Mr. Sigman looked on in awe, according to a person familiar with the meeting.

The Wall Street Journal's Amol Sharma says Apple's new iPhone will enter a crowded market for sophisticated cellphones that have entertainment and Web capabilities.

Behind the scenes in the making of the iPhone, Apple bucked the rules of the cellphone industry by wresting control away from the normally powerful wireless carriers. These service providers usually hold enormous sway over how phones are developed and marketed -- controlling every detail from processing power to the various features that come with the phone.

Not so with Apple and Cingular. Only three executives at the carrier, which is now the wireless unit of **AT&T** Inc., got to see the iPhone before it was announced. Cingular agreed to leave its brand off the body of the phone. Upsetting some Cingular insiders, it also abandoned its usual insistence that phone makers carry its software for Web surfing, ringtones and other services. The deal also calls for Cingular to share with Apple a portion of the monthly revenues from subscribers, a person familiar with the matter says.

In another break with standard practice, the iPhone will have an exclusive retail network: The partners are making it available only through Cingular and Apple stores, as well as both companies' Web sites.

Mr. Jobs once referred to telecom operators as "orifices" that other companies, including phone makers, must go through to reach consumers. While meeting with Cingular and other wireless operators he often reminded them of his view, dismissing them as commodities and telling them that they would never understand the Web and entertainment industry the way Apple did, a person familiar with the talks says.

Mr. Jobs flirted with other titans of the wireless industry but not everyone wanted to play ball. Talks with Verizon Wireless fell through. Mr. Sigman and other top Cingular executives were willing to cede control to Mr. Jobs and tolerate his digs at cellphone carriers, all for the privilege of being the exclusive U.S. provider of one of the most highly anticipated consumer electronics devices in years -- and to deny rivals a chance to do the same, according to people with knowledge of the situation.

Cingular and Apple declined to make executives available to comment for this story.

Mr. Jobs is famous for making a splash with new products that upend industry models. Several years ago, he personally lobbied music industry executives and obtained licenses for songs that gave Apple the flexibility to build its successful iTunes store.

Apple eyed the cellphone market as both an opportunity to expand its iPod business and, if ignored, a potential threat to the company, people familiar with its strategy say. Cellphones are gradually offering more sophisticated capabilities and features, including increased storage capacity and entertainment functions. That stands to make them more competitive with iPods over time. Already, music phones like Samsung Electronics Co.'s BlackJack, Sony Ericsson's Walkman models and LG Electronic Inc.'s Chocolate are edging onto Apple's turf.

The iPhone is Apple's second attempt to bring a music phone to market. In 2004, **Motorola** and Apple announced they would launch a phone that could play iTunes songs. Motorola even said it would put iTunes software on all of Motorola's mass-market phones.

But the Motorola ROKR, released in the fall of 2005 and carried exclusively by Cingular, was a huge disappointment for Apple executives. As design aficionados, they weren't impressed with the shape of the phone and felt the interface was clunky, according to people familiar with Apple's thinking.

Apple shifted gears in 2005. By then, executives were convinced that the company would have to build a handset on its own if it was serious about the cellphone market, according to people familiar with the matter. Though Apple

backed the Motorola phone through its launch, it had already begun exploring other options.

Motorola spokesman Alan Buddendeck says the company's partnership with Apple was a "good learning experience" for the handset maker. Motorola still sells some models with iTunes software.

In early 2005, Mr. Jobs called Mr. Sigman to pitch the initial concept of the iPhone. The two executives later met in New York, and agreed to pursue the idea.

Mr. Sigman is a Texan who wears cowboy boots and business suits, while Mr. Jobs is a former hippie who sports black turtlenecks and jeans. Despite their vastly different styles, the two executives found common ground. Over the next year and a half, the two sides negotiated to reach an agreement that would make sense for both of them.



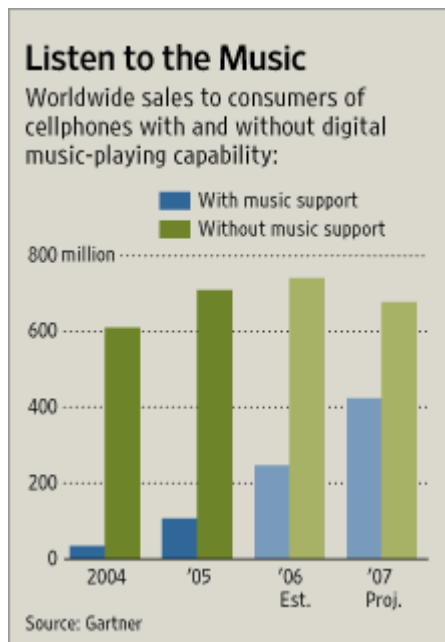
Stan Sigman

Glenn Lurie, Cingular's president of national distribution, and Apple's Eddy Cue, who runs iTunes and had experience on the ROKR project, spoke and exchanged emails daily. Cingular's chief operating officer at the time, Ralph de la Vega, who is now an AT&T executive, also weighed in heavily.

Mr. Jobs played hardball. He pointed to statistics showing that carriers' traditional voice revenues were declining. But he also made a compelling argument: He said that Apple could help Cingular capitalize on the Internet, people familiar with the discussions say.

Early on, both sides determined it would be a bad idea for Apple to offer its own cellphone service, leasing access to Cingular's network. Even though Virgin Mobile USA and other startup cellphone operators were using that method with some success, Mr. Jobs was cautious. He viewed the cellphone business as an

unforgiving one, where carriers are blamed for network problems and overwhelmed by customer complaints.



Instead, he wanted to focus on building a good handset. Cingular, realizing that Motorola's device "didn't feel like an Apple phone," according to one executive involved in handset decisions, was willing to give Mr. Jobs room to come up with something.

Apple assembled a development team to build the iPhone that quickly mushroomed into

hundreds of people. Mr. Jobs worked closely with Jonathan Ive, the design guru at Apple who was responsible for the look of the iPod and other products, to come up with a head-turning design for the iPhone.

Mr. Jobs was adamant from the start that the centerpiece should be a touch-sensitive screen. He deplored the keyboards on portable email devices like **Research in Motion** Ltd.'s BlackBerry and **Palm** Inc.'s Treo, since they hogged up much so much surface area. A large touch-screen, on the other hand, would free up space to view movies and photos.

At one point, Mr. Jobs got a call from one of the iPhone engineers with an idea: Why not allow iPhone users to navigate through both song collections and contacts stored on the device by simply flicking their fingers up and down across the surface of the touch-screen? The engineer gave Mr. Jobs a demonstration of the technology, and the Apple chief executive signed off on it immediately, according to a person familiar with the process.

While Mr. Jobs considered Cingular a logical choice as a partner to carry the device -- its GSM technology is the prevailing standard in much of the world -- Apple continued to shop its ideas to other carriers. Mr. Jobs reached out to Verizon Wireless chief executive Denny Strigl in the middle of 2005 and proposed a partnership with the carrier, a joint venture of **Verizon Communications** Inc. and **Vodafone Group** PLC. The companies held a few discussions over the next year, but the talks eventually soured.

There were a few sticking points. Verizon balked at the notion of cutting out its big retail partners, like **Circuit City**, who would not be allowed to sell the phone. And the company's chief marketing officer, John Stratton, was firm that Verizon wouldn't give up its ability to sell content like music and videos through its proprietary V Cast service, people familiar with the discussions say. A Verizon spokesman declined to comment.

With Verizon out of the picture, Apple's talks with Cingular accelerated. In July 2006, the two companies finalized a deal after 30 hours of negotiations over two days, a person familiar with the discussions says. This person adds that for Mr. Lurie and Mr. Cue, who drew up the final agreement, it was an anticlimactic moment: Plans for the iPhone would have to be kept secret for another six months.

A New Race
Handset manufacturers are already announcing phone models that closely resemble Apple's iPhone and include similar features, such as touch-sensitive screens.

	Apple iPhone	LG Prada	Samsung F700
Screen size:	3.5"	3.0"	2.78"
Screen resolution:	480 x 320	400 x 240	440 x 240
Operating system:	OS X	Macromedia Flash UI	Flash UI
Storage:	4 GB or 8GB	External (Micro SD)*	External (Micro SD)*
Weight:	4.8 ounces	3 ounces	N.A.
Price:	\$499 for 4 GB	About \$775	N.A.

Sources: the companies; industry research *Unknown on-board memory

Usually, carriers catch more than a glimpse of the products their handset partners are working on. They get to provide input on what applications or features might make the device more marketable.

Not this time. Several small teams within Cingular worked on the project, but each handled its own specific task without knowing what the other teams were up to. Employees had code-names for the project to avoid mentioning Apple by name, says a person familiar with the matter.

Cingular sent a team of technical personnel to Apple's offices to test the device, making it sure it would work on the carrier's network. That rigorous process is normal for the release of any phone. But this time, technicians weren't allowed to handle or see the actual phone. Instead, they were given access to a dummy version that would only allow them to do the necessary network tests.

In January, Mr. Jobs finally unveiled the phone at Macworld, the conference he has used to launch such key products as the iPod mini. Since then, the two companies have continued to test the iPhone at an undisclosed facility, a person familiar with the matter said. The handful of Cingular people who have access to the sample phones at the company's headquarters were required to sign confidentiality agreements, a person familiar with matter says.

Meanwhile, competitors already are responding. Samsung and LG both have announced phones in recent weeks with designs that look similar to the iPhone.

Apple has said it intends to sell 10 million of the devices by 2008, with price tags for two different versions set steeply at \$499 and \$599.

Cingular, which has more than 60 million customers, hopes the iPhone will give it a lift when it hits stores in June, at a time when attracting new subscribers is getting more difficult for all operators.

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