



Hunting the iPhone killer: Swedish Neonode generates buzz for device

By [jscarbo](#) April 7, 2007

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Conventional wisdom has it that since early January, every handset vendor and carrier has scrambled for an answer to the you-know-who phone, due in June. Regardless of the handicapping already taking place—who wins, who loses?—Apple Inc.'s iPhone has contributed to a shift in the wireless industry's focus.

Suddenly, a device's usability is paramount. Cool? Doh! Make it usable, even fun to play with. What a concept!

Of course, this thought is neither original nor new, but the appearance of a charmer from another industry has rekindled

Given product development, manufacturing and testing cycles, however, anyone's answer to Apple Inc.'s iPhone may be lucky to land on shelves in time for fourth-quarter, seasonal sales.

iPhone killer?

What's out there now, capable of slaying a charming Goliath?

Many have observed that in some respects, the iPhone simply incorporates technologies such as the touchscreen that have been in use in handheld devices for some time. Repositioning one's product to leverage the buzz created by Apple's entry into the market surely has handset vendors' marketing and advertising departments working as furiously as their R&D teams. And it's not as if a number of vendors haven't already brought to market products long in development prior to the Apple that dropped onto industry's head.

To analyst Rob Enderle, principal at the Enderle Group, the recently announced Prada phone from LG Electronics Co. Ltd. and the Ultra F700 handset from Samsung Electronics Co. Ltd. are contenders in this latter category. Sure, Nokia Corp., Motorola Inc. and Sony Ericsson Mobile Communications L.P. can point to their portfolio with arguments for other contenders. Yet, Enderle said, another device-the N2 from Neonode Inc.-is the strongest contender for the title of "iPhone killer," a phrase the analyst may have coined.

It is a mantle any company would love to be associated with, and this tiny Swedish firm, which has toiled for six years on the margins of the industry, grabbed Enderle's remark and ran with it at CTIA Wireless 2007, meeting with anyone who would listen.

"They've come out with a kick-ass device," Enderle said. "But they're not a company that can scale up to meet demand for a hot phone. They're not a Motorola or a Nokia. This could lend itself to an even higher exclusivity dividend than the iPhone, though. These sorts of devices typically drive change."

According to Enderle, if the N2 device is successful, Neonode may need to partner with a manufacturer that can fund and deliver the device, the company could license its technology to a larger player, or it could present an attractive acquisition to one of the Goliaths ruling the industry.

That's one whopping "if." Especially because small, innovative companies tend to ride a dizzying rollercoaster of great ideas and the ups-and-downs of practical demands (read: money, partners and scale) endemic to a global industry.

The scoop

Who the heck is Neonode and what does the N2 offer?

The company began in 2001 when Magnus Goertz, inventor, co-founder and chairman, sold one company and set his sights on creating an innovative wireless device. By the end of the following year, the N1 was announced in prototype, but 18 months passed before a limited number of the GSM devices were available online. The small device featured a screen and no keypad. Instead of a pressure-sensitive touchscreen, the screen reacts to the intuitive passage of a finger over the

out ham-fingered miscues.

Suffice it to say, years passed without a market breakthrough as a tri-band model came and went. Fast forward to the 3GSM World Congress in February: The company presented its N2, a quad-band GSM/GPRS device running a version of Windows Mobile with a customized user interface that preserved the initial screen innovation. In March, Mikael Hagman came aboard as CEO and president, after eight years as CEO of Sony Corp. in Sweden and Finland.

Hagman said that the Neonode team met with carriers, device manufacturers and distributors at CTIA last month and is readying a market plan for the United States. The N2 is aimed at consumers and its one-hand, one-thumb use continues to be its main selling point. Hagman said market studies reveal the strongest interest in the device's form factor and function among young women. The small, light device plays MP3s, uses a miniSD card for storage, offers SMS, MMS, a Bluetooth connection, a 2-megapixel camera and four hours of talk time. (The device also offers a Web Radio Recorder client that downloads music via a PC.) This reporter did not explore all the device's functions and analysts who have remain scarce. The device will sell for about \$533 (including 18 percent tax) in Europe, placing it squarely in the high tier. U.S. pricing remains to be seen, likely dependent on whether it launches independently as an unlocked device or gets a carrier deal and subsidy. In Europe, only Greece-based distributor MyPhone has stepped forward in an announced distribution and bulk-purchase agreement.

Financial details

Thus great idea meets market reality. What about financing?

Neonode is privately held by its founders, staff and Swedish as well as significant U.S. investors, according to Hagman.

Neonode has been incorporated in the United States since last year. In June it plans to merge with SBE Inc.-maker of Internet-protocol storage systems-in order to obtain a Nasdaq listing. (Neonode has applied for the ticker "NEON.")

After six years without significant sales, Neonode must need new funding, right? "Neonode recognizes that pursuing the consumer electronics and mobile device market requires funds," Hagman responded in an e-mail from Stockholm. "Current investors are committed to seeing Neonode succeed and the company is well-equipped to raise more funds."

Enderle said that much ground remains between an innovation with funding and the market impact required to play among giants. "At the end of the day," Enderle said, "this phone might be much more successful coming from a larger firm. We have a number of manufacturers who, if they see the phone is successful, could fund the ramp to meet demand. But these things are transitory and it takes time to bring up a line, so there'd be some risk."

Secondly, Enderle said, touchscreens have not set the market on fire-a challenge for Apple and, perhaps, for Neonode's light-sensitive approach, which unlike the iPhone provides feedback when an icon or virtual key is activated.

The good news for the handset industry, the analyst said, is that the iPhone and the N2-assuming its launches in the U.S.-if sold at premium prices may awaken American consumers to the actual value of mobile handsets, heretofore subsidized and relatively cheap. For handset vendors, the dream going forward focuses on sustaining average selling prices and margins as the planet begins or continues making handset replacement purchases

applications to choose from this year.

"The battle between these companies will get hot and heavy as we move into the second half," Enderle said. "That could drive interest in more expensive products and garner better margins for everybody. This competition can establish the idea of value and, also, exclusivity-'premium' as a good thing. So I'd expect more people to buy higher-end phones as a result." The sobering news for Neonode? You've got company. A lot of it. "By positioning itself with Cingular/AT&T, Apple has lined up all the other carriers against it," Enderle said. "And every one of those carriers will be looking for an 'iPhone killer,' because they don't want Cingular/AT&T to get all the traffic. So everyone on the planet is on the hunt for an 'iPhone killer.' "