BUS478 Business Strategy

GROUP CASE SYNOPSIS: RIM

Prepared by Group 7:
Reza Andalib
Anne Li
Alain Ndayishimiye
Xi Wang
Sen Yan

Professor: Jerry Sheppard

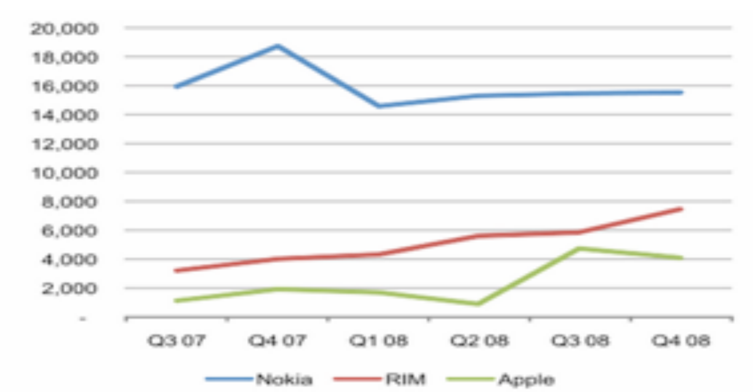
Submitted: November 7, 2012

History of the Company

Research in Motion (RIM) is a Canadian telecommunication equipment producer, headquartered in Waterloo, Ontario. Founded in 1984, RIM and began with contract jobs for computerized solutions for companies such as GM. RIM's business gradually matured into wireless solutions through their cooperation with Ericsson and RAM Mobile Data for wireless solution products.[1] This path led to introduction of Blackberry 850 in 1999, which was a two-way pager and predecessor of the current Blackberry smartphones. Blackberry devices gained enormous popularity with business users due to their focus on email (and to some extents web browsing), and due to user's preference for the Blackberry's physical QWERTY keyboard.

When smartphones began to be adopted by the mass market and non-business users, RIM expanded production to a wider variety of devices to serve this demand. In 2008Q4 RIM had about twice as large a market share as the iPhone, which had been introduced in 2007. In mid-2008 RIM's stock price reached $140 per share as investors anticipated further innovative products and rapid growth would give RIM market dominance in the smartphone market.

Figure 1. Smartphone shipments (thousands of units)



However, RIM's market leadership was threatened as Apple's iOS based smartphones became more user friendly and offered users increasing numbers of thousands of specific apps to work and entertain themselves with. RIM smartphones did not offer these apps to users, and Apple's market share began to climb at RIM's expense. RIM's still held a second place market share in 2009 in worldwide smartphone sales by operating system with a 19.9% of market share after Symbian (46.9%).[2] Apple's iOS held a 15.1% share in 2009 while Microsoft had 8.8% and Android 4.7% in its first year.

The introduction of Android by Google as a free smartphone operating system designed to drive traffic to Google's network services was a further blow to RIM's hardware centric smartphone model and market leadership. By 2012Q3 Android's operating system market share had jumped to 75%, while iOS had a 14.9% share, RIM's had fallen to 4.3% and Symbian had declined to 2.3%, while Microsoft had become the underdog with only 2.0% market share.[3]

RIM belatedly recognized the threat Apple represented to RIM's market leadership, and possibly to RIM's survival. When Apple introduced the iPad in April 2010 RIM's CEO stated the iPad did not add any compelling value for users. But by December 2010 it was clear the iPad was disruptive technology and RIM was promising a superior tablet[4], with the expectation that it would take market share away from Apple's iPad in the tablet market and reduce Apple's financial ability to support iPhone R&D to produce superior products to RIM's smartphones. In the eyes of investors, and product buyers, RIM's market leadership was further diminished when its catch-up competitor to the Apple iPad, the RIM Playbook was not very successful either, and RIM was forced by low sales to reduce the tablets prices shortly after their release. For instance, the April 19, 2011 release day price of $599.99 for the 32GB model was reduced to $149.99.

After the commercial failure of the Playbook and the failure of the Blackberry 7 to cause a significant increases in sales and defend RIM's market share, the RIM board of director's was pressured by falling stock prices to organize the removal of RIM's co-CEOs, the founder and the company's long time marketing guru of more than two decades, in early 2012.

Environment

The US, Europe and in a minor way Canada, make up the major high end smart phone markets. The US and Canadian economies are currently recovering from the 2008-9 recession with US unemployment declining to 7.8% in September and US GDP expanding at a 2% rate in 2102Q2. The European economies have slowed due to the Greek, Italian, Spanish and other debt difficulties. The largest market in the world for smartphones, dominated by lower end handsets, is China. The economy in China has continued to grow strongly, with GDP growth of 9.2% in 2011.[5]

While US growth has been improving, a series of tax increases and automatic spending cuts is scheduled to begin to take effect at the beginning of 2013. These will reduce the federal government deficit by about 4.7% of GDP and act as a non-discretionary contractionary fiscal policy. The contractionary effect is estimated to result in GDP declining 1.3% in the first half of 2013 followed by renewed growth in the 2nd half of 2013[6], and, according to the National Association of Manufacturers (NAM), result in the unemployment rate increasing to 10.2% in 2013 and to 11.4% in 2014. These effects will result in a reduction in household income of about 10% according to the NAM.[7] The reduction in household income will likely reduce spending on discretionary purchases of smartphones, which will affect RIM's and other producers' handset sales. This is particularly critical timing for RIM as the company plans to begin sales of its new Blackberry 10 phones during the depths of this projected mini-recession in the first half of 2013.

The mobile communications device market has repeatedly been revolutionized by new technologies. The continuous introduction of new products makes it difficult for industry executives to immediately grasp the significance of new technologies. For example in January 2007 Apple introduced the first software keyboard touch screen smartphone. The significance of the new technology was missed by the RIM CEO who stated the QWERTY keypad was the most exciting trend in mobile devices.[8] In response to the October 2008 release of the first Android smartphone, RIM attempted to attract developers to build apps for the proprietary Blackberry operating system. They did not recognize that app developers are attracted to market size and proprietary systems and paid apps have far smaller market sizes than open source operating systems and nearly free apps. While Androids market share soared to 75%, as Table 1 shows, RIMS's fell to single digits outside the top five.[9]

Table 1. Top Six Smartphone Mobile Operating Systems

Top Six Smartphone Mobile Operating Systems, Shipments, and Market Share, Q3 2012 (Preliminary) (Units in Millions)

Operating System	3Q12 Shipment Volumes	3Q12 Market Share	3Q11 Shipment Volumes	3Q11 Market Share	Year-Over-Year Change
Android	136.0	75.0%	71.0	57.5%	91.5%
iOS	26.9	14.9%	17.1	13.8%	57.3%
BlackBerry	7.7	4.3%	11.8	9.5%	-34.7%
Symbian	4.1	2.3%	18.1	14.6%	-77.3%
Windows Phone 7/ Windows Mobile	3.6	2.0%	1.5	1.2%	140.0%
Linux	2.8	1.5%	4.1	3.3%	-31.7%
Others	0.0	0.0%	0.1	0.1%	-100.0%
Totals	181.1	100.0%	123.7	100.0%	46.4%

RIM was not the only company caught unable to defend itself against the revolutionary change caused by Android, and as Table 1 shows other market dominating companies including Symbian, and

Microsoft also lost out to Android's success, this demonstrates the revolutionary changes that characterize the wireless markets. To survive in the revolutionary wireless device market requires an accurate ability to discern which new development will be adopted by the market, continuous innovation of one's product, adequate investment to support continuous R&D and innovation. It is also significant to identify high margins to provide the funds for that investment, and excellent business planning and execution skills to make it work to get the products to market fast to hold buyers enthusiasm, and at reasonable costs.

The repeated revolutions in technology in the mobile communications device market have driven spectacular growth in sales. Worldwide shipments of smartphones rose 45.3% from 127.7 million units in 2011Q3 to 179.7 million devices in 2012Q3, representing a 45.3% increase. Worldwide shipments of smartphones are forecast to be about 675 million units in 2012, approximately 907 million units in 2013 and over 1 billion units in 2014.[10]

China is ranked as the largest smartphone market as Table 3 shows, with 2013 sales forecast at 294 million units. Due to lower average disposable incomes than in North America, the average smartphone sold in China is a lower-end handset costing $130 to $180. RIM competitors ZTE, Huawei and Lenovo, and Ningbo Bird profitably produce these smartphones with forecast sales of 200 million units in 2012. As Table 2 shows, it is approximately half of Samsung's sales, while Apple is expected to sell about 100 million iPhones in 2012.

Table 2. Top Five Mobile Handset Sellers

Top Five Total Mobile Phone Vendors, Shipments, and Market Share, 2012 Q3 (Units in Millions)

Vendor	3Q12 Unit Shipments	3Q12 Market Share	3Q11 Unit Shipments	3Q11 Market Share	Year-over-year Change
Samsung	105.4	23.7%	87.2	20.1%	20.9%
Nokia	82.9	18.7%	106.5	24.5%	-22.2%
Apple	26.9	6.1%	17.1	3.9%	57.3%
LG Electronics	14.0	3.1%	21.1	4.9%	-33.6%
ZTE	13.7	3.1%	17.6	4.1%	-22.2%
Others	201.6	45.3%	184.6	42.5%	9.2%
Total	444.5	100.0%	434.1	100.0%	2.4%

As Table 3 shows the estimated country market shares of the smartphone market for 2012 are China (26.5%), USA (17.8%), UK (4.5%), India (2.5%) and Brazil (2.3%). By 2016 the market shares are forecast to be China (23.0%), USA (14.5%), UK (3.6%), India (8.5%) and Brazil (4.4%).[11]

Table 3. Top five smartphone markets worldwide

Top Five Smartphone Markets and Market Share for 2011, 2012, and 2016 (based on shipments)				
Country	**2011 Market Share**	**2012 Market Share**	**2016 Market Share**	**2011 - 2016 CAGR**
PRC	18.3%	26.5%	23.0%	26.2%
USA	21.3%	17.8%	14.5%	11.6%
India	2.2%	2.5%	8.5%	57.5%
Brazil	1.8%	2.3%	4.4%	44.0%
United Kingdom	5.3%	4.5%	3.6%	11.5%
Rest of World	51.1%	46.4%	46.0%	18.1%
Total	**100.0%**	**100.0%**	**100.0%**	**20.5%**

Current Situation

RIM competes in several businesses in different areas of the wireless market. RIM manufactures handsets, produces software to operate the handsets and networks, and offers its services and infrastructure to wireless carriers. RIM's competitors are mostly either handset producers (Samsung, HTC, Nokia) or software producers (Symbian, Microsoft, Android-Google). Apple competes in the handset and software markets, but not in the enterprise network management market. As Table 4 illustrates RIM is considerably smaller than its competitors financially and in employee numbers.

Table 4. Direct Competitor Comparison

	Research in Motion RIMM	Apple, Inc. AAPL	Google Inc. GOOG	Nokia Corp. NOK
Market Cap:	4.50B	541.74B	226.05B	10.39B
Employees:	16,500	N/A	53,546	105,265
Qtrly Rev Growth (yoy):	-0.31	0.27	0.45	-0.19
Revenue (ttm):	15.05B	156.51B	47.54B	41.61B
Gross Margin (ttm):	0.29	0.44	0.60	0.27
EBITDA (ttm):	1.95B	58.52B	15.85B	-911.47M
Operating Margin (ttm):	0.01	0.35	0.28	-0.06
Net Income (ttm):	-613.00M	41.73B	10.56B	-5.67B
EPS (ttm):	-1.17	44.15	31.91	-1.53
P/E (ttm):	N/A	13.06	21.56	N/A
PEG (5 yr expected):	-1.29	0.52	1.28	7.78
P/S (ttm):	0.30	3.58	4.75	0.25

This comparison puts into perspective RIM's brief rise to leadership of the wireless market as pioneering innovation which is usually overtaken once more established players can define which parts of the market will offer major profit opportunities and mobilize their resources to compete as the market ages along its life-cycle curve. Early leaders who are not able to consolidate their early leadership into market dominance usually are relegated to niche specialist roles.

RIM's corporate strategy focused primarily on the enterprise wireless market. In North America, and Europe, there has been an ongoing transformation in this market since 2009. Traditionally, enterprise IT departments supplied handsets to their employees and IT managers preferred Blackberry systems because Blackberry had strong security protocols and easier ways to administer them, resulting in a more secure system for sensitive corporate information. The financial pressures of the 2008-2009 recession forced IT departments to cut costs and one way was to stop buying employees handsets. The resulting BYOD (bring your own device) policies began allowing employees to use their own handsets on corporate networks. A large proportion of employees prefer the touch screens and hundreds of thousands of apps available for iOS and Android phones, which resulted in RIM's handset share in the enterprise market going into steep decline, and RIM's traditional strength in the enterprise market declining. A major symbol of RIM's declining dominance in enterprise markets occurred on October 22, 2012 when the US Department of Defense ended its exclusive use of Blackberry wireless systems and began implementing a system to use up to 8 million iOS and Android phones for its secured networks.[12]

Recent versions of iOS and Windows phone servers have incorporated some of the security features Blackberry has traditionally offered so enterprise IT departments no longer feel Blackberry is the only alternative for secure networks. In April 2012, in an attempt to regain competitive strength, and boost revenues, Blackberry began selling software which allows iOS and Android handsets to be securely connected over the secure Blackberry network. The new software allows IT system administrators to use the same Blackberry System tools they have used for years and are familiar with to enforce separations between corporate and personal data not only on Blackberry handsets but also on iOS and Android handsets, which is a very attractive feature for BYOD enterprises.

Recent IDC reports estimate RIM's operating system market share at 4.3% of market sales. RIM's share of all mobile web traffic, including phone and pad usage, declined from 5% in October 2011 to 1.2% in July 2012. Over the same period Apples share of mobile Web traffic rose from 47% to 64%.[13]

The declining market share has reduced the size of RIM's revenues, are shifted the composition. RIM has been striving to build sales in international markets. In 2012Q2 58% of revenues came from markets other than Canada (7.8%), USA (22.3%), and the UK (11.8%).

In fiscal 2013Q2 revenue was $2478 million, down 31% from the year ago quarter, resulting in a loss of $235 million vs. a profit of $329 million in the comparable year ago quarter. RIM's global subscribers increased about 2 million to approximately 80 million. Quarterly gross margin was 26%. Table 5 shows, RIM's share of its revenue by business line for hardware has declined from 82% of total revenue to 60% currently, while its services revenue, primarily from network services to carriers, has increased from 13% of total revenue to 35% currently.

Table 5. RIM Revenues (% of total revenues)

	Hardware	Services	Software & Other
Q2 – FY 2013	60	35	5
Q2 – FY 2012	73	24	3
Q2 – FY 2011	79	17	4
Q2 – FY 2010	81	14	5
Q2 – FY 2009	82	13	5

In the first half of fiscal 2013, RIM derived $1,135 million cash from operations vs. $971 million in the prior-year period. Free cash flow for fiscal 2013 first half was $895 million vs. $462 million in the year-ago period. Cash and marketable securities, at quarter end, was $2,343 million vs. $2,111 million at the end of fiscal 2012. RIM is debt free. RIM's stock price declined through most of the first half of fiscal 2013 from about the $14 share to a low of about $6.25 per share in late September 2012.

Part of the reason for the decline in RIM's revenues and the decline in the hardware proportion of sales has been the lack of new or up to date handset product due to delays in completing design and testing of the Blackberry 10 operating system and handset products, which have been delayed for over about a year. On November 1, 2012, RIM announced Blackberry 10 handsets have been shipped to over 50 network carriers around the world for testing. The CEO noted that this was what the management team had committed to in the last quarterly earnings report conference call with investors and that they had fulfilled that commitment. The

CEO was attempting to demonstrate that RIM's business planning and execution have been improved.[14] The announcement also confirmed that Blackberry 10 will run Android apps, so Blackberry 10 users will have access to the 700,000 available Android apps. RIM's stock price increased 9% on the announcement.

Main strategic challenges

RIM faces several major strategic challenges and needs to do some or all of the following:

1. ***Stabilize revenues, and market share.***
2. ***Bring out exciting new products to capture more high-end high margin revenue to fund innovation.***
3. ***Gain control of costs.***
4. ***Improve business planning and execution***: RIM has been losing market share and profitability due to its inability to carefully manage the business planning and execution functions. As a result the product launches for the Blackberry 7 smartphone, the Blackberry Playbook, and the Blackberry 10 smartphone have been delayed or launched with significant deficiencies that resulted in the product being commercially disappointments.
5. ***Increase the responsiveness and time to market of its product design and innovation process:*** RIM has lost market share due to being unable to offer consumer market desired features on its smartphones, such as a large number of apps, and due to delays in bringing out its new models (Blackberry 10 delayed a year). Further, RIM has been unsuccessful with Playbook due not having the apps and entertainment options consumers wanted, and not having a compelling value to enterprise buyers. One option is to headhunt a very talented designer of the level of Joy Ives of Apple and produce better consumer products. The other option is to recognize RIM's corporate culture of engineering and revolutionary functional innovation is better suited to winning competitive advantage in the enterprise market, and focus on developing a Playbook with enterprise specific features (data security).
6. ***Segment a value proposition to customers it offers based on network network management software:*** RIM's network advantage is conserving on bandwidth, speed and security. RIM handsets are no longer the only handsets which provide security policy administration capabilities, so RIM is losing this

monopoly feature. RIM must respond by utilizing the remaining advantages of the Blackberry network, bandwidth conservation, for markets where that is an important value creating feature; examples of a high end set of markets are real time enterprise networks such as combat forces, oilfield crews, crowded urban markets with overloaded wireless systems, etc. This may require working with carriers to make the Blackberry software manage aspects of the wireless carriers networks rather than running a separate proprietary Blackberry network and selling carriers access. A lower end set of markets are developing country markets with lower capacity wireless systems where older lower cost Blackberry's would be attractive handsets to buyers.

7. ***Rethink the value proposition that the Blackberry applications offer customers:*** Offer a light version at low cost to Android and iOS uses on Google Play and on iTunes as a way to drive additional traffic onto the Blackberry network.

References

1 Sweeny, A. (2009). BlackBerry Planet: The Story of Research in Motion and the Little Device that Took the World by Storm.

2 Gartner Says Worldwide Mobile Device Sales to End Users Reached 1.6 Billion Units in 2010;

Smartphone Sales Grew 72 Percent in 2010. (2011, February 9). Retrieved November 4, 2012, from Gartner: http://www.gartner.com/it/page.jsp?id=1543014

3 Whittaker, Zack. (2012 Nov. 2). IDC: Android, iOS grab 90 percent of global smartphone market. Retrieved from: http://www.zdnet.com/idc-android-ios-grab-90-percent-of-global-smartphone-market-7000006828/

4 Yarow, Jay. (2011 September 16). All The Dumb Things RIM's CEOs Said While Apple And Android Ate Their Lunch. Rettrieved from: http://www.businessinsider.com/rim-ceo-quotes-2011-9?op=1

5 Xinhua. (2012 Jan. 17). China's 2011 GDP growth slows to 9.2%. Retrieved from: http://www.chinadaily.com.cn/business/2012-01/17/content_14460323.htm

6 Congressional Budget Office,Economic Effects of Reducing the Fiscal Restraint That Is Scheduled to Occur in 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/FiscalRestraint_0.pdf

7 Lavoie, M. (2012 October 26). Manufacturers: Fiscal Shock Already a Drag on Economic Growth. Retrieved from: http://www.nam.org/Communications/Articles/2012/10/Manufacturers-Fiscal-Shock-Already-a-Drag-on-Economic-Growth.aspx.)

8 Yarow, Jay. (2011 September 16). All The Dumb Things RIM's CEOs Said While Apple And Android Ate Their Lunch. Rettrieved from: http://www.businessinsider.com/rim-ceo-quotes-2011-9?op=1

9 Whittaker, Zack. (2012 Nov. 2). IDC: Android, iOS grab 90 percent of global smartphone market. Retrieved from: http://www.zdnet.com/idc-android-ios-grab-90-percent-of-global-smartphone-market-7000006828/

10 Graziano, Dan. (2012 October 26). Samsung and Apple drive huge smartphone growth in Q3, http://bgr.com/2012/10/26/smartphone-market-share-q3-samsung-apple/

11 IDC Top Five Smartphone markets and market share for 2011, 2012, and 2016.

12 Taborek, N. (2012 Oct. 28). Pentagon plans to buy iPhones, Androids in threat to BlackBerry's market share. Retrieved from: http://www.washingtonpost.com/business/economy/pentagon-plans-to-buy-iphones-androids-in-threat-to-blackberrys-market-share/2012/10/28/aeafb0a4-1f8f-11e2-ba31-3083ca97c314_story.html

13 RIM Web Usage Down 25% in the Past Year. (August 2012) http://insights.chitika.com/2012/rim-annual-report/

14 Goldman, David. (2012 November 1). BlackBerry 10 on schedule. RIM shares soar 9%,CNN MoneyTech. Retrieved from: http://money.cnn.com/2012/11/01/technology/mobile/rim-blackberry-10/index.html