

RESEARCH IN MOTION'S HIGH-TECH WOES

Introduction

Focus

2011 was a tough year for Waterloo, Ontario-based Research in Motion (RIM). While the company's competitors made technological leaps, RIM seemed to be standing still. This *News in Review* story looks at RIM's struggle to stay competitive in the fast-paced world of high tech.

Waterloo-based Research in Motion (RIM), the creators of the iconic Blackberry smartphones, had a difficult year in 2011. While competitors like Apple surged forward with new iPhones and iPads, and Google's Android operating system became the cornerstone of many smartphone brands, RIM stumbled out of the blocks with its Blackberry Playbook and failed to maintain its smartphone market share. This apparent slump was reflected in RIM's stock price, which dropped 75 per cent over the course of 2011.

RIM co-CEO Mike Lazaridis didn't help matters in the spring of 2011 when, just days ahead of the launch of the Blackberry Playbook, he walked out of an interview with the BBC. Video of the interview went viral, with Lazaridis looking like a spoiled executive griping about a global media bent on wrecking the public perception of his company. Clearly frustrated, Lazaridis told the BBC reporter that his criticisms were "unfair" before abruptly ending the interview and walking out of the room.

Lazaridis's claims of unfair treatment may have been warranted. RIM has been in the profit-making business for years and is worth at least \$7-billion. The iconic Blackberry smartphones are still the most secure devices available and remain the overwhelming choice of most business people. The company

turned a profit of \$3-billion in 2011 and has \$1.5-billion in the bank. While the company may be taking a beating on the stock market—and in the arena of public opinion—its overall performance, while below expectations, is still impressive.

Despite RIM's profitability, analysts and shareholders spent most of 2011 calling for change. Lazaridis and his co-CEO, Jim Balsillie, were accused of being out of touch with consumers and unable to keep RIM competitive. Eventually, in early 2012, the two stepped down and a new CEO and board chair stepped in. Priority number one for the new team was to repair RIM's image with the hiring of a new marketing director and a massive face-saving advertising campaign.

A positive public perception is crucial if RIM hopes to survive as the marketplace shifts from smartphones to superphones. If the stock market and media continue to beat up on RIM, sales will continue to drop and the company could become yesterday's news. This could mean the end of Canada's most successful high-tech company.

However, RIM isn't dead yet. The hope is, with a workforce of close to 17 000, many of them Canada's best and brightest high-tech employees, RIM will find its way back from the brink and tap into the next wave of innovation in this booming sector of the economy.

To Consider

1. Why did RIM have such a tough year in 2011?
2. Was Mike Lazaridis justified in claiming that criticisms of RIM were unfair?
3. What do you think RIM needs to do to improve its performance?

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Video Review

Pre-Viewing Questions

With a partner or in a small group discuss and respond to the questions below.

1. What do you know about Research in Motion (RIM) and the problems this company has been facing?

2. Do you own a Blackberry? If so, how satisfied are you with it? If not, would you like to own one?

3. What do you think are likely to be the most significant new developments in the field of high-tech telecommunications in the future?

Viewing Questions

As you watch the video, respond to the questions in the spaces provided.

1. What device is the company Research in Motion (RIM) famous for?

2. Why did RIM's fortunes begin to change in 2009?

3. What device seems to be creating the biggest challenge to the Blackberry?

4. What public image is RIM trying to change in its battle with Apple?

5. How did RIM respond to Apple's iPad?

6. Why did RIM co-CEO Mike Lazaridis walk out on an interview with the BBC?

7. According to Blackberry fans, what advantages are there to owning a Playbook versus owning an iPad?

8. How did consumers respond to the Blackberry Playbook?

9. Why does Chuck Howitt think that dire predictions regarding RIM are a little misguided?

10. What embarrassing technical disaster hit RIM in October 2011? What caused the problem?

11. How much did RIM's stock price fall over the course of 2011?

12. Who is the new CEO of RIM? What challenges will he face as he takes over the company?

13. What was the price of RIM stock in June 2008? What was the price of RIM stock in February 2012?

Post-viewing Questions

1. After watching the video, revisit your responses to the Pre-viewing Questions. Did watching the video help you respond to the questions in greater depth? In what way?

2. What factors can account for RIM's success in its early years as a high-tech company?

3. What opinion do you think most Canadian consumers have of the Blackberry after the problems RIM encountered with it? Why?

4. Why is there room for optimism when it comes to the future of RIM?

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A Brief History of RIM

Did you know . . .

The original pager—a tiny black box that could be clipped on a person's belt—was designed to provide its owner with an alarm telling him/her that someone was trying to contact him/her.

Focus for Reading

The business headlines for 2011 painted Research in Motion as a company on the brink of collapse. But for most of its history, RIM was at the leading edge of new developments in the high-tech industry. As you read this section, note the important innovations and technological breakthroughs RIM was responsible for and how these made it a successful company.

In the beginning . . .

When Mike Lazaridis and Douglas Fregin started Research in Motion (RIM) in 1984, the company's main goal was to make a profit as an electronics and computer-consulting firm. However, within a short time it became clear that the RIM team had a nose for emerging technology and was about to become a major force in the wireless world.

Wireless Solutions

Things really took off for RIM in 1988 when the company became the second major player in the race to build products for the emerging Mobitex wireless network. RIM engineers were instrumental in developing devices that allowed businesses to complete transactions smoothly and quickly. Some RIM technologies became industry "must haves" by 1990 and, by 1994, RIM devices were being used in the first wave of mobile point-of-sale purchases that we take for granted today (remember RIM's pioneering work the next time a clerk hands you a wireless terminal to make a debit or credit payment). In 1992, businessman Jim Balsillie put up \$250 000 of his own money and joined RIM, taking the company on a path that would eventually lead to impressive technological advances and huge profits.

Interactive Pagers

The real breakthrough for RIM came in 1996 when it developed the first interactive pager. This was followed by

a call to a live message service where an operator would identify the person who had called. Eventually this technology evolved into pagers that gave the phone number of the caller. What RIM did was create an instant messaging pager where people could send messages back and forth to each other. You could call it the original text message system or the grandparent of the smartphone. The bottom line is that the interactive pager changed the fortunes of RIM and accelerated the mobile technology race. By the turn of the millennium, RIM was producing wireless handheld devices that could handle e-mail as well as simple text-based messages—and businesses bought these devices as fast as RIM could build them.

The Blackberry

The interactive pager eventually led to the development of RIM's iconic Blackberry. Originally the Blackberry was designed to allow business people access to e-mail and text messaging whenever they wanted. Within a few years, the Blackberry evolved into one of the first smartphones—combining e-mail functions with Internet browsing and cellphone capabilities. RIM's most significant accomplishment was the creation of a secure network that protected data with state-of-the-art encryption technologies. This made the Blackberry smartphones the "go to" device for both business and government.

Did you know . . .

As of 2007, RIM had reached its zenith as a high-tech company and for a brief period in the fall of that year surpassed the Royal Bank (RBC) as the biggest company in Canada.

Digging Deeper

You can view former RIM co-CEO Mike Lazaridis's abruptly ended interview with the BBC on www.youtube.com/watch?v=izUG8Zep02s.

By 2004, RIM's BlackBerry had two million subscribers. That number doubled a year later. And two years after that RIM boasted seven million users on the BlackBerry network. By then the company was introducing global positioning (GPS) features and increased Internet functionality.

Challenges

However, competition to build devices similar to the BlackBerry led to a high-tech frenzy that continues to this day. Since the late 1990s, RIM was seen as the mobile technology company for professionals, with the BlackBerry resting on the hips of some of the most powerful people in the world. By 2005, the landscape was beginning to change as new smartphones began taking a page out of RIM's playbook.

RIM also found itself in some legal hot water. In 2001, a U.S. company called NTP sued RIM for infringing on some of its patents. Eventually a judge ruled in favour of NTP and ordered RIM to pay \$23.1-million in damages. RIM refused and appealed the ruling in litigation that stretched out for five years. In the end, RIM deemed the battle with NTP to be a financial loser and agreed to pay the company a staggering \$662-million to settle all patent issues once and for all. Even with the payment, RIM still made close to \$400-million in 2006.

Cracking the Consumer Market

RIM's greatest challenge since 2006 has been to expand beyond the business world and into the consumer market. Its greatest success in this regard has been with BlackBerry Messenger (BBM), a free messaging service for people communicating over the BlackBerry network. Every BlackBerry owner—and there are currently 70 million of them worldwide—has access to the service, and BBM is often cited as the reason

why people purchase a BlackBerry smartphone.

However, most industry observers believe that RIM needs a fresh innovation to put itself back on the high-tech map. Apple's progressive shift from iPod to iTunes to iPhone to iPad is evidence that consumers value rapidly evolving technology. RIM just isn't seen as being an Apple-quality kind of innovator at this point. Release of the BlackBerry Playbook in the spring of 2011 was deemed a half-baked rush to market that didn't see a functional software update launched until February 2012. The introduction of the new line of BlackBerry superphones has also been delayed enough times that many BlackBerry loyalists are now jumping ship for flashier units like Samsung's Galaxy superphone. In essence, RIM needs to find a way to separate itself from the pack in the same way it did with the interactive pager and the first BlackBerry if it hopes to survive the next high-tech revolution.

Postscript

Despite steady profits over the years, RIM faced tremendous pressure from market watchers and company shareholders to abandon the leadership structure that saw Mike Lazaridis and Jim Balsillie as both co-CEOs and chairs of the board of directors. When RIM repeatedly failed to achieve sales quotas and profit targets in 2011—and the company's stock dropped 75 per cent—the two men bowed to the pressure and stepped down. Replacing them was Thorsten Heins, a longtime RIM executive, who has vowed to guide RIM through the next phase of its existence. Heins recently conceded that RIM's public image needs attention and made the hiring of a marketing director his top priority. Meanwhile the company has also brought in Barbara Stymiest,

the former head of the Toronto Stock Exchange, to chair the board of directors. Both moves have not managed to rescue RIM's slumping stock price but they

have sent a message that RIM is willing to take the necessary steps to put the company back into the upper echelon of the high-tech game.

To Consider

1. Using the information you gathered from reading this section, answer the following questions:
 - How did RIM establish itself as a major player in the early wireless world?
 - Which two inventions made RIM into the high-tech leader it has become?
2. What developments have stalled RIM's progress in recent years?
3. Do you think the change in RIM's leadership will help the company improve its market share?

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The High-tech Business

Did you know . . .

RIM's stock price reached a high of close to \$250 in the summer of 2007. By February 2012, the stock was trading at \$15 a share.

Focus for Reading

According to some observers, the pace of change in the high-tech world has increased exponentially over the past few years. A little over a decade ago, new products were surfacing about once every year and a half. Now innovations have been shifting the high-tech landscape every six months. Make a list of the high-tech innovations you have witnessed in your lifetime (e.g., new phone technology, computer developments, on-demand television, etc.). How have these technological advances changed your life? How profitable have they been for innovators like Apple and Research in Motion (RIM)? You will be using this information in the activity that follows the text material in this section.

High-Tech Competition

RIM's high-tech woes have really been highlighted by the success of their competitors. Apple and Google have enjoyed tremendous breakthroughs over the past few years while RIM and Nokia

have struggled to keep pace. Review the statistics below and complete the activities and questions that follow the tables.

Key: B = billion dollars; M = million dollars

Total Revenue by Company

	2007	2008	2009	2010	2011
Apple	24.0B	32.5B	36.5B	65.2B	108B
Google	16.6B	21.8B	23.7B	29.3B	37.9B
Nokia	74.6B	70.8B	58.8B	56.9B	53.2B
RIM	3.55B	5.91B	14.0B	15.8B	19.4B

Spending on Research and Development by Company

	2007	2008	2009	2010	2011
Apple	782M	1.11B	1.33B	1.78B	2.43B
Google	2.12B	2.79B	2.84B	3.76B	5.2B
Nokia	8.25B	8.33B	8.48B	7.87B	7.73B
RIM	276M	354M	869M	1.02B	1.32B

Total Profit by Company

	2007	2008	2009	2010	2011
Apple	3.50B	4.83B	5.70B	14.0B	25.9B
Google	4.20B	4.23B	6.52B	8.51B	9.7B
Nokia	10.5B	5.57B	-532M	2.31B	-1.5B
RIM	739M	1.27B	2.40B	2.60B	3.32B

Source: Wikinvest, <http://wikinvest.com>

Activity

1. Make a line graph for each chart on a sheet of paper. The left axis should represent the monetary value and the bottom axis should represent each year. Plot the value of each item on the graph for each company and then connect the dots. A different coloured line should be used to represent each company. (Note: The Total Profit graph will dip below 0 for some companies, so you will have to adjust your graph accordingly.)
2. Lay all three line graphs in front of you and see what you notice. Do you see any trends? Which company is doing best? Which company is performing worst?

Follow-up

Do you think it is fair to compare a company like RIM with a company like Apple? RIM has been largely a business-focused company specializing in smartphones and tablets, with communication occurring over a famously secure network. Apple is a multi-product platform that produces everything from computers to MP3 players. Doesn't it follow that Apple is going to be a much larger high-tech player than RIM based on the fact that it produces more products? Do you think the balance will ever tip in RIM's favour?

High Tech on the Stock Market Stock Price by Company (NASDAQ – in dollars)

	2008	2009	2010	2011
Apple	High: 188.75 Low: 86.58	High: 210.73 Low: 85.30	High: 322.56 Low: 192.06	High: 405.00 Low: 326.35
Google	High: 657.00 Low: 262.43	High: 618.48 Low: 299.67	High: 625.08 Low: 436.55	High: 645.90 Low: 474.88
RIM	High: 144.56 Low: 39.49	High: 83.61 Low: 36.34	High: 75.34 Low: 44.12	High: 69.86 Low: 13.44
Nokia	High: 31.77 Low: 10.65	High: 14.29 Low: 7.56	High: 13.44 Low: 7.65	High: 11.01 Low: 4.51

Sources: Google Finance, www.google.com/finance; Investor Guide, www.investorguide.com

To Consider

1. Take a look at the highs and lows for each company. What trends do you notice? Which company seems to be performing the best? Which is struggling the most? How is RIM doing in comparison with the other companies?
2. The economic recession of 2008 had a devastating effect on the high-tech industry. What evidence is there in the stock performance of each company that the recession took its toll?
3. Most of the bad press RIM received in 2011 was based on the company's poor stock performance. Despite steadily declining stock prices and a poor public image, what evidence is there that RIM is far from being a company on the brink of extinction? (Hint: take a second look at the revenue and profit tables.)

Follow-up

1. With a partner, compare your lists of the high-tech innovations you have witnessed in your lifetime, how they have impacted you, and how profitable you think they have been for the companies that have produced them.
2. One factor in Google's growth in 2011 was the Android smartphone operating system (OS). Android can be used on a variety of different phones regardless of the manufacturer. RIM is pinning its hopes on a new OS from QNX (the same OS used on the Playbook) on its Blackberry 10 phones due out in the spring of 2012. However, the QNX OS only works on Blackberrys. Is it time for Blackberry to follow Google's lead and make their OS compatible with non-Blackberry devices?
3. As 2011 came to a close, RIM was forced to concede that Apple owned the tablet market. In an effort to improve its tablet sales, RIM slashed its Playbook prices by over half and saw its tablet market share rise from 5 per cent to 15 per cent over the course of two months. Do you think RIM should continue to pursue a business plan that makes the Playbook the affordable alternative to the iPad?

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The Future of RIM

Further Research

The Blackberry fan site www.crackberry.com released leaked pictures of the Blackberry London superphone in January 2012. The phone looks like a mini-Playbook with a large touch screen and plenty of processing power.

Focus for Reading

How close are we to living in a world where everyone carries a superphone that acts not only as a phone and computer but also as a wallet or a passport? What would need to happen to make these types of advances possible? Keep these questions in mind as you read the following section.

QNX?

According to many analysts, the future of Research in Motion (RIM) may rest in the creativity of a band of software engineers working at a subsidiary of the company called QNX. RIM purchased QNX for \$200-million in 2006 in the hope of bringing cutting-edge software innovation to the company's expanding smartphone market. When RIM saw that it needed to respond to Apple's iPad, QNX designed the operating system (OS) that would power the Blackberry Playbook. So impressed were RIM executives by the efforts of the software creators at QNX that they handed responsibility for the creation of the OS for the next generation of Blackberry smartphones—now called superphones by the industry—to the Ottawa-based firm.

QNX is not afraid to play in the land of giants. When the company started in 1997, founder Dan Dodge made it clear that his software could compete against anything produced by Microsoft. Now Dodge and his cohorts are part of RIM's battle with huge companies like Apple, Google, Samsung, and Nokia. Many believe that the ability of QNX to deliver a reliable, fast, and secure OS for Blackberry's next generation of phones will guarantee its survival.

From Smartphone to Superphone

Typically a superphone does everything a smartphone does except at a faster pace and with more efficiency. Some equate the superphone with having all

the functionality of a tablet in a phone format. While the screens are a bit bigger than the smartphone screen, the rest of the unit functions pretty much the same as most smartphones on the market today. RIM is banking on the QNX OS to drive the Blackberry 10 superphones to record sales.

Business and Pleasure

Besides the need to stay technically relevant, RIM also needs to ward off competitors hoping to poach its customers. The Blackberry is still the device of choice for most businesses, but the iPhone and some Google Android phones are starting to make significant gains in the market. RIM needs to demonstrate to its customers that it is still the leader in wireless communication security. If it can do this with its superphones then the company just might overcome its recent setbacks. Security will also be critical as the market begins experimenting with superphone-powered virtual wallets. High-tech companies are not very far away from creating phone apps that allow a person to make debit and credit payments at the point of purchase with a personal phone and not a traditional debit or credit card.

RIM will also need to convince consumers that it is not all business. The real money is in the consumer market because vendors can sell so many more units to individual customers. While RIM currently has an impressive 70 million Blackberry users, it needs to

build on that number to stay in the game that Apple and Google are pretty well dominating at the present time. Perhaps highlighting the social benefits of Blackberry Messenger (BBM) can help in this area.

A more pressing issue is the development of new apps for Blackberry units. In 2011, RIM started to create incentives for app makers to create programs for the Blackberry. They also made network changes so that some Android apps could be used on Blackberry smartphones. However, the same security that makes RIM's network so reliable is the main obstacle for app makers who find it too difficult to create and profit from Blackberry-exclusive

apps. Put simply, it is much easier to make an app for Apple or Google than it is to make one for Blackberry.

In the meantime, RIM's efforts to go global, which have been largely overlooked by its critics, will need to continue. RIM has secured contracts all over the world, with recent agreements in Indonesia and India demonstrating the company's ability to penetrate markets that Apple has not explored. If the Blackberry network can become a truly global entity—and grow beyond the current 70 million—RIM stands a chance of becoming the high-tech power player it has always wanted to be.

Source: "QNX: RIM's last hope?" Vito Pilioci (*Financial Post*, January 25, 2012)

To Consider

1. With a partner, review your answers to the questions you were asked to think about in the Focus for Reading above. How has reading this section helped you answer these questions more fully?
2. Why is the QNX OS so important to the future of RIM?
3. What is the difference between a smartphone and a superphone?
4. Why do business people prefer the Blackberry?
5. Why has RIM struggled to improve its market share in the consumer market?

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Activity: Marketing RIM

Your Task

Work in groups of four to create a marketing and advertising campaign to promote Research in Motion (RIM).

Research

Use the information in this *News in Review* story and any online sources you are able to locate as resources to help you complete this task.

RIM's website is at www.rim.com.

The Scenario

Between 2007 and 2012, RIM went from being seen as the inventor of the smartphone to being portrayed as a stumbling high-tech company that couldn't keep up with its competitors. Overall, the perception of the public and the market viewed RIM as a high-tech firm standing still while Apple and Google surged past it. RIM's inability to produce apps led many consumers refer to it as "no fun," and the launch of the Blackberry Playbook tablet was seen as that of a glitch-ridden product that was rushed too hastily to market.

However, RIM wasn't doing as badly as many pundits speculated. It turned a profit of \$3-billion in 2011 and had \$1.5-billion in the bank. It also made great strides on the international front with substantial smartphone sales in huge untapped markets like Indonesia and India. In both markets, consumers were drawn to the security features of the Blackberry and the ease and convenience of the Blackberry Messenger (BBM) network.

Nonetheless, perception is everything in the business world. In North America and Europe, RIM and the iconic Blackberry were quickly becoming the second or third choice for many consumers.

Your job is to improve the public image of Research in Motion and the Blackberry.

What You Need to Do

1. Brainstorm your thoughts and ideas regarding the perception of Research in Motion described above. Be candid in your compliments and criticisms of the company.
2. Research the state of the company and the products it is producing.
3. Pick a product you are willing to promote in an effort to rescue RIM's public image (e.g., the Playbook tablet, the Bold or Curve smartphone).
4. Brainstorm ideas for your ad campaign. Come up with as many ideas as possible before trimming your list down to one central idea.
5. Create an ad that includes some of the following ideas:
 - a slogan (e.g., like Nike's "Just do it")

- a storyline (e.g., like Old Spice's "The man your man could smell like" montage)
 - a target audience (the demographic, or age and gender group, you want to purchase your product)
 - a call to action (e.g., "product available while supplies last," "offer good until March 29," "buy now," "limited time offer," etc.)
6. Decide on a medium for your ad. Choose one of the following options:
- online
 - television
 - print
 - radio
7. Put your ad together and present it to your classmates.

Note: If you do not want to use RIM as the focus for this activity, choose another high-tech brand or create a fictitious company and follow the same steps. Just make sure that the company is experiencing a reputation problem similar to the one RIM is facing as described above.