

TEACHING NOTE

Make or Break at RIM: Launching BlackBerry 10

Structure of the Case

Make or Break at RIM is the story of a technological leader in the market and how it lost dominance. Once synonymous with mobile e-mail and security, RIM was drastically affected by the actions of competitors and their ability to create superior value while chipping away at the differential value brought by other smartphones and RIM devices—most notably, Apple's preferred form factor and the App Store, and the open-source Android operating system. The case opens with the appointment of a new CEO following pressure from shareholders for a leadership change.

Just days before the launch of the BlackBerry 10 with its new software architecture, and following a series of acquisitions to bolster resources and capabilities, Thorsten Heins wonders, "Will this be enough to rescue RIM?" If not, what are the strategic alternatives for the firm?

The case opens with the background of RIM and a description of the industry, as well as the technology upon which RIM based its success. It follows chronologically how the industry shaped up, including trends and competitive dynamics. Embedded in the teaching notes are concepts from Porter's five forces model and RBV, with attention on economies of scope, scale, and the learning curve in the discussion of strategic options. The case can also be used to demonstrate first-mover advantage and, in the absence of an isolating mechanism, how this is temporary. The case can also be used to illustrate product life cycles, saturation of segments, and how pressure on margins occur over time.

Suggested Questions

ANALYSIS: FOCUS ON EXTERNAL AND/OR INTERNAL ENVIRONMENTS

1. What trends in the enterprise market are affecting BBRY (BlackBerry)?
2. What is happening with demand in the smartphone market?
3. What usage trends are affecting demand for smartphones?
4. What is the financial strength of RIM? What do the numbers tell us?

*FORMULATION: FOCUS ON BUSINESS, CORPORATE,
AND/OR GLOBAL STRATEGY*

5. How has the smartphone industry changed, and is this an attractive industry?
6. What is BBRY's business strategy?
7. What is BBRY's source of competitive advantage?

*IMPLEMENTATION: FOCUS ON RECOMMENDATIONS
AND HOW TO EXECUTE THEM*

8. Which of the options should Mr. Heins pursue and why?
9. Why did Google buy Motorola?

Suggested Answers

ANALYSIS: FOCUS ON EXTERNAL AND/OR INTERNAL ENVIRONMENTS

1. What trends in the enterprise market are affecting BBRY (BlackBerry)?

BlackBerry's annual report states, "Historically, the wireless communications market has been highly segmented. Where previously the market was segmented into distinct enterprise and consumer/prosumer segments, the market has evolved in recent years and there is now significant overlap between the segments. The enterprise market is now characterized by a combination of enterprise-deployed devices and devices that are purchased by consumers but also used in the corporate environment, commonly referred to as "Bring Your Own Device" (BYOD).¹ BYOD is being implemented corporately by 54 percent of corporate decision makers in North America and Europe.² BYOD stems from two sets of pressures on corporate decision makers. The first is economic. One way for firms to lower IT costs is to let workers use their own devices. The second is sociocultural. As demand for specific devices such as the iPhone increased and the value through applications surpassed BlackBerry, business consumers put pressure on IT decision makers to allow them freedom of choice.

The company openly acknowledges the concern about this in their core market. "These consumer devices are supported in a corporate environment by IT departments for access to corporate messaging and data applications. The Company has encountered challenges adapting to the BYOD movement as some IT departments that previously required employees to use the BlackBerry wireless solution because of its emphasis on security and reliability are permitting employees to choose devices offered by the Company's competitors. To address this evolution of the market, RIM recently introduced products to take advantage of this market shift including BlackBerry Enterprise Server Express, BlackBerry Mobile Fusion, and BlackBerry Balance, which give IT departments the ability to securely monitor multiple OS platforms as well as securely protect corporate data on an employee's personal smartphone or tablet."³

2. What is happening with demand in the smartphone market?

One of the things happening in the corporate environment is saturation of power users reducing demand. The people who needed to be connected to e-mail the most, enterprise customers, already have a device. In the U.S., 78 percent of the adult population between the ages of 15 and 64 already has an Android or iOS smartphone.⁴ Globally, the remaining possible clients (late adopters) are more price sensitive. This is causing margin pressure on BBRY and has been acknowledged in their annual reports for the last few years (See Question 4). The global demand for mobile phones has grown only 1.2 percent. However, as smartphone prices come down, it stimulates demand for smartphones, a segment which is growing by 36.4 percent year to year.⁵ The problem is that BBRY is not well positioned to participate in the low-price segment.

3. What usage trends are affecting demand for smartphones?

Increasingly, the smartphone is used less and less as a phone. As the device has gained functionality through application, the amount of time spent talking on the phone is relatively small compared to our actual total usage. The results of one study, where dataset 1 comprises a mix of 33 high school students and knowledge workers and dataset 2 comprises a group of 222 users of diverse demographics and professions, show that the majority of the population has significant utility over the non-phone parts of the smartphone. In a larger dataset, less than 5 percent of users used the smartphone for voice communication, which is more than 20 percent of total usage.⁶

A *Time* mobility poll showed that 32 percent of respondents would rather text than call. Over time, the amount of texting we do has exploded. In 2000, there were 14 billion texts, but this number grew to 188 billion in 2010.⁷

4. What is the financial strength of RIM? What do the numbers tell us?

Exhibit 2 in the case shows some clear cause for concern. Despite the increases in efficiency stated by Mr. Heins and working capital, the majority of items that would point to future financial health demonstrate an inverted U. While students will easily look at revenue, the trend in gross margin is even more concerning. After peaking in 2006, it has shown a steady decline. Operating margin lags this as revenue continues to grow past 2006. Instructors can point to this as a familiar pattern in the evolution of an industry. In the early stages, there are few competitors, and those with the highest value (question 2 earlier) begin purchasing. This allows high margins for suppliers. Margins continue to grow as the few firms in the industry refine their offering. Economic rents attract competition, and as potential competitors see gross margins of 55 percent, they dedicate resources in this direction. As more competitors enter the market, these high margins erode especially in the presence of declining demand and/or attempts to penetrate price-sensitive segments.

None of the profitability or yearly growth indicators trend in an optimistic direction. DSO can also be an area of concern since this may be another indicator of slowing demand. A departure to an accounting discussion could also prove valuable. In all likelihood, BBRY books sales when they ship to channel partners. They get paid by these channel partners either after a fixed period of time or when the product sells—probably the latter. This means BBRY can manipulate their earnings by shipping a whole bunch of inventory to channel partners when they wish to boost revenue. Naturally, this cannot be done perpetually, but it is a common practice. As a cross-check, if we divide receivables by revenue, we see that receivables represent 24 percent of revenue, where only two years ago receivables were 13 percent of revenue. Puritans may point to mixing stock and flow measures, but if they are bloating

the channel, it should show up in receivables. An alternative explanation is that they are gaining more channel partners, but ones that take longer to pay, such as international. That is a rational explanation however, while BBRY has 88 DSO, Microsoft is at 64, Motorola has 65, and Apple has 20.

In summary, what Mr. Heins may be saying is, “Look at the one number on the balance sheet which is not abysmal.”

FORMULATION: FOCUS ON BUSINESS, CORPORATE, AND GLOBAL STRATEGIES

5. How has the smartphone industry changed, and is this an attractive industry?

One of the largest changes and determinants of profitability was probably the open licensing of Android along with Google Play. Firms wanting to enter the handheld market for hardware sales formerly had to worry about developing an operating system. This operating system used to be a differentiating factor. With Android being available under an open-source license in 2007, it had a number of effects on the forces acting in the industry. First, it lowered the barrier to entry to makers of electronics. They no longer had to worry about developing user interface software. Second, it decreased the switching costs for retailers and network carriers who may see the handset as a commodity. Third, it increased rivalry as one of the elements of differentiation, the operating system, was negated. Unfortunately for handset manufacturers, the pressure to change to Android OS was simply too great. Without apps, you cannot compete. With a critical mass of Android users, developers have incentive to develop for that platform. Other factors affecting the profitability of the smartphone industry appear in Exhibit TN-1.

Instructors can draw from the PC industry and ask, “Who is making money in PCs?” With the exception of the CPU, the hardware is a commodity. Sources of differentiation have really been stripped away through licensing of the operating system from Microsoft. This is what Android has done for the industry. It is looking like it could shape up as Android versus iOS, much like how it is now Windows versus Apple in the PC industry. The wildcard is now that Google has purchased the handset business from Motorola, how does the industry look going forward?

Instructors can also draw attention to the role of strategic complements at the firm and industry level. The App Store was a complement to Apple that significantly increased value to the iPhone. Google Play and Android open-source OS now level the playing field at the industry level. Because of the value brought by the apps and phone combination, firms in the industry without a similar breadth of apps cease to be relevant contenders.

There may also be some interest in what BBRY believes are the barriers to entry as stated in their 40-F filing. These sorts of items can often be used during discussion to see if the focal firm has a realistic view of how secure their position is in the marketplace. Such items include the following:

- Proprietary technology platform, including hardware, software and service expertise
- Intellectual property rights
- Existing strategic alliances and relationships
- Existing customer and channel relationships
- Access to components and established supplier relationships

- Scarcity of highly qualified personnel
- Significant capital requirements
- Significant development costs and time-to-market
- Manufacturing expertise
- Regulatory barriers, such as Federal Communications Commission (FCC) approval and network certification
- Market and brand recognition of industry leaders

6. What is BBRY's business strategy?

Broad differentiation. BlackBerry wants to appeal to the masses and appears to focus on two areas. The first is security. They are arguably the leader in security and have implemented several layers to assure they keep this lead. Second, they want to offer a fully integrated end-to-end offering. For the enterprise clients, this includes hardware, software, and services from the behind the firewall to the device, as well as applications for increased utility. For consumers, they are focused on the service and the device itself. The third area of differentiation is the reliability of the service through efficient bandwidth use.

There are, however, some complications with this strategy. Their sources of differentiation are not necessarily as valued by the mass audience. With 54 percent of enterprise decision makers allowing BYOD, the implication is that these people feel the security offered with alternative devices is good enough. While BBRY was the leader in security and reliability, other firms such as Apple, who had security issues with early units, have made considerable progress. In fact, one of the signature areas of reliability is the BlackBerry Messaging system, yet there is little in the way of public uprising about competitors' offerings.

Instructors could use this discussion to look for alternatives for BBRY's business-level strategy. For example, "Why does President Obama use a BlackBerry?" The notion to draw out in class may be that there are portions of the enterprise market where good enough does not suffice. Security and reliability must be best in class. As a strategic alternative for BBRY, perhaps it is better to own a smaller portion of the market that has the greatest utility for one of your core competencies.

7. What is BBRY's source of competitive advantage?

Exhibit TN-2 can be used to illustrate BBRY's resources and capabilities to determine whether a firm has temporary or sustainable competitive advantage or simply has achieved competitive parity. While certain points may be open to debate, these are the elements thought to be related to commercial success in the industry. Unfortunately, in many of the cases BBRY has only achieved competitive parity. Things like geographic coverage, design, user interface, multinetwork support, and connectivity to enterprise applications used to be sources of differentiation. Like in most product markets, sources of differentiation are eroded away over time as competition learns to replicate those things that bring the most value to consumers.

Other sources of differentiation, and the value they bring, may be dependent on the segment you wish to pursue. For example, for enterprise customers with deep security concerns, a fully integrated solution may be necessary. For your average consumer or firms that allow BYOD, it's not as critical. Other things like push-based architecture fall into the same class. Something like efficient bandwidth

use or end-to-end security fall into a category of “Does it meet the user’s minimum expectation?” If the benefit is not perceived by the customer, then it doesn’t matter. Security and efficiency is valued, but competitors like Samsung and Apple have things figured out well enough that the quality of service for end users is good enough.

IMPLEMENTATION: FOCUS ON RECOMMENDATIONS AND HOW TO IMPLEMENT THEM

8. Which of the options should Mr. Heins pursue and why?

The first option is one that suggests the firm stay the course and let the current strategy play out. They had made a number of technology acquisitions and it will likely take some time for these to become fully integrated. QNX is a relatively new operating system and there are a few product launches on the horizon. However, this in itself will probably not appease shareholders. Pressure to split the firm up, sell and get rid of top management is likely unless constituents believe the firm has a clear strategy. Unfortunately, after being a leader at the beginning of the industry, they have been reactionary in recent years.

Should the company wish to continue with their current direction, it is likely they will need to make some modification. The first could be that they continue with the security positioning and continue to be an end-to-end provider, but for a smaller very security-conscious segment. Markets mature and segments emerge. This would leave them as a much smaller player, and whether they can maintain this positioning is questionable.

Alternatively, they could try and find some way to reposition the firm and steer it in a slightly different direction. With QNX embedded in so many different vehicles, this may give rise to an opportunity to handle and increase the value of the telematics, infotainment, and navigation. Perhaps BlackBerry will become a technology platform, much like how Amazon transformed itself from book-seller to infrastructure provider. The challenge would be in giving shareholders something concrete and optimistic about what BlackBerry will be.

Another possibility is the licensing of their technology. With 77 million subscribers and some brand equity, it is likely that another handset provider would add this to their current lineup. This could spawn more innovative handsets for the platform and lead to a bigger subscriber base. The concern here would be their ability to continue to compete in the handset business. It is likely they already have significant economy of scale disadvantages. When you have 4 percent of the market and your competitor has 30 percent, you can infer they may have efficiencies that you can never achieve. Discussions to this effect should include both economy of scale and the learning curve to prompt students to think about not only scale, but the effects of being first to market on cumulative production. Discussions should also drive toward the strength of BBRY. At their core, they have been strongest as a technology firm. Perhaps they should play to their strengths. This could be part of a natural evolution where it is necessary to make their own devices to build the market but at some point (probably far in the past now), it stopped making sense for them to mimic being an electronics manufacturer.

A natural extension of this would be to entirely exit the manufacturing of their handsets. Many other firms contract manufacture, and with the acquisition of The Astonishing Tribe, perhaps they should simply focus on design, distribution, and service. The follow-up discussion could be around who to partner with, and specifically what activities you should perform. For example, if I outsource

to Flextronics or Foxconn, BBRY will continue to do all the activities in the value chain. However, if I were to have an alliance with someone like Samsung or HTC, it may be possible to achieve greater efficiencies in distribution or service by having them perform these functions as well. Discussions of this nature could include a question of why an alliance with Samsung may be a superior option to simply licensing the BBRY OS. In the event there needs to be asset specific investments to optimize the value chain, it leads us to a closer arrangement, such as exclusive licensing or if more investment is necessary, an alliance.

The last option may be a sale of the firm. If this is a preferred option, the discussion may be around why the BBRY would be better in the hands of another firm than on its own? What resources or capabilities will another firm bring that will add value to an acquisition of BBRY? If these can be identified, perhaps there will be another mechanism to obtain these resources and capabilities. Discussion around this point could lead to the fiduciary responsibility the TMT has to shareholders if a sale of the firm appears to maximize value.

9. Why did Google buy Motorola?

Instructors may wish to use this as a last question with or without discussion. On August 15, 2011, Google announced an agreement to acquire Motorola Mobility, based in Libertyville, Illinois, for \$40 per share.

The company stated that the benefits of the deal were that Google and Motorola Mobility together would accelerate innovation and choice in mobile computing. Consumers would get better phones at lower prices. As well “Motorola Mobility’s patent portfolio will help protect the Android ecosystem. Android, which is open-source software, is vital to competition in the mobile device space, ensuring hardware manufacturers, mobile phone carriers, applications developers and consumers all have choice.”⁹

One can only speculate on the plan going forward. Motorola was not a strong player in the market. If we use economies of scale in the argument for BBRY forming an alliance with HTC or Samsung, we have to use caution in the weight this argument holds since Motorola would also lack economies of scale.

One potential explanation could be in the chronology of events. Google helps develop an open-source operating system. Firms adopt the operating system because it creates an ecosystem with apps. At the time, Google is not a hardware maker, and handset makers are not software developers. The relationship is symbiotic. Now with a number of handset makers using Android OS, developers flock to the economic opportunity for applications. Now with the application landscape at a level playing field with Apple, Google enters the hardware market. There are a large number of hardware makers. At the time of this writing, there are few firms who can compete with Google in software development.

Case Updates¹⁰

The case ends on Tuesday, January 29, 2013, a day before RIM launches BlackBerry 10 (i.e., several new devices and a new operating system). With the product launch also comes the announcement that RIM will formally rebrand itself as BlackBerry.

Launching BlackBerry 10 was not a successful turnaround event for the company. The following months saw a further decline in sales and share price.

In September 2013, BlackBerry announced an operating loss of nearly \$1 billion due to an inventory of unsold smartphones, including the new models just launched. BlackBerry announces a further reduction of its workforce, laying off 4,500 employees.

Also in September 2013, BlackBerry announced it would go private—it accepted a (preliminary) buyout offer of \$4.7 billion by a Fairfax Financial Holdings, a Canadian insurance firm and its largest shareholder. BlackBerry also announced that it would no longer make any consumer devices but would focus on commercial customers and usage only.

In October 2013, the Chinese PC maker Lenovo signed a non-disclosure agreement with BlackBerry and was considering making an offer to buy the company. Lenovo is the largest PC maker by shipments. Given BlackBerry's strong customer base with the U.S. and Canadian governments (some 80 percent of the 600,000 mobile devices issued by the U.S. Department of Defense are BlackBerrys; President Obama is also a BlackBerry user), there is likely to be close scrutiny and potential pushback from a Lenovo buyout attempt of BlackBerry.

Additional Resources

Optional Topics for Discussion

An additional topic for discussion could be corporate governance. Why did it take a shareholder revolt to remove the CEO? Why were the ousted CEO and Co-CEO allowed to choose the successor?

Contact your local representative from McGraw-Hill Education (<http://shop.mheducation.com/store/paris/user/findltr.html>) for information about access to financial analysis spreadsheets.

EXHIBIT TN-1 Factors Affecting the Profitability of the Smartphone Industry

Factors Leading to...	Threat of New Entrants	Power of Suppliers	Interfirm Rivalry	Power of Buyers	Threat of Substitutes
High threat	Little differentiation Open-source OS GooglePlay complements Little IP involved Good growth		Many competitors in industry Undifferentiated products	Retail channels and network carriers are consolidated Retailers and network carriers have little switching cost	
Moderate threat		Revenues to handset assemblers are not essential since they participate in broader electronics assembly	Low exit barriers for firms with multiple lines (i.e., Samsung), but this is a core business for many firms		
Low threat	Retaliation by incumbents is likely	With exception of HTC, low likelihood of forward integration Many potential suppliers with low asset specific investment Low switching costs		Existing enterprise client base has switching costs as they give up control when switching from RIM Consumer demand for the latest technology pulls product through retail	While price has kept some out of smartphones, there really are few alternatives
Overall assessment	High	Low	High	Moderate	Weak

EXHIBIT TN-2 VRIO Analysis of to Determine BlackBerry's Competitive Advantage

BBRY's Resources and Capabilities ... are they?	Valuable V	Rare R	Costly to Imitate I	Organized to capture value O
Integrated hardware, software, and services	•	•	•	•
Ability to deliver intuitive interfaces / ease of use (TAT)	•		•	•
Attractive design capabilities (TAT)	•		•	•
Competitive pricing	•		•	•
Reasonable battery life	•			•
Multinetwork support	•		•	•
Connectivity to enterprise infrastructure	•		•	•
Efficient bandwidth use	•	?	•	•
End-to-end security	•	?	•	•
Push-based port architecture	To some	•	•	•
Excellent customer care	?	•	•	•
Connectivity to personal applications (vs. enterprise)	•		•	•

Additional Exhibits

EXHIBIT TN-3 Top Five Countries Smartphone Shipments and Market Share, 2013 and 2017 (Units in Millions)

Country*	2013 Unit Shipments	2013 Market Share	2017 Unit Shipments	2017 Market Share	2017/2013 Growth
1. China	301.2	32.8%	457.9	30.2%	52.0%
2. USA	137.5	15.0%	183.0	12.1%	33.1%
3. United Kingdom	35.5	3.9%	47.5	3.1%	33.8%
4. Japan	35.2	3.8%	37.7	2.5%	7.1%
5. Brazil	28.9	3.1%	66.3	4.4%	129.4%
6. India	27.8	3.0%	155.6	10.3%	459.7%
Others	352.5	38.4%	568.1	37.5%	61.2%
Total	918.6	100.0%	1516.1	100.0%	65.0%

Source: IDC Worldwide Mobile Phone Tracker, March 4, 2013.¹⁰

Endnotes

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7. Kluger, J. (2012), "We Never Talk Anymore: The problem with Text Messaging," *Time*, August 16, accessed May 31, 2013 from <http://techland.time.com/2012/08/16/we-never-talk-anymore-the-problem-with-text-messaging/>.
8. RIM servers and software allows IT departments full control over the corporate side (following Balance) of the smartphone.
9. "Facts about Google's Acquisition of Motorola," Google press release, accessed June 1, 2013, from <http://www.google.com/press/motorola/>.
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