



MSIS 2604 TEAM PROJECT BLACKBERRY

Company Review

URVI MUNOT
MOHIT KUDALKAR
ABHISHEK CHOUDHURY
AJAY KUMAR GUMUDAVELLY

Table of Contents

Executive Summary	2
Overview	3
Timeline	5
Five Force Analysis: 2008	7
Downfall	9
Change in Strategy and Management	9
Five Force Analysis:2016	13
Role of Complements	15
Major Competitor	15
Financial Analysis	16
Stakeholder Analysis	20
Multiple Dimensions of Value	21
Conclusion	23
References	24

Executive Summary

Blackberry have been the most popular brand in the US smartphone market for a long time. Every third device bought used to be a BlackBerry. But the smartphone market faced a dip on entry of rivals like Google's Android platform and the Apple's iPhone. Post 2013, BlackBerry decided to not invest anymore in the smartphone market after facing heavy losses for the company.

BlackBerry now provides enterprises software solution to the mobile communication market. The software suite includes various component software which allow the smartphone devices to access email, apps, media files and internet. A suite of these applications emerged as the BlackBerry Enterprise Solution.

In this report, we have tried to capture the rise of RIM since its inception to the popularity and downfall of BlackBerry in the mobile device segment. We have tried to capture various aspects and causes of their strategic decisions using Porter's Five Force analysis. We also discuss about the Roles of their Complements and various Network Externalities in this report.

Overview

Blackberry, formerly known as *Research in Motion (RIM)* is a company based out of Waterloo, Canada. It was founded in 1984. It is a multinational telecommunication software and mobile hardware company best known to the public as the owners of the Blackberry brands of cell phones and tablets. But instead of continuing the mobile phones business, they are transitioning into the worldwide provider of highly secure and reliable industrial software and Mobile Device Management(MDM) software. Blackberry had a market share of 41% in the first quarter of 2010. It has declined to a mere 0.8% in the recent years due to intense competition from competitors like Google and Apple.¹

²In 1988, RIM was the first company in North America to develop wireless data technology. They were also the first company outside Scandinavia to develop connectivity products for Mobitex wireless packet-switched data communications network. RIM got listed in the Toronto Stock Exchange in 1997 which raised around a \$115 million. Post that, they launched the BlackBerry email service across North America. They were the first ones to offer wireless device which synced with the corporate email systems. This was the USP of those devices at that time which skyrocketed the BlackBerry device sales. The sales shot up by 80 percent to \$85 million. In the same year, they got listed in Nasdaq which helped them raising another \$250 million.

¹ https://en.wikipedia.org/wiki/BlackBerry_Limited

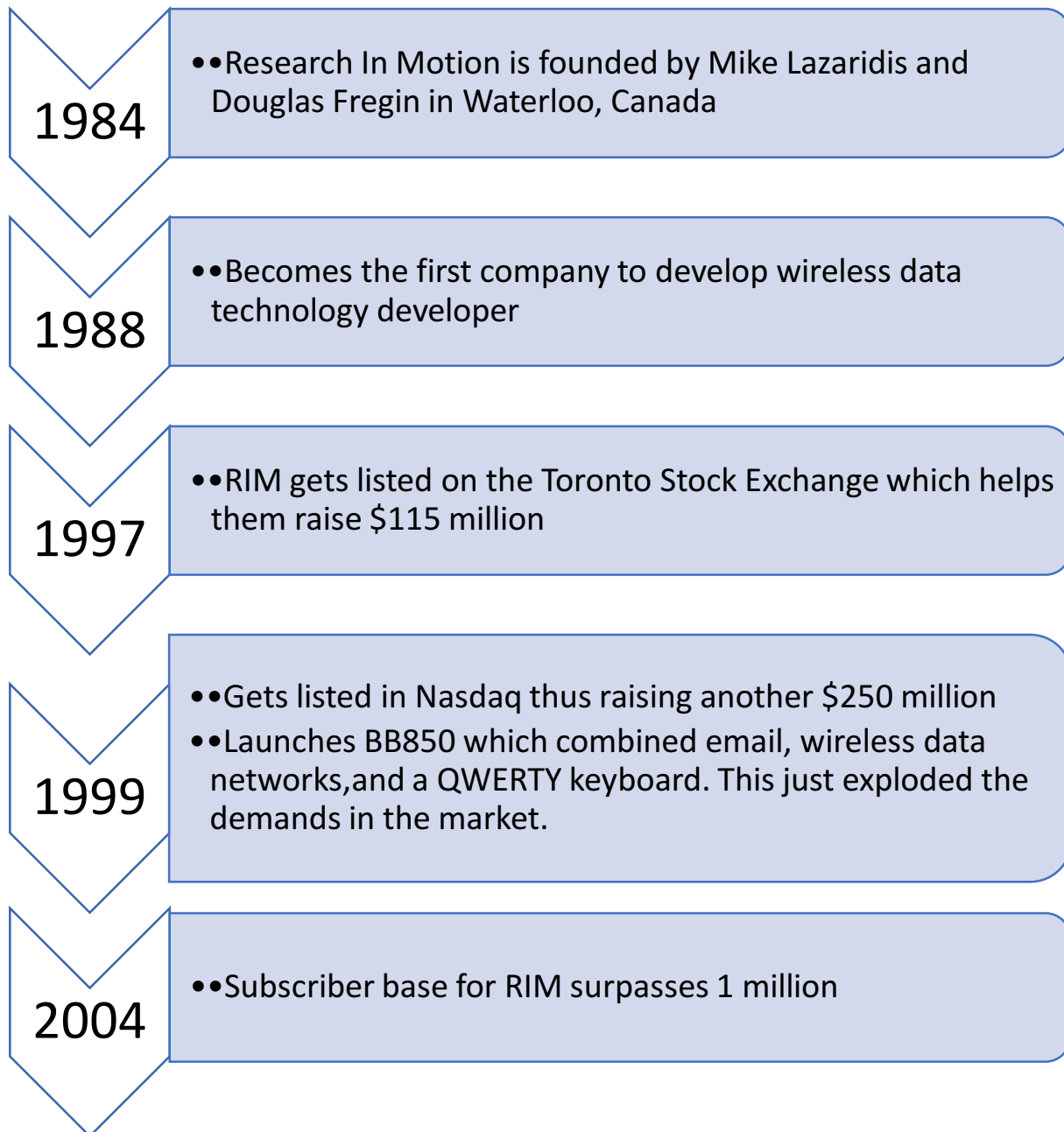
² <http://www.reuters.com/article/us-rim-blackberry-timeline-idUSBRE90T10A20130130>

This was the time when RIM introduced BlackBerry 850 wireless handheld which combined email, wireless data networks and a traditional 'QWERTY' keyboard.

By October 2007, RIM had passed 10 million subscribers. But despite all the success they had, the mobile device market of BlackBerry started to decline after the release of competitive markets of Apple's iPhone and Google's Android Platform. RIM already started facing dismal financial status, they still had to slash their financial forecasts. By June 2011, they missed the already lowered quarterly revenue.

This report focuses on the rise and fall of BlackBerry in the mobile device segment. We have tried to throw some light on what happened to their existence after the failure in the mobile segment. BlackBerry had a strategic remodeling of their business and they decided to not continue in the mobile device segment anymore. They have their presence in the enterprise software domain. Over the recent years, they have acquired various companies like WatchDox, Good Technology, who were their competitors a few years ago, to build a suite of enterprise applications.

Timeline:^{3 4}



³ <http://www.reuters.com/article/us-rim-blackberry-timeline-idUSBRE90T10A20130130>

⁴ http://www.blackberry.com/select/get_the_facts/pdfs/rim/rim_history.pdf

2007

- Subscriber base for RIM surpasses 10 million

2010

- Acquires QNX Software for \$200 million for industrial strength operating system

2011

- BlackBerry offers to manage rival devices
- BlackBerry starts operation in Enterprise Software

2012

- Heins promises strategic overhaul as RIM reports a slump in BlackBerry product shipments

2013

- John Chen replaces Thorsten Heins as the CEO of BlackBerry

2015

- BlackBerry acquires WatchDox in April
- BlackBerry acquires AtHoc in July
- BlackBerry acquires Good Technology in August

Five Force Analysis

Year: 2008

a. Degree of Existing Rivalry: Strong Rivalry

Blackberry's(RIM) smartphone business was booming with the launch of the curve series of smartphones. Major competitors for blackberry were Nokia, HTC, Samsung and Motorola. All these companies offered smartphones for users but they were somewhat different in terms design, operating system and security. While Nokia offered office/work smartphones with its E series, Motorola and Samsung mainly targeted the regular customers. Nokia venturing into the enterprise/work phones highlights strong rivalry.

b. Threat of Potential Entrants: Weak

The threat of potential entrants is weaker as entering the smartphone market with presence of big players such as Blackberry, Nokia, Samsung, Apple would deter any new entrant. The cost for the potential new entrant to establish credibility in the smartphone market and marketing it would be very high. High entry barrier signals weaker threat.

c. Threat of Substitutes: Strong

Blackberry mostly focused on the trackpad and qwerty keypad technology of smartphones. Apple's capacitive touch screen technology was a substitute for the qwerty/trackpad blackberry smartphone. It offered a virtual keyboard on the display and was more user friendly with its touch screen capability over the trackpad.

d. Bargaining Power of Suppliers: Weak

Blackberry used its in house operating system the BBOS for all its smartphones. The hardware components of its smartphones had multiple suppliers.⁵ Blackberry shared a mutual benefit relationship with its suppliers. Blackberry did not have a single supplier as such but it didn't want to change its suppliers frequently. Thus, it was not the case that blackberry was dependent on a sole supplier.

e. Bargaining Power of Buyers: Weak for existing enterprise customers, Strong for individual buyers

Blackberry offered mobility solutions and devices to various enterprises. These companies would buy smartphones for their employees and would also use the secure Blackberry platform and applications. For such enterprises, this would involve a high switching cost to get all their employees change their devices and applications. Whereas, the bargaining power for individual buyers is high as they have very low switching costs and can move to any other smartphone provider.

Conclusion: Porters Five Force analysis suggests that the competitive environment is somewhere between unattractive and ideal.

⁵ http://economics-files.pomona.edu/jlikens/SeniorSeminars/harknessconsulting2008/pdfs/Research_in_Motion.pdf

Downfall

Blackberry have always been popular for corporate mobile phones. Their USP was their secure infrastructure and the ability to securely connect to the corporate mail servers. Models like BlackBerry Curve, BlackBerry Bold, Storm2 and the most recent Torch9800 were the most popular of all. They used to rule the market along with Nokia before Apple's iPhone and Google Android phones. The rise of these two giants affected, RIM's BlackBerry's market share adversely. After the failure in the mobile market, BlackBerry decided to shift their operations to enterprise software applications.

Change in Strategy and Management

⁶Prem Watsa brought together a consortium in 2013 that would help fund a \$1billion loan to help Blackberry make a turn-around. The view from Watsa regarding Blackberry was that the company was a good long term investment which was not reflected correctly in the stock market. In 2013 he approached the famous turn around CEO John Chen who had helped turn around Sybase from financial crisis to selling it to SAP. The appointment of the new CEO lead to the increase in stock prices for Blackberry. Blackberry also changed its name to Blackberry from the old Research in Motion.

⁶ <http://www.thenextmillion.com/blackberry-turnaround/>

It was essential for blackberry to rethink its strategy as it was fighting a lost battle in terms of its smartphone business with the successes of Apple and Samsung. Blackberry was backed by Fairfax financials which has many experienced investors who would have the patience to stick to the company during the turn around.

⁷ Blackberry always had a massive patent portfolio, one of its biggest advantage was its secure enterprise software platform. It was focusing on this patent portfolio in terms of implementing its turnaround strategy. Blackberry had about 44,000 patents under its name. Blackberry wanted to innovate and excel in the secure communications market segment which was its strong point. Blackberry shifted its focus from smartphones to Enterprise Mobility management and Mobile Device Management domains. The management believed that ⁸“Software is the new Blackberry”.

Work towards new strategy

⁹The new CEO made some bold moves to kick start the turnaround of the company. He didn't shut down the smartphone business completely and introduced a device known as Blackberry Passport. It was a product directed towards enterprise customers and their employees. Blackberry also worked closely with Samsung to improve mobile security of its devices. He concentrated on acquiring more enterprise customers which were previously using competitor software. This led to an increase of around 24% of blackberry's software sales.

⁷ <http://www.reuters.com/article/us-blackberry-strategy-idUSKCN0RH2EP20150917>

⁸ <http://us.blackberry.com/home.html>

⁹ <http://www.thenextmillion.com/blackberry-turnaround/>

The market leader in the EMM segment was VMware Airwatch, Good Technology. Blackberry needed to find a way to gain a large market share in the segment. The BES12 server which was blackberry's in house EMM solution lacked some of the features which would enable it offer a full enterprise suite. Blackberry had to find a way to either develop these features in house or use the cash at hand to acquire some of these features and integrate into its platform. ¹⁰One of the features lacking in the BES12 offering was an application for Mobile Content Management. Thus, the company decided to acquire Watchdox which was an American-Israeli company which offered a collaborative content sharing-management application which focused on encryption, tracking and enterprise security controls. Blackberry acquired Watchdox in April 2015 and decided to offer Watchdox as (VAS) with its BES12 EMM offering. It allowed Blackberry to compete with the solutions provided by companies like Google, Box and Dropbox. Blackberry clearly wanted to establish itself in the mobile cloud segment and this acquisition clearly signaled its intent.

¹¹Blackberry was clearly making investments towards its privacy, IOT and security strategy. Blackberry acquired Athoc in July 2015 shortly after it acquired Watchdox. Athoc provided Blackberry with an application which enabled exchange of information during safety situations as well as during regular business communications. Athoc had clients like Department of Homeland Security, Microsoft and US Department of Defense. Blackberry along with a secure

¹⁰ <http://www.forbes.com/sites/maribellopez/2015/04/21/blackberry-acquires-watchdox-boosting-content-security/#2f2187525f38>

¹¹ <http://www.athoc.com/newsroom/press-releases/2015/713-blackberry-acquiring-athoc-to-enable-secure-mass-communication-and-collaboration.html>

emergency communications platform got the added incentive of getting federal customers under its platform.

¹²In September 2015, Blackberry acquired Good Technology for \$425 million in cash. Blackberry's huge cash reserves facilitated this acquisition. Good Technology was one of the market leaders in the EMM segment. It enabled the enterprise customers to monitor secure policies from a centralized location as well as providing a good IOT solution. Good was also known for using secure containers to boost mobile security. The sale was the only option for Good Technology which originally wanted to go public. Blackberry planned to bundle the Good Technology Apps along with its BES12 offering. This gave blackberry access to thousands of Good Technology customers. Blackberry was also benefitted by the various patents under Good Technology which it got access to. Good Technology also had a lot of iOS as well as Android customers, this enabled Blackberry to gain expertise and access in those platforms as well.

In September 2016, the company announced that will cease to make new smartphones and would focus solely on enterprise software licensing. It would continue to support existing smartphones but would not manufacture new ones. ¹³ The revenue from software and services has doubled for Blackberry as announced by the company in September 2016 earnings call. It recorded about \$16 million in operating profit. It also established a 33% increase in customer base with its Good EMM suite offerings from the previous quarter. All these points highlight that the new software approach taken by Blackberry seems to be working.

¹² <http://www.forbes.com/sites/maribellopez/2015/09/07/blackberry-acquires-good-helps-stabilize-battered-emm-market/#6b14efc3bc70>

¹³ <http://blogs.blackberry.com/2016/09/software-and-services-revenue-doubles-in-q2-for-blackberry/>

Five Force Analysis

Year: 2016

a. *Degree of Existing Rivalry: Strong*

Blackberry shifted its focus from smartphones to mobile enterprise software licensing. The Major competitors in the mobile device management domain include VMware Air watch, Microsoft Enterprise mobility, Good/Blackberry and Mobile Iron.¹⁴ Air watch, Blackberry/Good, Microsoft and Mobile Iron account for about 45% of the total mobile device management market. The presence of so many players in the MDM market shows the strong degree of rivalry.

b. *Threat of Potential Entrants: Weak*

The threat of potential entrants is weak as there is already a presence of big players like Blackberry/Good, VMware Air watch, Microsoft and Mobile Iron. The high costs for developing new software and marketing it would deter any new entrant. Also, due to high switching costs there would be reluctance to shift to new software.

c. *Threat of Substitutes: Weak*

Other industries do not seem to offer any direct solution for mobile enterprise software. Thus, there is no direct substitute as such. Hence the threat of substitutes is a weak force.

¹⁴ http://techorchard.com/wp-content/uploads/2016/06/IDC_EMMMarketShare_2015.pdf

d. *Bargaining Power of Suppliers: Weak*

The bargaining power of suppliers is weak as there are no suppliers as such for Blackberry. Blackberry develops its software in house and does not depend on any supplier.

e. *Bargaining Power of Buyers: Weak Force for existing customers, strong force for new customers*

Blackberry offers mobile device management solution with its secure mobility platform. The company sells its solutions to large, medium and small enterprises. There is a high switching cost involved for enterprises who already have the mobility solution installed in their enterprise. For any potential new customer, there is a low cost and the bargaining power would be high. Hence for existing customers the bargaining power is a weak force whereas for new customers it is a strong force.

Conclusion: Porters Five Force analysis suggests that the competitive environment is somewhere near ideal.

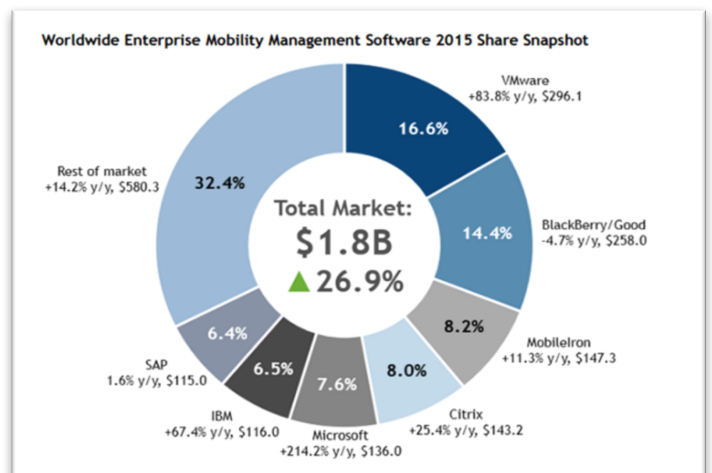
Role of Complements

Blackberry has established partnerships with various other corporations. Its partnership with Samsung in the domain of mobile security highlights this. With blackberry being a software oriented company now it is a good complement/partner for the hardware manufacturers. Blackberry also partners with several ISV's to get applications developed for its platform and for integration with other non-blackberry applications. These complements help blackberry are also a key feature of Blackberry's success.

Major Competitors:

¹⁵The major competitors for blackberry in enterprise software licensing domain are VMware Airwatch, Microsoft, Citrix and Mobile Iron. In 2015, VMware and Blackberry have a similar amount of market share around 15-16% each and then followed by Mobile Iron. Blackberry/Good hold a combined 20% share in the growing EMM market.

But in 2016 it is expected that Blackberry would go ahead of VMware as the market leader in the EMM segment with its increased customer base because of the Good Technology acquisition.



¹⁵ <http://techorchard.com/a-breakdown-of-enterprise-mobility-management-market-share/>
Page | 15

Financial Analysis

¹⁶The current stock price of Blackberry \$7.62. Its 52week high is \$9.46 and low is \$6.23.

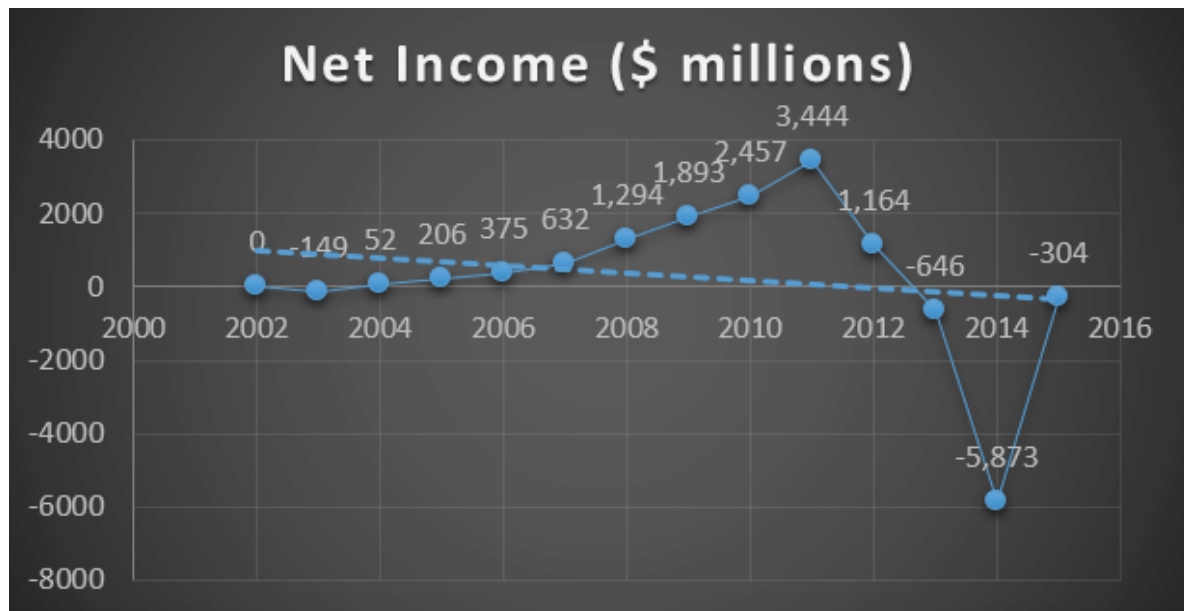
The stock prices have dropped a lot since 2007 when the price was \$135.97. The prices were the lowest in 2014 which was worth \$10. With the new strategy and change in business model, the company is recovering its position. The following chart shows the trends of the stock prices of the company.



Blackberry has gone through a wide variety of peaks right from being at the highest peak to the sudden downfall. In 2009, RIM was declared to be the World's fastest growing company by

¹⁶
<http://subscriber.hoovers.com.libproxy.scu.edu/H/company360/financialHistory.html?companyId=59141000000000&newsCompanyDuns=245645353>
<http://us.blackberry.com/company/investors/stock-information.html>

Forbes Magazine. The company had a net income \$3.4 billion and then it began to slump. Blackberry started facing heavy losses. By the end 2011, RIM cuts more than 10 percent of the workforce and blackberry started facing huge losses.



Source: Nasdaq

- ¹⁷2012:

In 2012, RIM announced that it would implement its turnaround plan of the delayed Blackberry 10 line of smartphones. RIM reported a smaller than expected loss in September 2012, sending shares up more than 10 percent in after-hours trading. RIM announced that its subscriber base had grown by two million in the three months ending September 1.

¹⁷ <http://us.blackberry.com/company/investors/stock-information.html>

<http://themarketmogul.com/blackberrys-strategic-shift-from-smartphone-to-software/>

<http://www.cbc.ca/news2/interactives/timeline-rim/>

The revenue was \$18435 million and the net income was \$1164 million. There was a \$518 net million loss in the first quarter of 2012. The gross profit margin was 35.69% and \$1527 million cash and cash equivalent by the end of 2012. The total assets accounted for \$13731 million.

- **2013:**

RIM continued its upward growth, gaining 14 percent in the first week. In 2013, it posted a net profit of \$94 million. The revenue was \$11073 million. By the end of 2013, the company recorded a net income loss of \$628 million. The gross profit margin was reduced to 31.01%. \$1549 million cash and cash equivalent by the end of 2013. The total assets accounted for \$13265 million. Blackberry reported net loss in the first quarter is \$84 million. Blackberry announced that the company would undergo strategic alternatives which included the possibility of selling the company.

- **2014:**

Blackberry reported that it would cut down its force by 40 percent and there was a loss of about \$1 billion in the first quarter. Fairfax Financials acquired blackberry for \$4.7B. The company continued its series of losses when it reported a \$4.4B loss in the third quarter of 2013. The company revenue dropped to \$6813 million. The net income loss rose to \$5873 million. The gross profit margin was recorded to be the lowest at -0.63%.

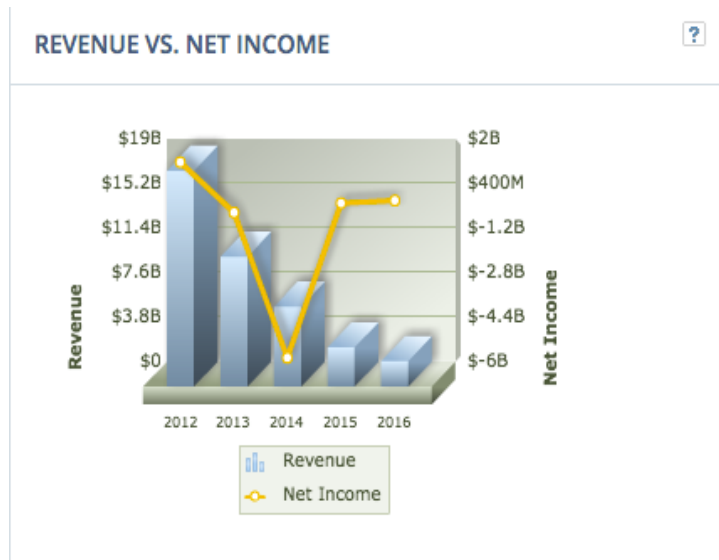
- **2015:**

There was change in management and new strategic changes in Blackberry. The new CEO saw the company's patents as a turnaround strategy. The company wasn't doing well in the mobile business, hence acquiring the new CEO's strategy started to show changes in the

company's sudden downfall. The company had the youngest patent portfolio in the entire industry, hence monetization of patents was an important aspect of turnaround strategy. The results were seen in the first quarter results on 2015, where the company where the company revenue rose by 150% to \$137 million. The company started making recovery and the net income loss dropped tremendously compared 2014 to \$304 million in 2015. \$1233 worth cash and cash equivalents by the end of the year. The total assets accounted for \$6558.

- **2016:**

The recovery continued due to software licensing and services and the company recorded \$2160 million revenue by the final quarter of 2016. The net income loss shows further recovery which is \$208 million. The total assets accounted for \$5534 million. Cash and cash equivalent at the end of the year is \$957 million. The shares outstanding are worth \$521.17M.



Source: Hoovers

Stakeholder Analysis

¹⁸The major investors of BlackBerry are Primecap Management Company, Fairfax Financial Holdings Ltd, Toronto Dominion Bank, Renaissance Technologies, LLC. The stakeholders are customers, employees, investors and suppliers, civil society, governments and educational partners. Blackberry enables business, government and civic leaders to operate reliably and confidently in the best interests of the stakeholders. Following are the main pillars of BlackBerry:

Community: Blackberry through its volunteering programs and initiatives with third party organizations make a positive contribution to the communities. Through STEM (Science, Technology, Engineering, Math), it seeks to inspire the youth. The students are tomorrow's innovators; hence company wants to generate interest in these subjects.

People: The employees are a key asset to the company and a safe and healthy workplace is provided to them. The company believes that they should grow and develop with the company.

Environment: Blackberry is responsible for the environmental impacts that are caused due to its products and operations. They work to minimize these impacts through a variety of programs in product sustainability, supply chain and corporate carbon footprint.

Ethics: Blackberry is committed to act with integrity across all its operations like corporate governance, supply chain management, supply base and active participation on important issues.

¹⁸ http://us.blackberry.com/content/dam/bbCompany/Desktop/Global/PDF/corporateresponsibility/Corporate_Social_Responsibility_Report_2014.pdf
<http://www.reuters.com/article/us-blackberry-strategy-idUSKCN0RH2EP20150917>

Multiple Dimensions of Value

- ¹⁹*Technology Standalone Value*

Blackberry's Enterprise Mobility management (EMM) has following features: -

1. Comprehensive cross platform EMM
2. End to End security
3. Mobile device management (MDM)
4. Mobile App management (MAM)
5. Mobile content management (MCM)
6. Streamlined user experience.
7. Scalable Architecture.
8. Protection from cyber-attacks.
9. Archiving and auditing.
10. Deployment flexibility.

¹⁹ <http://us.blackberry.com/enterprise/solutions/emm.html>

- *Network Externalities*²⁰

"Network Externalities" is the key to the BlackBerry's turnaround. Through the network externalities, BlackBerry has potential for achieving a top growth even though of a collapsing ecosystem.

Blackberry's superior encryption technology is its greatest asset. The consumers and the enterprises are sharing a lot of information on the internet. Therefore, this information needs to be protected from the wrong people. The solution of providing information security to the consumers as well as the enterprises is efficiently provided by Blackberry's enterprise mobility platform (BES 12). The more the companies adopt Blackberry's Enterprise mobility platform, the more famous and powerful its platform becomes. The network externality value provides additional value to the product's user as the number of the users increases.

Blackberry is leading with its enterprise mobility management software. Blackberry also announced partnership with the Samsung for providing an end to end enterprise mobility management to its smartphones and tablets using an embedded KNOX, which provide an additional layer of software and hardware protection. This partnership with Samsung which has 20% of smartphones market share, increased blackberry's share of smartphones it can protect.

Blackberry also partnered with Google to supply its enterprise mobility management software to all the android devices. Blackberry's security feature gave the android credibility by which it's handsets can be used securely in the enterprises. Since the android phones are

²⁰ <http://seekingalpha.com/article/3003466-blackberrys-john-chen-looks-to-teach-haters-about-network-externalities?page=2>
Page | 22

manufactured by different manufacturers, it is more difficult to manage them in relation to competitors and secondly the applications in the android play store are prone to infect user's phone with malwares. This partnership further increased blackberry's share of smartphones it can protect. Blackberry also increased its enterprise mobility management software's capability to protect different handset devices available in the market.

BlackBerry's Enterprise mobility management platform is also capable in managing other non-blackberry devices like Androids and iPhones. It is expected that half of the employers would be requiring their employees to bring their own mobile phones to work by 2017. Thus, BlackBerry could grow its revenue despite its collapsing ecosystem, through network externalities.

Conclusion

Blackberry had a collapsing ecosystem, declining subscribers and service revenue, but they could anchor themselves over their best in class encryption technology and security features. Patents were an important asset to Blackberry. New CEO John Chen's who was also responsible for Sybase turnaround made it possible believed that Blackberry had the potential to overcome its decline in the revenues in handsets and service access fees with the software revenue from its EMM. The more the employers use BlackBerry's EMM platform stronger would their network would be. EMM marketplace is evolving rapidly and BlackBerry should concentrate more in the areas of operational analytics or better integration of its BES 12 platform with the clients operating systems.

References

- https://en.wikipedia.org/wiki/BlackBerry_Limited
- <http://www.reuters.com/article/us-rim-blackberry-timeline-idUSBRE90T10A20130130>
- <http://www.reuters.com/article/us-rim-blackberry-timeline-idUSBRE90T10A20130130>
- http://www.blackberry.com/select/get_the_facts/pdfs/rim/rim_history.pdf
- http://economics-files.pomona.edu/jlikens/SeniorSeminars/harknessconsulting2008/pdfs/Research_in_Motion.pdf
- <http://www.thenextmillion.com/blackberry-turnaround/>
- <http://www.reuters.com/article/us-blackberry-strategy-idUSKCN0RH2EP20150917>
- <http://us.blackberry.com/home.html>
- <http://www.thenextmillion.com/blackberry-turnaround/>
- <http://www.forbes.com/sites/maribellopez/2015/04/21/blackberry-acquires-watchdox-boosting-content-security/#2f2187525f38>
- <http://www.athoc.com/newsroom/press-releases/2015/713-blackberry-acquiring-athoc-to-enable-secure-mass-communication-and-collaboration.html>
- <http://www.forbes.com/sites/maribellopez/2015/09/07/blackberry-acquires-good-helps-stabilize-battered-emm-market/#6b14efc3bc70>
- <http://blogs.blackberry.com/2016/09/software-and-services-revenue-doubles-in-q2-for-blackberry/>
- http://techorchard.com/wp-content/uploads/2016/06/IDC_EMMMarketShare_2015.pdf
- <http://techorchard.com/a-breakdown-of-enterprise-mobility-management-market-share/>
- <http://subscriber.hoovers.com.libproxy.scu.edu/H/company360/financialHistory.html?companyId=59141000000000&newsCompanyDuns=245645353>
- <http://us.blackberry.com/company/investors/stock-information.html>
- <http://us.blackberry.com/company/investors/stock-information.html>
- <http://themarketmogul.com/blackberrys-strategic-shift-from-smartphone-to-software/>
- <http://www.cbc.ca/news2/interactives/timeline-rim/>
- http://us.blackberry.com/content/dam/bbCompany/Desktop/Global/PDF/corporateresponsibility/Corporate_Social_Responsibility_Report_2014.pdf
- <http://www.reuters.com/article/us-blackberry-strategy-idUSKCN0RH2EP20150917>
- <http://seekingalpha.com/article/3003466-blackberrys-john-chen-looks-to-teach-haters-about-network-externalities?page=2>
- <http://us.blackberry.com/enterprise/solutions/emm.html>