The iPad Effect

By Elaine B. Coleman, Randy Hellman, Desiree Davis, Kari Cafouros & Aric Ackerman

APPLE'S IPAD HAS BEEN POSITIONED BY TECHNOLOGY ANALYSTS AS AN UNPRECEDENTED DEVICE. In fact, it has been received by critics and consumers alike as a new electronic category: a revolutionary tablet computer with multi-touch screen that melds aspects of a laptop, smartphone, e-reader, gaming console, music player into one device. Advertisements showcase users doing a multitude of functions such as running thousands of apps, browsing the Web, watching video, playing games, reading books, sending e-mail, listening to music and sharing photos. Its release and rapid rise as a "must-have" device has led to other manufacturers rushing to release their own tablets into the marketplace. Yet, most of these tablets will be released closer to the holiday season, so it will take time to establish any of them as a bona fide competitor to the iPad.

Upon the iPad's announcement in blogs and later arrival in stores, it was immediately considered a unique convergent mobile device that set a new standard for others to match. Many of the earliest purchases were made by early adopters, advertisers, media influencers, technology firms, competitors and accessory makers. Its emergence ushered in a decided shift towards a new tablet category – one that was now legitimate and demanded attention. The expectation was that with glowing reviews, building curiosity and falling prices, mainstream consumers would eventually embrace the iPad in droves. Interestingly, despite this expectation, little has been revealed about the actual consumers who already own the iPad and, more importantly, scarce information can be found about those who intend to purchase an iPad by the end of the year.

As a result, our goal was to design a study to examine how consumers interact or intend to interact with their iPad, and how these consumers have changed their usage of and attitudes toward other technology as a result. Appropriately, we have summarized our findings and thoughts in a report called "The iPad Effect."

Our Approach

The study was conducted by Resolve Market Research. It was executed via an online survey from June 5-10, 2010 among a U.S. nationally representative sample of N=406 mobile/portable technology owners and intenders. Data for gender, age and device ownership were weighted to their proportion in the U.S. population using a separate omnibus sample of N=960. Figure 1 illustrates the sample sizes and descriptions of the groups included in the study.

Sample Specifications

Group	Base	Description
The iPad Group	N=205	Those who own or intend to own an Apple iPad by the end of the year
The Portable Gaming Group	N=194	Those who own or intend to own any of the following devices: PSP (2000, 3000, GO) or Nintendo DS (DS Lite, DSi, DSi xl)
The Smartphone Group	N=325	Those who own or intend to own any of the following handsets: iPhone (any model), BlackBerry (any model), Droid Smartphone (any model), or "any other smartphone"
The e-Reader Group	N=137	Those who own or intend to own any of the following: Kindle, Nook, or Sony Reader
Total Device Sample	N=406	US Technology owners and intenders
Total Omnibus Sample	N=960	Nationally representative sample of US consumers

Figure 1

On the Device Front: Two Categories are at a Crossroads

With the launch of the Apple iPad, and all of the impressive gaming apps and convergent technologies it encompasses, it is yet to be determined which electronic categories will be most affected by its

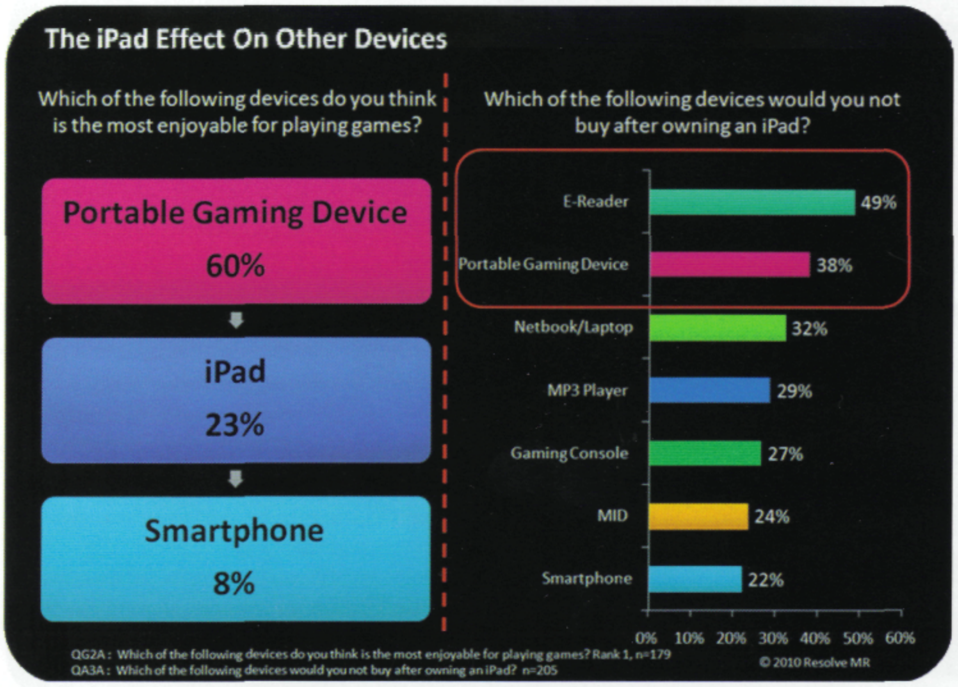

Figure 2

popularity. Currently, only 28 percent of intenders want to use their iPad for playing games; however, with games like Asphalt 5 HD, N.O.V.A., Madden and Touchgrind, the iPad's gaming appeal is gaining support from traditional gaming publishers and independent developers alike. Consequently, attitudes toward playing games on the iPad shift post ownership. Although 60 percent of users believe that portable gaming devices (PGDs) are the best for playing games, 38 percent say they will not buy a PGD after purchasing an iPad.

While the PGD category has some time and established consumer support to address this emergent risk, e-readers are in a more difficult position. Forty-nine percent of iPad consumers say they will not buy an e-reader after purchasing an iPad. Additionaly, 71 percent of iPad intenders say they prefer to read books on their future iPad over any other function. The data also suggests that 66 percent of iPad intenders prefer to read newspaper articles, 62 percent prefer to browse the Internet and respectively, 56 percent and 55 percent want to read blogs and e-mails. These pre-ownership perceptions are unusally specific and deeply ingrained for a device they have yet to use extensively, and each of these tasks overlaps with an e-readers feature set. This spells bad news for upcoming e-readers. The convergent iPad simply brings more value, making it clear that the iPad is a current threat to e-readers and a potential threat to portable gaming devices. See Figure 2.

The Carrier Landscape is Not Set in Stone

With a ripple effect of the strong iPad sales, the non-requisite 3G subscription fee and the exclusivity deal between Apple & AT&T, the iPad may serve as a gateway device to AT&T's wireless business. An astounding 37 percent of iPad owners admit that this is the first Apple product they have purchased. Not only does this establish the iPad's ability to build brand affinity for Apple, but it also reveals that long-term non-Apple users are still open to the brand. Since the iPad and iPhone leverage many of the same characteristics (including the same operating system), it is reasonable to assume the iPad may engender greater interest in other Apple products, especially its mobile phone counterpart.

This development, although not dire, does not bode well for the other major U.S. carriers. Currently, 44 percent of iPad intenders are Verizon customers, compared to just 19 percent who subscribe to AT&T. Verizon has already started its response in its edgy and pervasive Droid Incredible and Droid X advertisements, but it will potentially need a strong offering in the tablet category from another manufacturer – perhaps HP using Palm's webOS – to aggressively protect its market share lead. See Figure 3 on page 18.

What Can Expand the iPad's Dominance? Moving Beyond the Fun Factor

The power of the iPad buzz has been infectious and effective. Apple has strong brand associations with technological advancement, elegant design, strong durability, and media integration. Yet, 55 percent of consumers perceive Apple's newest device, the iPad as an "expensive toy" or luxury item.

In fact, the top purchasing driver is

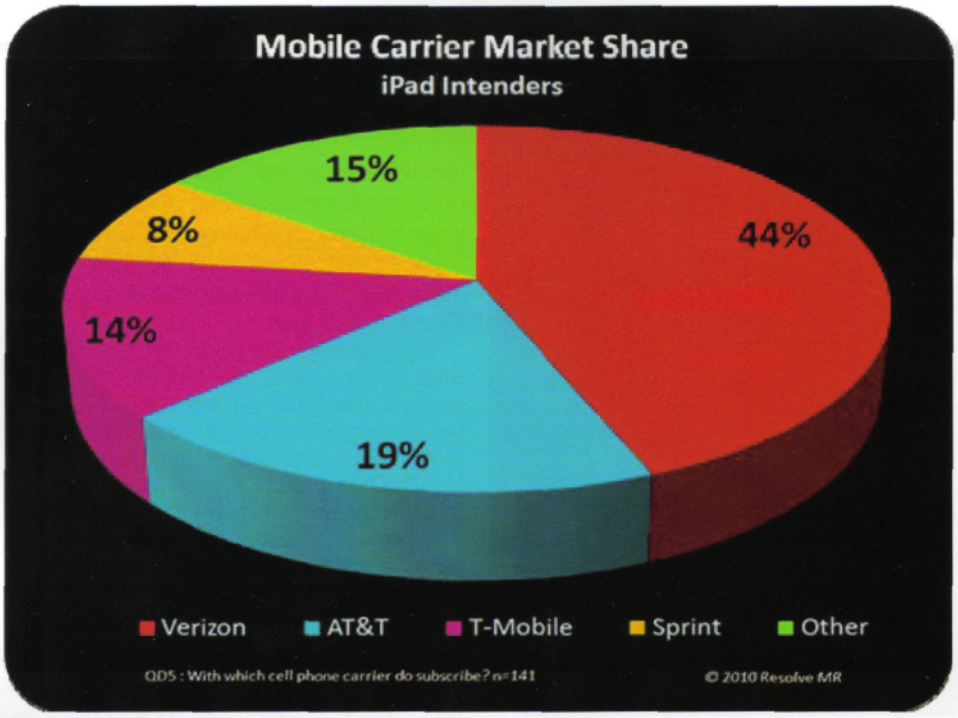

Figure 3

not related to the iPad being the most technologically advanced device, rather its ability to provide great "entertainment" (56 percent). Matching the appeal of the iPhone, the iPad Group chooses the iPad's "cool factor" as the second biggest reason for purchase (42 percent). The first functional purchase reason that consumers identify is its "convenience" factor (40 percent). Although consumers see the device as encompassing a wide range of capabilities and potentially replacing the constant need for other devices, those benefits are not at the forefront of their mind when it comes to purchase interest. See Figure 4.

The Digital Playground: How the Top Driver Became the Top Barrier

Quite simply, this is not a device that many consumers connect with productivity or necessity. If Apple intends to successfully expand its ownership base beyond early adopters, it must overcome the fact that 54 percent of consumers have no interest in considering the device because they simply "don't see the need for it." Products that do not strongly convey their inherent value and service to a consumer are quickly perceived as being trivial or disposable. The result is that the iPad, priced in the $400-700 range, is perceived as being "too expensive" (46 percent). The decision to not purchase it is then justified by sentiments like wanting to avoid a subscription fee (17 percent) or believing that there are other devices that cover the same functionality (16 percent). Given the astounding momentum of the device, the tech firm would be wise to invest advertising spend and marketing power that expands the iPad's perceived strengths and capabilities.

Riding Solo

Because Apple released the iPad at a time when there are no current competitors, the iPad has reaped the benefits of considerable awareness and brand affinity; consequently, it is considered the flagship device for the new tablet vertical. More than three-fourths of consumers recognize the iPad brand. Any shift in marketing will not diminish overall awareness of the tablet. Instead, it will reinforce the potential activities iPad intenders associate with the device – allowing it to be entertaining, cool and useful. See Figure 6 on Page 20.

Given that so many manufacturers plan to release their own tablet in the upcoming months, it is also important to note that the core electronic brands enjoy equal, if not higher, brand awareness than that of Apple (84-86 percent). Google, Microsoft, Samsung, BlackBerry and Dell can leverage their ingrained familiarity and strong consumer adoption to introduce branded tablets. Although they will have to compete against each other in a crowded holiday marketplace, it will not be a lack of awareness that will work in their disfavor. See Figure 5 on page 19.

Momentum Through the Holidays

Because the iPad is the only tablet device in the minds of consumers, it has tremendous momentum for this upcoming holiday season. It is the single most sought after device by owners and intenders of mobile/technology. As prices come down, expect the iPad to gain even more intenders as holiday gift lists are made. Currently, Apple is advertising that they can deliver next day shipping of an iPad to consumers after purchasing online. Even if a competitor comes on the market in the new tablet space, it will more than likely have to position itself as a niche device – one for the more productive, or more price-sensitive – to make an impression. Instead, the iPad has the upper hand to continue serving as the premiere device in the category with comprehensive offerings. See Figure 7 on page 20.

iPad awareness and desirability is so high, that after this year, the words Tablet and iPad may be synonymous with each other. This is true brand power – and the reward for being perceived as the first tablet out of the gate.

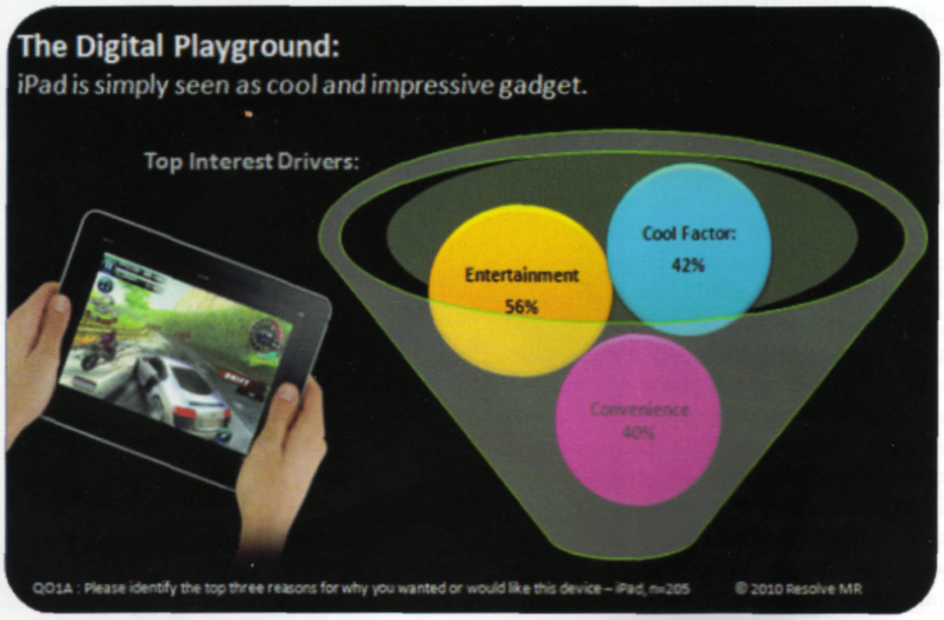

Figure 4

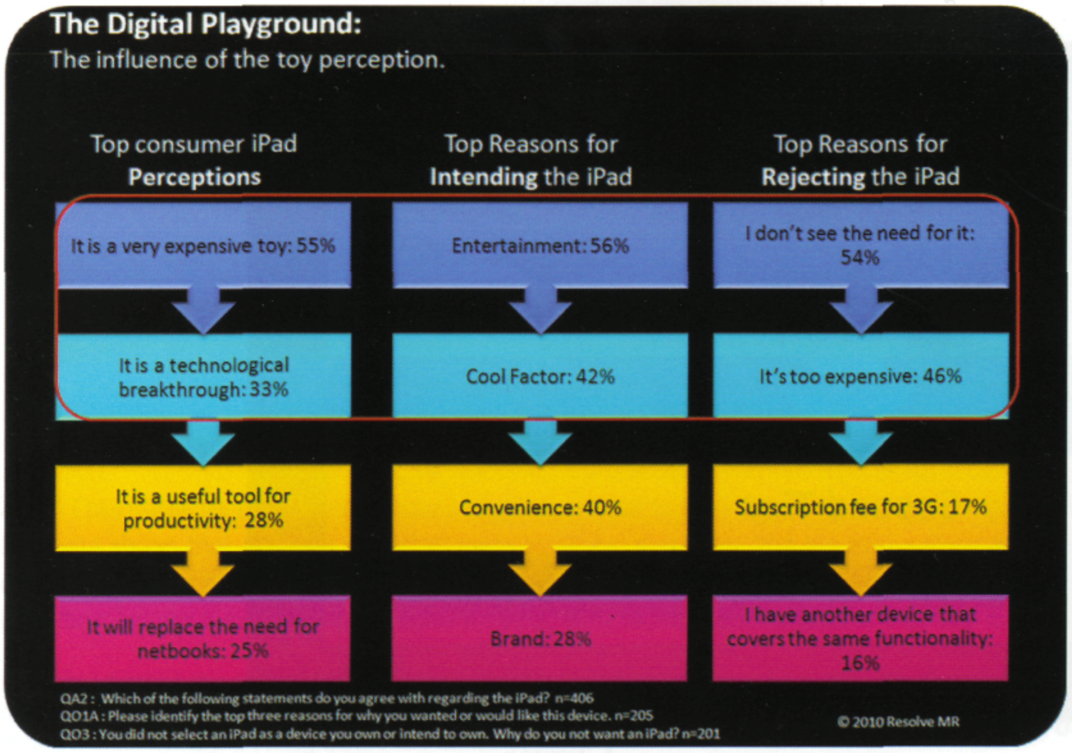

Figure 5

Who are iPad Intenders?

The iPad Intender group is divergent in its age breakout. When looking at aggregate ages, intenders are split evenly between older adults and younger teens/adults; both age groups have 37 percent seeking to buy an iPad by the end of the year. More than likely, this is due to the iPad's ability to fill the book, newspaper and Web browsing needs for older consumers, while still providing a capable movie and game experience as an added value for younger consumers.

Opportunity for Other Tablet Brands to Make an Impact

Currently, 23 percent of the consumer population in the U.S. intends to purchase an iPad. However, when asked about their purchase interest in yet-to-be-released, less expensive tablets, 26 percent of consumers showed top 2 box interest (i.e. very interested to extremely interested) in buying an alternative tablet apart from the iPad.

The primary age groups driving this interest in more affordable tablets are the younger adults aged 18-24. Whether in high school, studying abroad or in some form of advanced schooling; this group sees the value in the portability and affordability of a tablet that might replace the need for books, portable gaming devices or heavier laptops. This is a huge opportunity for competitors in the tablet space. The data suggests that these younger consumers are much more price sensitive than brand sensitive and the convergent value of a tablet is seen as a possibility with other brands.

What Did We Learn?

The iPad has quickly become the sweetheart device of the year. It was launched into the market at a time when no other tablet garnered any attention from consumers. Its timing, the design and Apple's strong brand affinity has afforded the iPad the luxury to re-launch tablet space. Consequently, the momentum continues to build for the iPad, as developers and consumers discover new ways to empower the device through the use of more sophisticated apps.

The immediate impact the iPad has had on other devices, such as e-readers, shows no signs of stopping. Because of the iPad's convergent capabilities, e-readers are currently threatened and portable gaming systems have been forced to innovate dramatically (such as the case with Nintendo's 3DS) to legitimize device viability. The iPad's effect will only build and magnify with the holiday season where it looks to be the most wanted device available.

While the iPad may be the most desired device for the holiday season, the majority of technology consumers still feel it is a luxury item and do not see a need for it. This is telling for all current and potential tablet manufacturers in two ways:

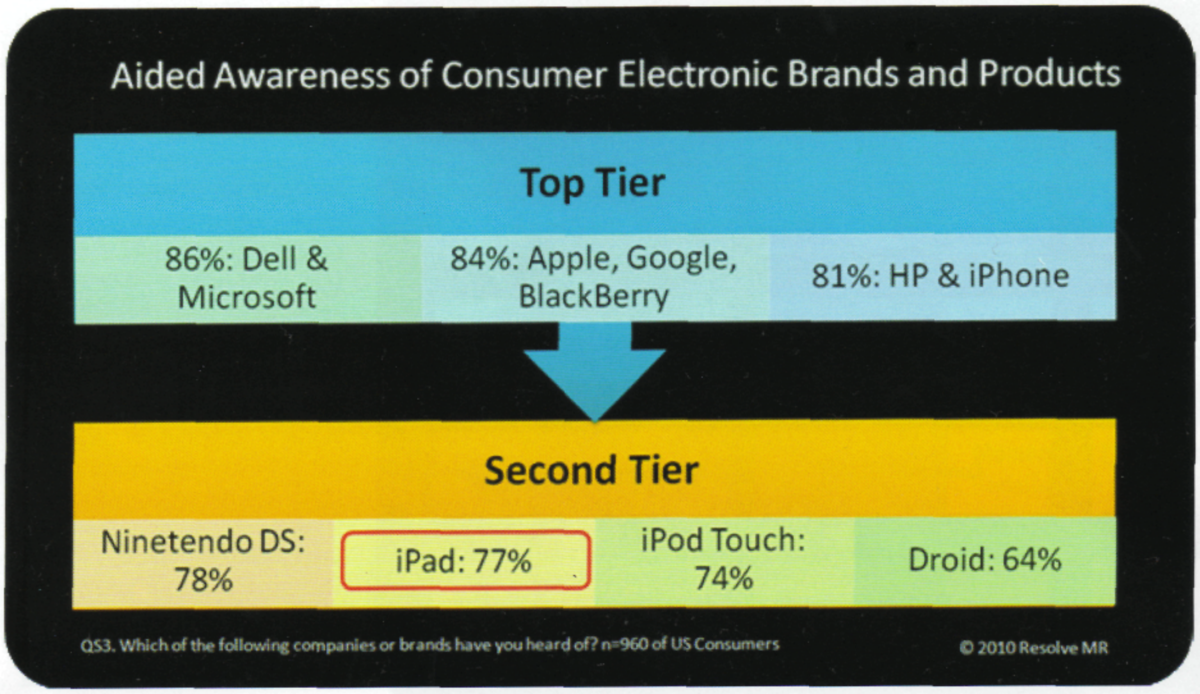

Figure 6

1. Advertising is more important for an emerging category – consumers need to understand its value and its significance in their collection of devices. Consumers look to the media and ads to understand the purpose and use of a new device. Because much of Apple's advertising for the iPad initially had a casual and leisurely tone and did not specifically describe the practicality of the device, the majority of consumers view the iPad as an expensive toy of sorts.

2. There is opportunity for other tablets in the space to focus on value and productivity. Much like the Droid differentiating itself from the iPhone (and other smartphones) due to a value-oriented strategy and the productive tagline of "DROID DOES," a tablet with similar branding and competitive hardware should have comparable success. The iPad may be the tablet for leisure time at home, but consumers are still waiting for a tablet that is suitable and practical for work and studies.

The impact the iPad has on service providers has yet to be determined. However, with the majority of iPad intenders being those outside of AT&T, it is reasonable to assume the iPad is a potential catalyst for carrier migration. Thus, Verizon and its counterparts would be wise to partner with manufacturers to develop the next flagship tablet.

Final Thoughts for the Future

The iPad has reshaped the direction of several technology devices. With its convergent capabilities and elegant design, it has re-launched a previously forgotten tablet category. However, the iPad's success doesn't mean that other tablet makers will fail. In fact, our research suggests that competitors should not look to compete directly with the iPad, but instead target the gap that Apple's marketing and advertising has left in the minds of consumers: a value-oriented and productive convergent tablet. In many ways the iPad, by design, is focused on consumers of media but less so on the production or creation of content. A tablet that does both for the casual PC user and the hardcore business professional will ultimately replace the need for the laptop. Addressing a unique, yet functional service for consumers is the key to avoiding "The iPad Effect."

Elaine B. Coleman, Randy Hellman, Desiree Davis, Kari Cafouros & Aric Ackerman are from Resolve Market Research.

Fielding and data collection was conducted by **CatalystMR** *www.catalystmr.com*

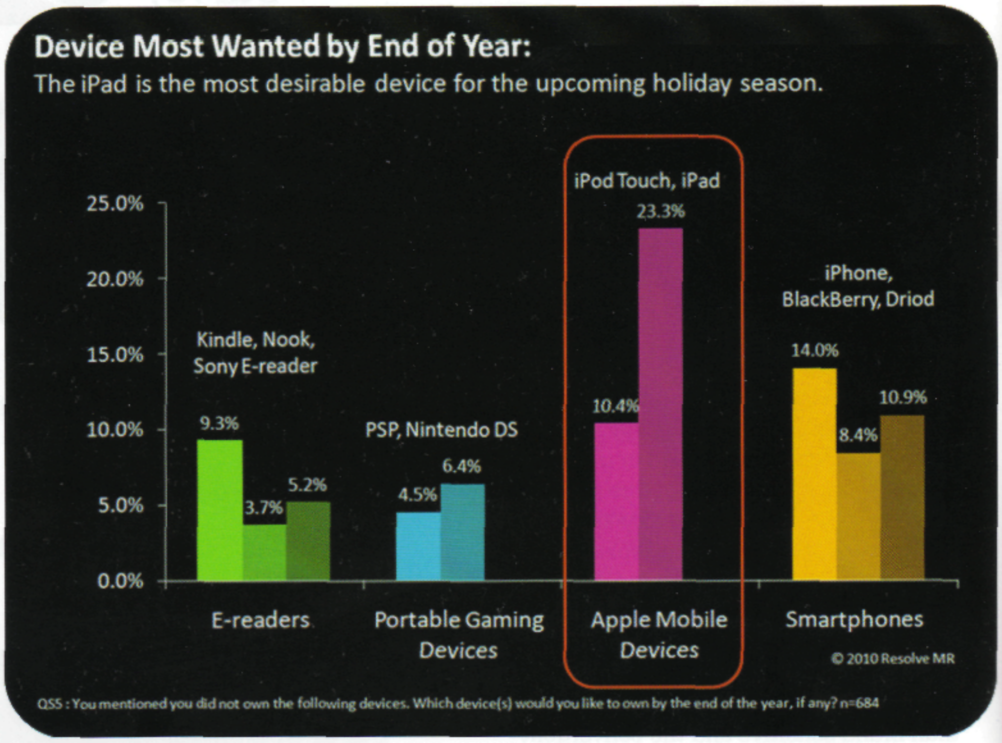

Figure 7