CASE SYNOPSIS

Business 478

Prepared by:

Aswin Kumar

Candice Woods

Giorgio Budolig

Lucas Segars

Qasim Nathoo

Prepared for: Jerry Sheppard

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Blackberry, Then And Now

Research In Motion (RIM) entered the mobile communications industry in 1984. The Waterloo, Ontario, company founded by Mike Laziridis, penetrated the market with two-way paging technology; developed as a substitute product for Motorola's SkyTel. Following a series of financing in 1998, and a Co-CEO partnership with Jim Balsillie, the firm launched its first signature Blackberry device in 1999. The year following, RIM released its first smart-phone, the Blackberry Bold. This release marked the beginning of RIM's journey, through the tumultuous and extremely volatile high technology industry. Initially, the firm's iconic Blackberry device was riding the crest of the telecom wave. Its proprietary and unparalleled encryption technology made their device the globally preferred Smartphone amongst corporate clients and government agencies. The brand dominance soon permeated the individual consumer market. However, the company's fortunes took a turn for the worst, as intense rivalry and innovative technology emerged. Competitors, such as Apple and Samsung entered the market in 2007, and soon became cultural phenomena. As their market share severely eroded, so did RIM's share price. RIM's shareholders lost almost 80% of their wealth in 2011 (Levy, 2011). Adding salt to the wounds, their world-renowned encrypted network experienced power outages in 2011, which affected millions of users for several days. Reeling from the new competition and network debacle, shareholders demanded changes within the firm. The Co-CEO's stepped aside and a new CEO, Thorsten Heins, took the helm with a new strategic focus and a rebranding under the name of their signature device, Blackberry. Despite its fall from grace, the firm has continued to build its subscriber base to almost 80 million (RIM, 2012). Furthermore, its recent Blackberry Z10 smart-phone release has been quite well received in the mobile communications market. The share price appreciation clearly reflects the firm's improved optics, and approval of its new CEO and product strategy. This report will attempt to analyze Blackberry through a strategic lens and offer recommendations to further improve the firm's outlook.

External Environment

The External Environment consists of the following segments:

Demographic: The world's annual population growth rate is 1.2%, reaching a total population of nearly seven billion (The World Bank, 2013). Furthermore, urban areas, which are more accessible to telecommunication networks and devices, have an annual growth rate of 1.98% (The World Bank, 2013). It is predicted that by 2013 year end, mobile devices will exceed the total world population (Cisco, 2013). This suggests the mobile industry has enormous sustainable growth opportunities. China, India and the United States (US) are the world's top three mobile device subscribers; over 80% of their total populations use a mobile device ("Central", n.d.). Consequently mobile communication providers should focus product distribution in these markets.

Political: Many regions including North America and Europe, maintain a competitive industry structure; allowing a multitude of mobile providers to compete in a given marketplace ("Industry report", 2012). However, Canada is dominated by only three mobile providers; Telus, Bell and Rogers Wireless Communications. This results in high system access fees. Recently, the Canadian Government announced it will be auctioning off prime wireless space to stimulate more competition in the mobile market (Palmer & Sharp, 2013). Blackberry has struggled to operate in this competitive environment, and any changes in government regulations, promoting competition, may have a negative effect on their bottom line. In addition, safety standard regulations prohibiting the usage of toxic substances in products, such as the Canadian Chemicals Management Plan, will negatively impact the mobile industry, as increased quality control will increase company costs.

Economic: trade barriers, interest rates and inflation affect the mobile industry. Recent economic crisis around the globe have decreased consumer spending. During the economic recession, Blackberry's share price suffered (CBCnews, 2013), displaying its volatility and a close correlation to economic changes. Moreover, as energy resources become scarce, the mobile industry will face high production costs due to the extensive use of oil in manufacturing processes.

Socio-cultural: Mobile devices are utilized by both consumers and business segments to conduct either work and personal tasks. According to a recent study, the majority of mobile device users want a multi-functional device with access to more data (Cox, 2010). This, points to the fact that mobile device consumers prefer smart-phones. The mobile communications market is a growing industry that has captured the attention of consumers around the world, and as more individuals migrate to urban areas, the mobile market will further expand with the demand for connectivity.

Technological: The mobile communications industry is a fast-cycle market characterized by rapid development of innovative products. This sets the stage for a highly competitive environment. Consequently, the industry suffers from short-product life cycles, which requires industry competitors to keep pace with technological advances. Additionally, a specific technology can become outdated and undesirable before its total costs are covered ("Research", 2012). Thus, capturing the first-mover advantage is of paramount importance for a competitor during product development. The mobile device industry is highly dependent on the availability of communication systems in countries. Therefore, as more countries develop their communications infrastructure, the mobile industry will be able to expand into new markets.

Global: Governments, such as the European Union, are engaging in deregulation and eliminating trade barriers in the wireless telecommunication industry. This provides an opportunity for mobile communication companies to expand into new consumer markets.

Porters Five Forces:

The threat of new entrants in the mobile communications industry is moderate. A new entrant that is able to produce a well-differentiated and innovative product can steal market share from existing competitors. However, the high capital requirements make it difficult for new entrants to generate revenue until they build a loyal clientele base and establish their brand. The short product life cycle in this industry requires competitors to continuously evolve. This continual innovation is difficult for new entrants to achieve. Also, existing products, such as Apple's iPhone, have built brand loyalty and assoicated switching costs for consumers, which pose as barriers to entry for new competitors.

The Bargaining Power of Suppliers for Blackberry has increased, due to Blackberry's eroding market share. Firms who dominate the mobile communications industry, such as Apple and Samsung, have relatively higher bargaining power, because their larger product orders account for more of the suppliers business.

Bargaining power of buyers is moderately high as carriers, such as Telus or Verizon, tend to buy in massive volume to provide for their subscriber base. If demand for a product declines, such as it did for Blackberry, these vendors enjoy tremendous leverage in buying power. These highly competitive environments offer consumers more options and thus the ability to demand greater price concessions. Although there are governmental barriers to competition amongst carriers in the Canadian market, consumers still have the ability to choose their favorite products and this is reflected in the orders an individual telecom carrier books with suppliers, such as Blackberry.

The Threat of Substitutes is high, since mobile product-life cycles are short. For example, Motorola is currently developing a wristwatch that will perform the same functions as a Smartphone, potentially displacing handheld smartphones out of the market. Furthermore, as substitutes and disruptive alternative technologies enter the mobile market, competitors will see a decrease in operating margins. For instance, in 2011 the average cost of a tablet was $423 and it is predicted by 2013 year end it will fall to $300 ("Research", 2012). Consequently, a market saturated with substitutes, similar to the tablet market scenario, will constrict profit margins and limit the amount of capital available for new product innovations.

The Rivalry Among Competitors is quite high. Apple and Samsung have captured more than 50% of the Smartphone market (Bernstein, 2012), and various other competitors are scrambling to increase their market share. High production costs in the early stages of the mobile product life-cycle mean that competitors fiercely pursue speed-to-market production, in order to optimize profit margins and maximize sales of their products before they become outdated and obsolete. Furthermore as rivalries increase, thinning market share translates into reduced revenues and less financial resources for product development.

Internal Environment

Tangible Resources

Physical: Blackberry currently has 16500 employees, a subscriber base of roughly 80 million, around 10 manufacturing centers, and a network of 565 wireless carriers across the world that offers Blackberry's services (S&P, 2013). Therefore, Blackberry is a large global company with a multitude of physical resources at its dispense.

Organizational: The new CORE program that Blackberry implemented in March 2012, is estimated to save a minimum of one billion dollars in processing costs by the end of 2013 (RIM, 2012). The CORE program aims to improve efficiency for Blackberry's processes. They plan to achieve this by working with suppliers and distributors to streamline the supply chain, decreasing the number of management layers, reducing the number of employees by around 5,000 people, and targeting marketing efforts to regions that have highest growth prospects (RIM, 2012). In short, Blackberry is decentralizing its organizational structure and condensing its internal operations, with the objective to become more locally responsive to consumer needs.

Financial: Since 2011, Blackberry has been experiencing a decline in revenues (S&P, 2013), and the current financial reports indicate a continuing trend in the same. However, after a flat-line in their share price, the firm has stabilized and maintained a market capitalization of $7.74 billion and a 2012 net income of $1.16 billion. This indicates that Blackberry still has the resources and improving support from capital market groups (S&P, 2013).

Technological: Blackberry's products and services include: Several generations of Smartphones and Tablets, a variety of add-on applications that can be purchased through the Blackberry website, Blackberry Enterprise Services, customer support, and various generations of software (Blackberry, 2013). Therefore, they have a diverse product mix allowing them to capture broad consumer markets.

Intangible Resources

Reputation: Blackberry's ability to provide security for client's personal information is the bedrock resource for the company. This reputation makes Blackberry the preferred Smartphone of many government officials and businesses professionals. The influence of these two market segments acts as an exceptional endorsement for Blackberry products.

Management: Chief Executive Officer, Thorsten Heins has 27 years of experience in the wireless telecommunications industry. Heins was internally promoted in January 2012; after spending five years working as Chief Operating Officer. Heins was formerly the head of R&D at Siemens AG, a multinational electronics engineering company, so he brings vital technical expertise to Blackberry (Blackberry, 2012).

Innovation: Blackberry Smartphone's unique keypad and BBM messaging system have established a solid brand loyalty with their customers. These innovations have become keys to Blackberry's competitive strategy.

Capabilities

Security: Blackberry's messaging system uses PIN encryption technology that makes it difficult to intercept users messages (Blackberry.com, 2013). This unparalleled security technology makes it extremely valuable for sensitive communications among governments and business. Furthermore, this proprietary cornerstone of Blackberry's business has proven difficult to imitate.

Research and Development: Blackberry's ability to develop new Smartphones, tablets, applications and software is essential for their competitive strategy – continuous innovation being critical.

Marketing: Chief Marketing officer, Frank Boulben has employed several recent strategies to enhance customer perception of the company. Their most noticeable change was obvious when they moved to change the name of the organization from RIM to Blackberry. Another marketing strategy example was the launch of powerful advertising campaigns in the U.S. that were aired during the Super Bowl (Krashinsky, 2013). Boulden recently contracted Grammy acclaimed singer, Alicia Keys, to endorse Blackberry Smartphones in a further attempt to make Blackberry more current and relevant (Laird, 2013).

Current Situation

The firm has re-emerged on the telecom scene with new relevant technology. On January 30, 2013, Research in Motion formally changed its name to Blackberry and introduced a new line of smartphones with a brand new operating system and a refreshed enterprise service. The firm's two recently launched smart-phones, the Z10 and Q10, are intended to compete with Apple's iPhone and Samsung's Galaxy devices. The company has also refreshed its Blackberry Enterprise Software (BES) and has introduced the ability to use and manage enterprise service accounts (coined Mobile Device Management) on iOS and Android devices. This should increase the base of potential BES users (Verge, 2013).

Financially, the firm has endured some volatility and has emerged with a strong footing. Shareholders initially responded negatively to the Blackberry 10 launch because U.S. consumers would have to wait until the end of Spring 2013 to receive the new devices (Reed, 2013). As the company moved closer to the U.S. launch the share price began to stabilize as research firms predicted that Blackberry's sales would be higher than projected in 2013 (Jaberwok, 2013). In Q3 of 2012, the company posted better than projected revenues of $2.7B shipping approximately 6.9M smartphones and 255,000 Blackberry Playbooks. Blackberry's aggressive cost cutting and substantial corporate restructuring has expanded its cash reserve to $2.9B US dollars. They are now well positioned financially to push forward with an extensive marketing campaign to stimulate demand for their new devices (BlackBerry, 2012)

Blackberry is currently competing in a very competitive fast-cycle market where new generations of mobile devices are commonly introduced once or twice per year. Samsung's upcoming launch of the Galaxy S4 is gaining attention in the industry. Samsung sold more than 100 million Galaxy devices since their introduction in 2010 and competitors fear that the S4 will surpass these levels (CBC News, 2013). Furthermore, competitors such as iOS, HTC and Sony, amongst others, are fighting for market share and aggressively marketing their new devices this year. Blackberry has also launched an aggressive marketing campaign to create excitement around the new brand and to inform users of the new and improved features of the Blackberry platform.

One of Blackberry’s strengths has been its appeal in markets outside North America. In many developing countries, especially India, the new Blackberry Z10 has been widely acclaimed and well received (Yahoo, 2013). The continued optimism for Blackberry’s devices in these high growth markets suggests this tech giant will experience some market tailwinds.

Strategic Challenges

One of Blackberry’s current challenges has been the creation of mobile apps for its users. Although Blackberry has improved compatibility and the ability to convert applications from differing operating systems, firms such as Instagram, Netflix and Spotify have chosen not to make apps for the new Blackberry 10 platform (Forbes, 2013). This is problematic for Blackberry as loyal users of these valued apps and will likely purchase competing devices that do provide compatibility.

Another strategic challenge that Blackberry is facing is communicating their value proposition to consumers. Many consumers lost confidence in the firm and switched to Apple and Samsung devices in recent years. Hence, there are two primary challenges facing the firm: how to convince new smart-phone buyers of the value of their product and how to convince existing smart-phone owners to switch to Blackberry. Therefore, in order for Blackberry to re-emerge as serious contender in the mobile telecom market, execution of a solid marketing campaign is absolutely critical.

The promising markets are Newly Industrialized Countries (NIC’s) where rates of smartphone adoption are the highest. Hence, markets including India and Indonesia have become important to Blackberry’s revenue stream. However, the low GDP per capita in these regions makes premium mobile products a tough sell. Blackberry must pursue a product and marketing strategy appealing to the largest amount of users in these regions. Blackberry will be rolling out less expensive devices similar to the previous Blackberry Curve, intended to penetrate these emerging markets.

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