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## The Rise and Fall of BlackBerry

The launch of the BlackBerry by Research in Motion (RIM) in 1999 laid the foundation for the development of smartphones. The next decade was a period of spectacular growth for RIM, making its two co-CEOs billionaires. At the end of 2007, the company had a market capitalization of more than \$60 billion. Sales peaked at almost \$20 billion in 2011. In 2016, sales were \$2.2 billion and the company had lost money for four straight years. Market capitalization was \$4 billion in August 2016. The future of BlackBerry (the company changed its name from RIM to BlackBerry) as a hardware company was uncertain.

### Company History

RIM was founded in 1984 by Michael Lazaridis, an engineering student at the University of Waterloo. The company's first product was an electronic sign system for an auto plant. The company later developed a barcode reader for film editing that won Lazaridis an Emmy and an Oscar for technical innovation.<sup>1</sup> The company was also involved in designing, building, and selling interactive pagers, radios that other manufacturers could incorporate in their wireless products, and wireless modems for laptop computers.<sup>2</sup> In 1992, RIM hired Jim Balsillie, a Harvard MBA, to run RIM's business operations. Balsillie was appointed co-CEO with Lazaridis in 1992 and, like Lazaridis, became a billionaire from his RIM shares.

After struggling for years to develop an email device, RIM launched its first BlackBerry product in 1999 and listed its shares on the NASDAQ. BlackBerry was the first always-on mobile email product with a keyboard. RIM contracted with phone companies to manage the customer interface in return for 10-20% of the monthly fee charged by the companies. RIM managed the email traffic and provided technical support. RIM described the BlackBerry:

*RIM's objective with BlackBerry was to create the first complete solution for accessing corporate email and PIM [personal information management] from a single handheld. BlackBerry is the first complete, wireless email solution designed specifically for corporate environments using Microsoft Exchange. In addition to simplifying remote email access, it addresses crucial corporate requirements regarding performance, reliability, security, functionality and support. BlackBerry combines industry-leading wireless device technology, innovative software, and advanced wireless networks to deliver a major breakthrough in mobility.*

*The user benefits from a complete solution with a simple, flat-rate monthly bill and a single point of contact for support on all aspects of the mobile email solution—including desktop software, handheld, billing, and the wireless network. IT departments benefit since they do not have to piece together a solution for their mobile users and are given a secure, easy-to-support, complete solution. BlackBerry features an innovation in mobile email connectivity and a breakthrough in handheld technology.<sup>3</sup>*

Within a year, the product was a huge success. BlackBerry was "the gizmo du jour in corporate North America, with companies such as Intel Corp., Credit Suisse First Boston, and Merrill Lynch ordering thousands for their employees."<sup>4</sup> RIM's market capitalization soared to \$18.6 billion on the Toronto Stock Exchange in 2000. The stock was \$10 a share in March 1999 and \$260 in March 2000. The stock collapsed to \$35 with the bursting of the dot-com bubble but then start climbing again, reaching \$90 by January 2001. The company was aggressively adding U.S. channel partners and was planning to launch in Europe.

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## The Technology Landscape in the Early 2000s

In addition to BlackBerry, there were many different personal technology products on the market: laptops, personal digital assistants or PDAs (such as Palm), pagers, mobile phones, MP3 music players, and digital cameras. Some astute industry analysts were predicting that consolidation of devices was going to happen.

Mobile wireless was possible with phones, PDAs, and BlackBerry, but the BlackBerry was by far the most useful for email. At that time, email on a mobile phone used the phone keyboard. Phones and PDAs also had cumbersome email connections, typically requiring the user to dial their provider, connect to a website, or call a special phone number. BlackBerry was always connected to a wireless network and used software for corporate e-mail servers that “pushed” incoming messages from an existing email address to the BlackBerry.

Whereas Palm and a few other companies were targeting consumers with PDAs that could access email accounts, RIM was focused on the corporate market and did not see a huge opportunity in the consumer segment. The company’s grassroots marketing campaign included email “wireless email evangelists” to visit Fortune 500 companies. RIM made a special effort to penetrate Wall Street firms. RIM set up pilot programs inside companies and provided Blackberries on a trial basis. By mid-2001, about 800,000 Blackberries had been sold for \$349 and up plus a \$40 monthly fee.<sup>5</sup> A new BlackBerry was introduced—the 957 was bigger than the original version and shaped like a Palm device. RIM established a number of marketing partnerships that included co-branding, bundling, and reselling arrangements with companies such as Compaq, AOL, and Nortel Networks.

## Which Way Forward?

In the early 2000s, BlackBerry was well established as a corporate tool. Looking forward, the company was faced with various questions. Should RIM stick to an email-only device or add new features? RIM executives maintained that their primary goal was to create technology that met customer needs. The mobile phone companies were adding new features, and some BlackBerry customers were using third-party software to add new capabilities. Should BlackBerry go after the consumer market or should it heed the advice of a Palm executive who said, “How many soccer moms need to stay on top of email all the time.”<sup>6</sup>

To keep growing, RIM would have to upgrade BlackBerry’s access to wireless networks. Blackberries did not work well outside of major cities, and global coverage was weak. Should the company partner with the major mobile phone companies that operated their own networks or go it alone and negotiate network access? RIM was also considering licensing its email redirecting technology to other companies and was looking for new partnership opportunities.<sup>7</sup>

By October 2001, the company had 1,600 employees, a new research center, and a second manufacturing plant that would increase annual production capacity to six million devices. Some analysts were questioning the decision to do in-house manufacturing when demand was uncertain. *Forbes Magazine* named BlackBerry as one of seven cult brands (including Nike and Ben & Jerry’s) that successfully evolved into a national brand name.

## 2005–2007: Competitors and New Entrants

In 2005, there were 100 wireless carriers selling Blackberries, and RIM expected to add 80 more during the year. RIM was also pushing the electronics companies, such as Motorola, to include BlackBerry software on their phones and other devices but only a few companies had signed up. One of RIM’s key selling points was the security of its network. That same year, BlackBerry launched BlackBerry Messenger (BBM), an instant message system. BBM was popular because of its encryption and privacy, not going through government servers. Because of the security, it was a choice for government leaders such as U.S. President Obama, as well as purported drug lord, Joaquín (El Chapo) Guzmán.

More than 42,000 organizations had BlackBerry servers to support 2.5 million individual subscribers. Most subscribers were employees of large companies. BlackBerry was also targeting professional consumers (prosumers) through retail channels. Customers could purchase a BlackBerry device in over 50,000 retail points of presence around the world.

Competition was heating up in the so-called smartphone segment, which were phones that included an advanced operating system and combined phone and email capabilities with other features such as cameras, video games, and media players. Nokia, Samsung, Siemens, Motorola, and HP had also launched, or were planning to launch, wireless email devices. PalmOne had sold about a million devices called the Palm Treo, which included an MP3 player and camera. Microsoft was adding mobile email software to its servers and offering it at no charge to service providers. Microsoft had also developed a version of Windows OS for handheld devices, which PalmOne was considering. Apple was rumored to be working on a mobile phone, dubbed the iPhone by some analysts.

For the fiscal year ending February 26, 2005, RIM had net income of \$213 million and revenue of \$1.35 billion, six times the 2001 figure.<sup>8</sup> Almost 70% of sales were in the U.S. and 70% represented sales of devices. In 2006, RIM introduced its first device specifically targeting the consumer market, as described in the RIM Annual Report:

*During the past year, we also began a substantial effort to extend the reach of BlackBerry smartphones beyond the enterprise market. These efforts have included channel expansion, encouragement of lower carrier service pricing programs, introduction of consumer-friendly applications, and the launch of new hardware platforms. The BlackBerry Pearl smartphone attracted many new users to the BlackBerry platform and received wide recognition for its unique blend of size, functionality, and style. The BlackBerry Pearl, which is available in three colors, offers a camera, media player, and all the renowned BlackBerry smartphone functionality in an amazingly small and stylish design.<sup>9</sup>*

As of March 2007, 27% of the BlackBerry subscriber account base was non-enterprise users. BlackBerry phones were available on over 270 networks in 110 countries.

## Apple Launches iPhone in 2007

In January 2007, Apple announced at the MacWorld Expo that it would introduce a phone, called the iPhone, that would be controlled by touch, play music, and surf the internet. Apple's CEO, Steve Jobs, said in his keynote speech that the phone would be much more user-friendly than other smart phones on the market.<sup>10</sup> Jobs said that current smartphones with keypads and fixed control buttons had limited flexibility. The iPhone would have a patented control surface operated by a user's fingers—"the best pointing device in the world." Apple planned to have the phone available by June 2007. RIM shares dropped about 10% after the iPhone announcement.

The iPhone started selling on June 29, and many customers lined up hours in advance. The phone was available in the United States only through AT&T Wireless. Goldman Sachs analysts said sales during the first weekend of sales "blew through our expectations" and were at least twice that of their previous estimates.<sup>11</sup> Apple sold more than four million iPhones in the six months from launch date to January 2008, and was second to BlackBerry in unit sales.

Despite its strong debut, the iPhone struggled to gain traction with corporate users. The iPhone had compatibility issues with corporate email systems, and many businesses prohibited their employees from using the phones because of security concerns. Apple was working to solve these issues. Apple was also making available a software development kit to independent software developers who could develop applications (*apps*) for the iPhone. In 2008, the Apple App Store was launched with 500 apps at a price point of free or \$0.99 with payment through iTunes. As an app distributor, Apple kept 30% of the revenue. Apple also updated its software with additional security and several other features designed to make the phone more attractive to corporate users.

When asked in an interview about the iPhone, RIM co-CEO Lazaridis said, "How much presence does Apple have in business? It's vanishingly small."<sup>12</sup> He also questioned the battery longevity in the iPhone, asking why anyone would want to use a phone with a battery that died after a few hours. Lazaridis expected that BlackBerry's keyboard would continue to be a competitive advantage. Referring to the iPhone, he commented, "I couldn't type on it and I still can't type on it, and a lot of my friends can't type on it...It's hard to type on a piece of glass."<sup>13</sup> Internally, Lazaridis acknowledged that the iPhone could change the industry, saying, "If that thing catches on, we're competing with a Mac, not a Nokia."<sup>14</sup>

Another new entrant on the horizon was Google, which was trying to get phone makers to adopt its Android operating system for smartphones. The Android business model was unique. The base Android operating system (including some applications) was open-source software. Handset manufacturers and wireless carriers licensed the Android trademark from Google under individual contracts. Proprietary software, such as Google Mobile Services, which included applications such as Google Play Store and Google Search, were also licensed from Google.

## Wireless Carriers and Smartphone Companies

The evolution of wireless carriers in the U.S. and their relationship with cell and then smartphone makers was a journey of network expansion and a rebalancing of power. Before the arrival of the smartphone, the carriers were king. Handsets with specifications dictated by the carriers were inexpensive hardware devices subsidized to link customers with networks. Aggressive carrier price competition eroded the margins for voice calls and messaging, leading to industry consolidation and the need for additional growth avenues. In the early 2000s, the carriers were benefitting from expanding BlackBerry data traffic and the growth in RIM's worldwide corporate customer base, although RIM's \$10 monthly service fee was a source of friction with the carriers.

The dynamics between carriers and manufacturers shifted with the launch of the iPhone. Verizon, one of the largest U.S. carriers, rebuffed Apple's offer of partnership due to Apple's requirement for total control over the phone's specifications. Verizon was fearful of losing control of their network before seeing a prototype device.<sup>15</sup> Cingular (subsequently merged with AT&T), willing to bet on the iPhone's potential to increase data traffic and revenue, acquiesced on design control, granted unlimited bandwidth to develop services for internet browsing, maps, and other internet services (previously denied to BlackBerry), and relinquished a portion of each customer's AT&T bill (around \$10 a month) to Apple—in exchange for an exclusive five-year contract. AT&T did not even see an initial iPhone prototype until just before launch.

When RIM interacted with the carriers, it was usually to provide them with an education in how their networks operated and what device would or would not work on their network. "Lazaradis often knew better than they did—or explaining how 'new' and 'more expensive' rarely translated into better performance."<sup>16</sup> With iPhone sales soaring, Verizon executives wanted a competitive touchscreen device and allocated a substantial marketing budget to the BlackBerry Storm, launched in 2008. After problems with the Storm, Verizon decided they needed a backup plan with Android and heavily marketed an Android launch in 2009. Android sales continued to rise and BlackBerry's sales decreased. Verizon, seeing the need to increase its network performance to meet consumer demands and iPhone requirements in 2011 when the AT&T contract expired, invested in upgrading to a 4G network. RIM, unconvinced about effectiveness of 4G technology networks, had no RIM products that could meet the newer technology requirements and still be cost effective. In 2011, Verizon reallocated resources away from RIM products to those that were 4G compatible.<sup>17</sup>

## RIM Launches New Products

RIM launched several new products in 2008, including the Bold and the Storm. The Bold was a continuation of BlackBerry's smartphone with a physical keyboard. The product received a good reception and was considered a solid evolution in the traditional BlackBerry style. Co-CEOs Lazaridis and Balsillie continued to say in public that they were designing products with chief technology officers in mind. The number of new products and products customized for different carriers was adding a lot of complexity to manufacturing and supply chain management.

Under pressure to launch a touchscreen phone to compete with the iPhone, RIM launched the Storm, the first RIM smartphone without a physical keyboard. About 500,000 units were sold in the first month. Unfortunately, the Storm reviews were mostly negative. One reviewer said it was "the Edsel of smartphones, an absolute smeller from top to bottom."<sup>18</sup> The Storm had a number of technical glitches and Verizon eventually had to replace about one million phones at a cost of as much as \$500 million. The product was the first major technical failure from RIM. Some years later, co-CEO Balsillie said:

*With Storm we tried to do too much. It was a touch display, it was a clickable display, it had new applications, and it was all done in an incredibly short period of time, and it blew up on us. That was the time I knew we couldn't compete on high-end hardware.<sup>19</sup>*

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In 2009, the company launched BlackBerry App World. BlackBerry App World launched with 2,000 apps, while Apple, in the summer of 2009, had 65,000. BlackBerry app developers received 80% of the revenue. During this period, RIM's primary revenue stream was generated by the BlackBerry wireless solution, comprising wireless handsets, service, and software. BlackBerry service was provided through a combination of RIM's Network Operations Center and the wireless networks of RIM's carrier partners. RIM charged the carriers a monthly service fee for every BlackBerry subscriber. In 2010, service fee revenue was about \$900 million per quarter, and the profit margin was very high (Apple did not have a service fee). Other revenue included accessories, non-warranty repairs, non-recurring engineering development contracts, BlackBerry App World, and gains and losses on revenue hedge contracts.

In its 2011 annual report, RIM identified key strategic initiatives, which included:

- ***Extend Technology Leadership.*** RIM is currently recognized as a leader in the wireless data communications industry for designing and developing the BlackBerry wireless solution. RIM intends to maintain its leadership by focusing on the further development of wireless network technologies, enabling compelling applications and services, protecting its intellectual property, encouraging the adoption of its platform by wireless network service providers globally and their customers, and licensing components of the BlackBerry platform to key handset and service vendors.
- ***Extend the Reach of BlackBerry products into the Prosumer and Consumer Market.*** RIM has and intends to continue to undertake a number of initiatives aimed at expanding further into the prosumer and consumer market. These initiatives include leveraging the BlackBerry infrastructure and the success of applications such as BBM to grow the Company's leadership position as a mobile social platform across multiple communities, types of communication, content, and e-commerce opportunities.
- ***Expand the Global Reach of the BlackBerry Platform.*** RIM plans to continue to foster relationships with key carriers, distributors, and customers to expand the addressable market for BlackBerry smartphones and build on the Company's success in targeting prepaid and entry-level markets around the world.
- ***Maintain Market Leadership in the Enterprise Market and Expand Customer Base.*** RIM intends to maintain its position as a market leader in the enterprise market through a variety of strategies including focused sales and marketing efforts, the continued use of strategic alliances and relationships to promote the sale of its products, as well as utilizing indirect sales and marketing teams. In addition, RIM intends

to continue to grow its leadership through focusing on developing and launching quality leading edge devices as well as enabling existing third-party enterprise and third-party consumer applications.

## Leadership and Governance at RIM

As co-CEOs and co-chairmen of the Board, Balsillie and Lazaridis were unlikely partners. Balsillie was the colorful, savvy businessperson, and Lazaridis, the engineer who had always tinkered with things since he was a young boy. Balsillie was known to have a quick temper, intolerance for individuals that were not prepared, and known to hold grudges for disloyalty. Lazaridis was considered the chief innovator and “geek in residence,” known for walking around and sharing endless ideas with the other engineers. Lazaridis focused on product development, manufacturing and R&D, and Balsillie ran carrier partnerships, sales, and marketing. In 2011, Balsillie and Lazaridis together owned about 11% of the company's common stock.

For a number of years, they shared an office and most times seemed in lock step with each other. It was widely known that they had secret signals to communicate with one another. They seemed to know each other's thoughts but, oddly enough, never socialized and were not friends outside the office. Both CEOs were known as being supremely confident in their abilities. Shortly after joining RIM in 1993, Balsillie spoke to local press in Waterloo and said, “It's a bit conceited, but Mike [Lazaridis] believes there isn't a technology issue he can't solve, and I believe there isn't a business issue I can't stick-handle my way through.”<sup>20</sup>

In the early years, most decisions were made by the two co-CEOs. As RIM grew, they added a strong direct report. Don Morrison, from AT&T Canada and Bell South, was brought in to oversee sales and marketing reporting to Balsillie, and Larry Conlee, from Motorola, reporting to Lazaridis. Conlee's role was to bring in discipline and process and adherence to timelines. It was a bit of a culture shock for Conlee to experience how loosely the organization was run. There was no formal strategic plan, only financial forecasts. The corporate strategy was in the form of short-term plans discussed in private between the two CEOs. The increased discipline and process that Conlee brought, along with less accessibility to Lazaridis, resulted in the departure of some technical experts. According to one engineer, “We started acting like a big company. It felt like we had lost some of the innovative team feeling where everyone worked together to solve problems.”<sup>21</sup>

The relationship between Lazaridis and Balsillie began to show signs of strain beginning with the patent infringement suit against filed against RIM by NTP, a U.S. patent-holding company. The suit was filed in 2001 and continued with a \$612.5 million settlement in 2006. The years of legal battles and stress affected Lazaridis' health, and he seemed to go into a downward spiral, as he felt his technical prowess and reputation had been severely tainted. Larry Conlee noted, “Here's the founder of the company being told he's cheating these people and his technology is wrong.”<sup>22</sup>

In 2007, RIM was caught up in a scandal that affected dozens of organizations—backdating employee stock option grants. Although Lazaridis focused on the technical end, and did not have direct dealings on the financial side (that was Balsillie's role), Lazaridis felt that once again, his reputation and credibility were attacked. One of Lazaridis' friends said that his friend felt “...completely humiliated by the regulatory investigation...” In a later interview, Conlee said that Lazaridis “felt betrayed” by Balsillie.<sup>23</sup> A settlement was reached in 2009, with financial penalties as well as Balsillie's resignation from his chairman's role. As part of the settlement with the SEC, RIM had to undergo a consultant's study of RIM's management and Boardroom practices. The consultants found a lack of accountability and no job descriptions or metrics for the co-CEOs. They also found little oversight or involvement from the Board related to strategic planning and little involvement or oversight into key senior hires.

In 2009, long-time chief operating officer Larry Conlee resigned. Conlee was known as being very firm on deadlines and having the ability to work effectively with the two co-CEOs.<sup>24</sup> His departure left a gap in top management. Rather than finding a successor, Balsillie and Lazaridis became more involved in day-to-day business. For example, Lazaridis started holding regular meetings with senior operations staff who previously reported to Conlee. Deadlines became less firm, to the point that they were rarely taken seriously. The co-CEOs' preference for consensual decision making added to confusion about accountability and responsibility. As RIM grew, getting consensus from all senior leadership became very difficult, which meant decisions got delayed or were not made.

In 2010, the two groups reporting to the co-CEOs became further siloed. A senior executive said, “It turned into a goat rodeo. We became collectively ineffective at moving from the idea stage to the conversation of an idea into a commercial success for anything other than devices.”<sup>25</sup> The internal turmoil took on a very public turn when an Open Letter to Lazardis and Balsillie from an anonymous senior employee was posted to the tech blog BGR (Boy Genius Report) in June 2011. The letter began with the statement: “I have lost confidence. While I hide it at work, my passion has been sapped.... The sentiment is widespread and it includes people within your own teams.” He then went on to elaborate on solutions that included: focusing on the end-user experience, enabling decision making, and focusing on just a handful of projects. He elaborated on a Canadian culture that is “too nice” and that does not drive accountability of its employees. His letter was followed by many others, affecting RIM’s reputation, as well as their ability to attract and retain key talent. Exhibit 1 contains some excerpts from the letter.

#### **Exhibit 1. Excerpts from 2011 BGR Letter**

- Almost every project is falling further and further behind schedule at a time when we absolutely must deliver great, solid products on time.
- Rather than constantly mocking iPhone and Android, we should encourage key decision makers across the board to use these products as their primary device for a week or so at a time—yes, on Exchange! This way we can understand why our users are switching and get inspiration as to how we can build our next-gen products even better! It’s incomprehensible that our top software engineers and executives aren’t using or deeply familiar with our competitor’s products.
- Teams still aren’t talking together properly, no one is making or can make critical decisions, all the while everyone is working crazy hours and still far behind. We are demotivated.
- There is a serious need to consolidate our focus to just a handful of projects. Period. We need to be disciplined here.
- We simply must stop shipping incomplete products that aren’t ready for the end user. It is hurting our brand tremendously.
- RIM has a lot of people who underperform but still stay in their roles. No one is accountable... We will never achieve excellence with this culture. Just because someone may have been a loyal RIM employee for 7 years, it doesn’t mean they are the best Manager/Director/VP for that role. It’s time to change the culture to deliver or move on and get out.
- Overconfidence clouds good decision-making. We missed not boldly reacting to the threat of iPhone when we saw it in January over four years ago. We laughed and said they are trying to put a computer on a phone, that it won’t work. We should have made the QNX-like transition then. We are now 3-4 years too late. That is the painful truth... it was a major strategic oversight and we know who is responsible.

Source: <http://bgr.com/2011/06/30/open-letter-to-BlackBerry-bosses-senior-rim-exec-tells-all-as-company-crumbles-around-him/>.

## **Mergers and Acquisitions**

Mergers and acquisitions were a key piece of RIM’s strategy with the company doing 29 deals between 2005 and February 2016. The acquisitions covered a wide range of businesses including app software, car navigation, gaming, mobile security, and cybersecurity consultancy. Two of the largest acquisitions were QNX Software Systems (operating system) purchased for \$200 million in 2010 and Good Technology (securing apps and data on mobile devices) in 2015 for \$425 million. QNX was intended to serve as a new and more advanced operating system replacing the JAVA-based operating system and to integrate BlackBerry smartphones with automobile entertainment systems.

## **Android Gains Market Share; RIM Cuts Jobs**

In 2011, Google’s Android surpassed RIM to become the leading smartphone operating system, with Apple’s iOS occupying the third position. Android was helped by the sale of Samsung and Motorola products using the Google operating system.

Within RIM there were conflicts between the consumer and enterprise factions in the company. There was also conflict between the co-CEOs about strategy. Lazardis saw the future as BlackBerry smart phones, and Balsillie wanted to focus on a new software and services business versus turning around the handset business. Long-tenured employees started leaving the company, and Lazardis and Balsillie began bringing in their own people aligned with their individual visions for the future. In early 2011, RIM’s chief marketing officer left the

company “for personal reasons.” Reports in the press cited his inability to win support for his ideas from the company’s engineering-oriented executives.<sup>26</sup> Unexpectedly, he was replaced as chief marketing officer by Balsillie. Several other senior executives left the company in 2011, including vice-president, global alliances and developer relations; senior director of developer relations, the product manager in charge of RIM’s PlayBook tablet; one of three chief operating officers; and senior vice-president, platform marketing and alliances. The company also announced 2000 job cuts, almost 11% of its workforce.

Internally, RIM was struggling to come to grips with the growth in the consumer smartphone market. According to a former RIM executive, “Mr. Lazaridis didn’t want to compete in the cutthroat consumer-phone market, where margins were typically much smaller than in the corporate market.” He also objected to cameras or music players because he didn’t think they would be favored by the government and military agencies that were some of RIM’s biggest customers.<sup>27</sup> The company saw cameras as a potential security issue. In 2010, a company-produced report predicted that BlackBerry’s tactile keyboard would be less popular compared to touchscreen keyboards.<sup>28</sup>

For the PlayBook launch, some executives wanted to target consumers and emphasize video and game capabilities, while others wanted to focus on the corporate market. The marketing campaign positioned the tablet as “professional grade,” but the product name suggested the target was consumers.<sup>29</sup> Even though the PlayBook incorporated some features not found on the iPad, such as Adobe Flash, sales were far below expectations. In the three months ended August 31, 2011, the company shipped 200,000 units, less than half of the previous quarter and a small fraction of the 9.3 million iPads Apple sold in its most recent quarter. By the end of the year, RIM significantly reduced the PlayBook price. For the third quarter 2011, RIM took a US\$485 million write-down for its surplus inventory of unsold PlayBooks. In addition, the BlackBerry 10 project, designed to be a new phone built from scratch, was far behind schedule. It would not be introduced until 2013.

BlackBerry smartphones continued to do well in some countries such as Indonesia, Spain, and Thailand, but in the important U.S. market, shares had fallen from 44% in 2007 to below 10%. To strengthen its product offerings, RIM acquired companies to provide a new operating system, browser, and design capabilities. Financially, the company was in good shape, with no debt and a comfortable cash balance.

## 2012—A New CEO

In January 2012, Thorsten Heins, previously one of RIM’s two chief operating officers, was named chief executive. He and Lazaridis had sided against Balsillie in a decision about BlackBerry messaging. Balsillie wanted wireless carriers to adopt RIM’s BBM instant messaging service as a replacement for their simple text messaging (SMS) applications—no matter what kind of phone their customers used. BBM had a very loyal customer base and ended up spawning a host of competitors, including WhatsApp (acquired by Facebook for \$19 billion in 2014). Lazaridis and Heins rejected the plan, preferring to focus the company on the BlackBerry 10. In response, Balsillie left the RIM Board with a statement to the press: “My reason for leaving the RIM Board in March 2012 was due to the company’s decision to cancel the BBM cross-platform strategy.”<sup>30</sup> Lazaridis left the board in March 2013. By 2013, Balsillie had sold all his RIM shares. Lazaridis sold a large block of shares in 2013 after briefly considering launching a takeover bid for RIM.

Heins joined RIM in 2007 after serving as chief technology officer at Siemens. The company announced that it would stick to the Balsillie and Lazaridis strategy for turning the company around. That strategy included rolling out the updated PlayBook, the new BlackBerry, and a new operating system called BlackBerry10 that would power both.<sup>31</sup>

RIM investors were getting nervous. The company’s market capitalization was about \$6 billion, down from \$40 billion a year earlier. Another 1,500 job cuts were coming. In May 2012, the company announced that it would lose money in the latest quarter, leading to increased speculation that RIM might not survive. For example, an article in the *Wall Street Journal* reported:

*With each passing quarter, RIM’s financial situation is eroding and so too are its workable alternatives. Analysts and industry executives say RIM, by not considering more radical options earlier like selling*



*the company, has now forced itself into a make-or-break blitz to roll out its next smartphone and operating system this year.*

## 2013–2016

The company's 2013-2016 Annual Reports emphasized the many product and business developments undertaken and identified future initiatives that would be necessary for a successful strategy. Despite these initiatives, revenue plummeted after peaking in 2011. In fiscal 2014, the company had a write-off of \$2.4 billion for BlackBerry 10 excess inventory.

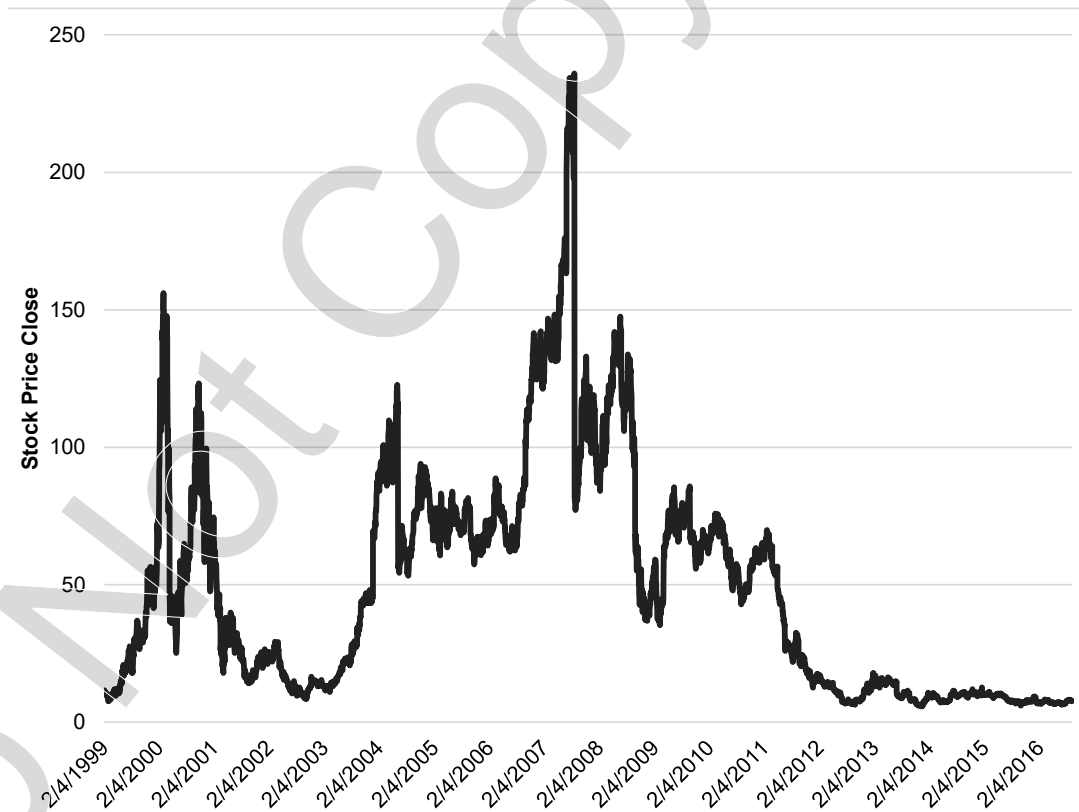
Exhibit 2 shows revenue and income (loss) for the years 2011 to 2016. From a high of almost \$20 billion in 2011, in 2016, revenue was about one tenth the 2011 level. Exhibit 3 shows the share price.

**Exhibit 2. Financial Data**

	2011	2012	2013	2014	2015	2016
Revenue <sup>i</sup>	\$19.9 B	\$18.4B	\$11.1B	\$6.8B	\$3.3B	\$2.2B
Net Income (loss) <sup>i</sup>	\$3.4B	\$1.2B	\$(646)M	\$(5.9)B	\$(304)M	\$(208)M
Global Smartphone Market Share <sup>ii</sup>	2.9%	2.0%	1.9%	0.5%	0.2%	0.2% (1st qtr)

Sources: <sup>i</sup>RIM and Blackberry Annual Reports; <sup>ii</sup>Gartner, Inc.

**Exhibit 3. RIM Share Price**



Source: NASDAQ.

In 2013, RIM became BlackBerry, and Thorsten Heins was replaced as CEO by John Chen. Prior to joining BlackBerry, Chen was Chairman and CEO of Sybase before it was acquired by SAP in 2010. In a 2016 interview, Chen said:<sup>32</sup>

*I want to go back to the people who really need security. So what we're going to be coming back on are security, encryption, privacy, enterprise, and a lot more on end-to-end solutions. The real cusp of what we are focusing on is the software. Our software runs on everything now. Not only on BlackBerry, it runs on iPhone, iOS, Google devices, Microsoft devices. We want to manage all these devices in a very secure manner. All the acquisitions we make, secure voice, secure document transfers, these are all to make sure we could offer those solutions to our customers.*

*In the last eight quarters, we're generating cash from operations. EBITDA [earnings before interest, taxes, depreciation, and amortization] is getting positive. We're getting there. We still have a lot of work to do. I won't fool anybody. I would like to be profitable, definitely by the end of the year. But I'm hoping it's going to be a little sooner.*

In July 2016, BlackBerry announced that it would discontinue its classic smartphone with a tactile keyboard and touchscreen, less than two years after launching it. Device sales in the most recent quarter were below 500,000 units (Apple sold 40.4 million iPhones in its most recent quarter). Despite calls to stop making phones in favor of focusing on its software business, CEO John Chen recently reaffirmed his commitment to stay in the hardware market. BlackBerry planned to release two new Android-powered smartphones in 2017.

## Endnotes

<sup>1</sup> M. Heinzl, "Thumb Wars: With Its BlackBerry a Big Hit, RIM Is Squeezed by All Comers; Rivals Covet Multiple Pieces of Wireless E-Mail Market; Microsoft Is a Key Threat; Predecessor Was a Bullfrog," *Wall Street Journal*, April 2005: A.1.

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<sup>3</sup> RIM 1999 Annual Report.

<sup>4</sup> M. Smith, 2000.

<sup>5</sup> P. W. Tam, "Technology (A Special Report)—Openers: Small Wonder—How an Unknown High-Tech Company Turned Its New Gadget into a Big Hit," *Wall Street Journal*, June 25, 2001: R.4.

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<sup>13</sup> B. Stone, "BlackBerry's Quest: Fend Off the iPhone," *New York Times*, April 27, 2008.

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<sup>16</sup> J. McNish & S. Sikoff, *Losing the Signal*, Flatiron Books: New York, 2015, p. 175.

<sup>17</sup> McNish & Sikoff, p. 176.

<sup>18</sup> <http://www.stephenfry.com/2008/12/gee-one-bold-storm-coming-up/>.

<sup>19</sup> K. Kokalitcheva, "Ex-BlackBerry CEO Admits Why Its Most Important Device Failed," *Fortune*, June 10, 2015.

<sup>20</sup> J. Castaldo, "How Management Has Failed at RIM Falling Market Share. Product Delays. Angry Investors. An Exclusive, Inside Look at the BlackBerry Maker's Internal Chaos," *Canadian Business*, January 19, 2012.

<sup>21</sup> McNish & Sikoff, p. 99.

<sup>22</sup> McNish & Sikoff, p. 126.

<sup>23</sup> McNish & Sikoff, p. 138.

<sup>24</sup> Castaldo, 2012.

<sup>25</sup> McNish & Sikoff, p. 182.

<sup>26</sup> P. Dvorak & S. Weinberg, "Corporate News: Misfires in Marketing at BlackBerry," *Wall Street Journal*, June 25, 2011: B.4.

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