Is the U.S. Consumer Market Poised for Takeoff?

At issue: Recently, three consumer-oriented wireless devices emerged almost simultaneously — the Handspring Treo, the Gitwit phone "skin," and the Danger Hiptop PDA platform. Danger and Gitwit both got substantial VC investment as well. Are these wireless consumer offerings evidence that the U.S. consumer wireless market will at long last take off in 2002?

MO SAYS: I'd answer with a qualified yes. Almost exactly one year ago Scout Electromedia came out with its consumer-oriented Modo device. The device met with a lot of optimism in the industry but then suddenly tanked. It was a cool gadget, but it lacked two things: broad applicability (it offered strictly city-guide information) and a sustainable revenue model (users paid a one-time $99 fee for the phone with a lifetime of free service).

The industry's learned a lot since then. Although at first look they seem to be simply device vendors, both Gitwit and Danger have built their revenue models on services first and foremost. They also both offer devices adaptable to a variety of uses. And, priced somewhere in the $200 range with wireless connectivity out of the box, I expect they'll have some appeal when they launch in mid-2002.

So, yes, the emergence of these devices does flag the beginnings of a U.S. consumer wireless market.

However, given the size of these companies, their lack of sway with retailers and carriers, and the reluctance among carriers to mass-market consumer offerings, it's unlikely these particular players will be able to kick-start mass adoption. Rather, by building healthy but small niche markets, they'll prove that consumers – and especially the youth segment – are ready for wireless. And, by 2003, more substantial players will move in to fuel true mass-market uptake.

Handspring is certainly moving in that direction, although its latest step – the Treo communicator family – is still sticking a bit too close to its conservative Palm roots (including the $400 price point) to attract much mass-market interest. Yet if it continues to adapt beyond its traditional format, Handspring, with its retail and carrier partnerships and industry clout, could be in a position to pick up where the Gitwits and Dangers leave off.

Despite the current state of the economy, the consumer wireless market is ripe for a company that's got its strategy right. But with few established players willing to take the risk in today's climate, it'll take a few daring newcomers to set the stage.

GALEN SAYS: No, the timing's wrong for the consumer market. I agree with you that these devices certainly look compelling, as any successful consumer product should: I've seen people's eyes light up when they first see the Treo and Danger, for example. The companies involved have gotten the "must-have toy" aspect right. And the Treo is certainly in the best position to lead in this category.

But I believe that even if these devices find buyers, those buyers will quickly find that their cool gadgets won't be so cool a few months later. Why? Because the part that gives them long-term value is wireless connectivity and the associated mobile services. And the U.S. is in no position to provide either the connectivity or the services at a mass-market level this coming year. It'll be lucky to have sufficient connectivity and applications even for specific enterprise uses, even though business-oriented carriers like Nextel have spent much of 2001 setting up the developers and infrastructure to support wireless applications for industries like construction and logistics.

For there to be a strong consumer wireless-device market, there have to be enough compelling, useful, and available applications and services to access from those devices. And that means the carriers have to have the data networks up and running and the ability to deliver the services. That requires billing systems and models, content management systems and models, revenue-sharing models, and so forth – which have been slow to develop. The word from the carriers seems to be that 2002 is the year they slowly roll out 2.5G and 3G Lite networks with the goal of national systems in 2003. Maybe they'll get the back-end systems in place for the data offerings at the same time. But I expect that to trail into late 2003.

So that leaves adopters of the wireless devices with whizzy toys that basically won't be more than fancy PDAs or phones. Except for the tech-thirsty early adopters, consumers may look but they won't buy.

Each issue, Editor in Chief Mo Marshall and Editor Galen Gruman debate a key mobile strategy question. Send us your views at letters@mbusinessdaily.com