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# Strategic Audit of Research in Motion

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Graduating with Honors:  
Strategic Audit of Research in Motion

A Senior Honors Thesis

Presented in Partial Fulfillment of the Requirements  
for graduation in the College Honors Program

By  
Nick Sampson  
Business Major

The College at Brockport  
May 2011

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## History of Research in Motion

The original concept behind Research in Motion began in 1984 when Mike Lazardis, now current Co-CEO, and Douglas Fregin set up RIM as an electronics and computer science consulting business based in Waterloo, Ontario, Canada. Both Lazardis and Fregin were engineering students, Lazardis at the University of Waterloo and Fregin at the University of Windsor. The company began to focus on the transmission of wireless data and setting



up of wireless point-of-sale customer terminals using radio waves. Mr. Fregin went on to become Vice President of Operations for RIM until he retired in 2007.

In 1988, RIM became the first wireless technology developer in North America and also the first company outside of Scandinavia to develop certain products that are mainly used for processing credit cards and other business communications.

Further developments occurred in 1992 when RIM research staff found a way to use pagers to send and receive wireless messages. Now current Co-CEO Lazaridis began to push this technology in order to develop it into a way to send e-mail over wireless networks. At this time, Jim Balsillie joined RIM by investing \$250,000 of his own money into the company and also became Co-CEO of the company alongside Lazaridis.

Within the next few years, RIM began to experience significant growth. In 1996, RIM introduced its first wireless handheld, which was named the Inter@ctive Pager. The following year, RIM joined the Toronto Stock exchange as a publicly listed company and raised more than \$115 million (Canadian) from investors.



In 1998, RIM introduced its first version of the BlackBerry, which was a handheld computer that has evolved into an extremely popular “smartphone” over the years. The initial version of the BlackBerry had a six-line display and allowed for e-mail and two-



way paging and users could also browse pages that had news, weather, stock market data and travel information. The company also signed several contract agreements to provide wireless service with multiple companies including BellSouth wireless, IBM and Rogers Cantel.

The following year, RIM became listed on the NASDAQ exchange, while still remaining on the TSX. The listing on the NASDAQ exchange provided RIM with \$250 million (US), which it used to continue to develop its BlackBerry technology. The listing on the NASDAQ exchange was followed by RIM’s introduction of a new version of the BlackBerry, the BlackBerry 850 Wireless Handheld. This device successfully combined e-mail, wireless data networks and a QWERTY keyboard. The device became very popular and the term “Crackberry” was coined by many in reference to the inability of users to separate themselves from the device for significant periods of time.

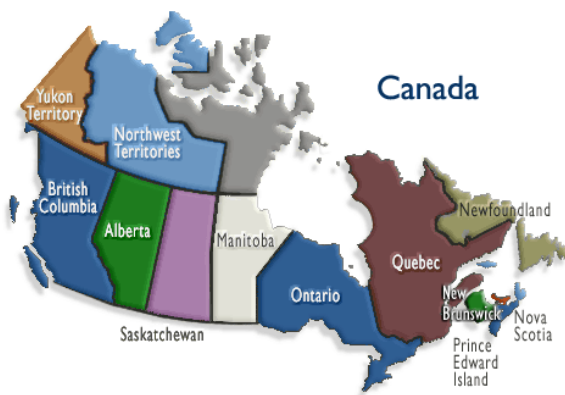
In 2002, RIM upgraded its BlackBerry to include voice and data transmission, as well as enable users to receive e-mails from more than one account using the device. These improvements allowed for a continued increase in BlackBerry subscribers and in 2004, the 20<sup>th</sup> anniversary of the company, the number of BlackBerry subscribers surpassed one million worldwide.



The next major development in RIM’s history occurred on March 3, 2006 when the company finally came to a settlement agreement with the American patent-company, NTP Inc. of Virginia. NTP had sued RIM back in 2002 for patent infringement and legal battles had been ongoing since. On March 3, the two parties came to a settlement for which RIM agreed to pay NTP \$612.5 million US.

The agreement stated that RIM would be allowed to sell all of its products and services without the need to pay further royalties to NTP and all litigation against RIM would be ceased. The ongoing litigation caused the number of BlackBerry subscribers to not reach its expected goal during this year. This was due to fears that RIM would be ordered to end BlackBerry service if court judgments were not in RIM's favor.

On March 5, 2007, the company experienced negative publicity when RIM incurred a \$250 million US accounting charge for issuing stock options at less than fair market value. Co-CEO's Lazaridis and Balsillie each agreed to pay up to \$5 million towards the accounting review and also repaid gains from the improperly priced options along with many other RIM executives. The company acknowledged responsibility and agreed to have a third party, Protiviti Co., conduct an "Independent Governance Assessment" per



the terms of a similar settlement agreement with the Ontario Securities Commission which is discussed further in the Corporate Governance Stability section of this paper.

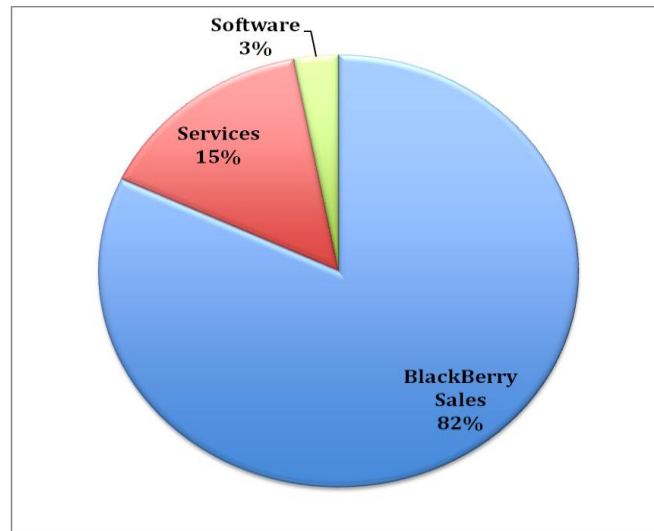
Later in the same year RIM announced that the number of BlackBerry subscribers increased to over 10 million. RIM also announced an agreement with Alcatel-Lucent to distribute BlackBerry smartphones in China. The announcement was followed by an increase in the value of RIM's stock, subsequently making RIM the most valuable company in Canada.

In the following years, RIM has continued to grow significantly. Introducing many new models of its BlackBerry smartphone in order to continue to compete with increased competition, mainly from Apple's iPhone and phones utilizing Google's Droid software. The company also entered into contracts with third party software developers in order to produce applications that can be downloaded by BlackBerry devices from the BlackBerry App World, a move that was taken to combat the iPhone and Apple's AppStore. Currently, the availability and quality of apps available on the BlackBerry App World is

not up to par with Apple's AppStore, but RIM is taking steps through acquisitions and contracts to improve the BlackBerry App World.

According to comScore MobiLens, RIM's market share, as of January 2011, ranked second with 30.4% of the smartphone market, which is behind Google's 31.2% market share. RIM's major competitors in the industry are Google, Apple (24.7% market share), Microsoft (8.0% market share), and Palm (3.2% market share). RIM has averaged 80 % annual growth in subscriber base since the launch of the BlackBerry. There are now approximately 550 carriers and distribution partners offering BlackBerry products and services in 175 countries around the world. The number of BlackBerry subscriber accounts continues to increase. The total account base is over 55 million, 5.1 million of which were added during the third quarter of 2010.

### Sources of Revenue

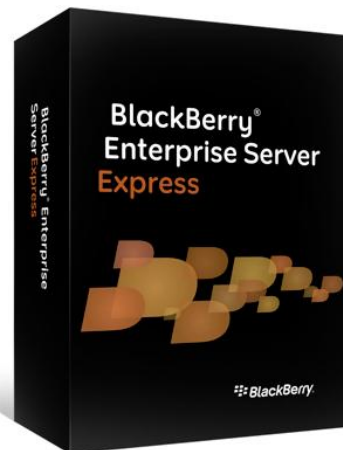


RIM is able to generate revenues from a variety of sources, but the primary source is the company's BlackBerry wireless solution that includes sales of BlackBerry wireless devices, software and services. This solution provides BlackBerry customers with an extension of multiple email accounts.

The sale of BlackBerry wireless devices constitutes approximately 82 percent of revenues, while services constitute approximately 15 percent and software approximately 3 percent. RIM does receive a portion of the sales of the applications sold through AppWorld. The percentage of the application sale that goes to RIM itself depends on the contract that RIM has with the app developer.

Service revenues are gained from billings of its BlackBerry subscriber base. The billings generate revenues monthly through access fees that are charged to carriers who have customers with BlackBerry subscriber accounts. Each carrier is charged a fee for every active subscriber account every month. The fee amount is not affected by the amount of data that is passed over the BlackBerry Enterprise Server. Carriers are responsible for notifying RIM of any new accounts to be activated as well as any accounts that are to be deactivated. Once a carrier requests that an account be deactivated, RIM no longer bills the carrier for that account.

RIM also generates revenues from charging fees for its software through licensing RIM's BlackBerry Enterprise Server (BES) software, BlackBerry Client Access Licenses (CALs), which are the fees that are charged for each active account through the BlackBerry Enterprise Server, maintenance and upgrades to the software, and technical support.



## Mission and Vision Statement

Research in Motion's 2010 annual report begins with a short paragraph describing the pride and passion that the company has for its business activities:

RIM is focused on delivering rich user experiences to our customers through the design and engineering of BlackBerry smartphones and services that are scalable



and sustainable on our partners' wireless networks. We focused on efficiency right from the start. In the early days, BlackBerry devices were designed to run on little more than glorified paging networks. So efficiency is in our DNA. Our unique experience and expertise gives BlackBerry smartphones significant advantages including long battery life, real-time delivery of information and cost effectiveness for our partners and end-users. To those of you who choose to dream and live big, we put that kind of spirit into our smartphones so you can pursue your own passions at any time.

RIM is very proud of the products that they have produced and the efficiency with which they have been able to grow and expand in their market. They express passion for what they do in their industry and believe that success will follow their passions. The opening paragraph ends with the statement that "success follows passion," illustrating how RIM believes that they will continue to be successful following the passions that got them to where they are today.

Thus far, their passion for their products and services has allowed RIM to reach a new record of 14.2 million smartphone shipments during the third quarter of 2010, ending November 27, 2010, and has also allowed the company to gain the business of over 250,000 organizations around the world who utilize the BlackBerry Enterprise Server.

## **RIM's Product Line**

### **BlackBerry Torch**



The BlackBerry Torch is RIM's latest smartphone and was put to market August 2010. The Torch is a touchscreen phone, but can also be operated using a pull down QWERTY keyboard that is stored behind the phone. The Torch operates on RIM's BlackBerry 6 operating system and was created in response to the

increasing popularity of the iPhone.

### **BlackBerry Style**

The BlackBerry Style is RIM's version of a flip phone. It contains all of the functions of a traditional BlackBerry, but has the flip feature that has been a popular design in the past with other cell phone producers. The flip is targeted towards younger and less business oriented consumers.



### **BlackBerry Curve**



The BlackBerry Curve is a traditional BlackBerry for everyday use. The tagline on RIM's website for the BlackBerry Curve is "master your everyday," illustrating how the phone is targeted to general users of RIM's BlackBerrys and smartphones in general.

### **BlackBerry Pearl**

The BlackBerry Pearl is smaller version of the traditional BlackBerry and is operated using a modified QWERTY keyboard in which two letters of the alphabet share the same key. The Pearl is on the cheaper end of the BlackBerry products and is targeted to those consumers who are looking for a smaller BlackBerry for everyday use. The tagline on RIM's website for the Pearl is "carry your friends in your pocket," illustrating how the Pearl is also targeted to a younger demographic.



## BlackBerry Bold



The BlackBerry Bold is a slightly larger and heavier version of the Curve. It is targeted towards business enterprise users and the Bold also has international capabilities that the previously mentioned BlackBerrys do not have. The Bold also contains more memory and a higher quality camera than the Curve.

## BlackBerry Tour

The BlackBerry Tour is RIM's business smartphone. Like the Bold it also has international capabilities, but is larger in size than the Curve and the Bold. Sascha Segan from PC Magazine is quoted on RIM's website saying "it's [the Tour] the benchmark for business smartphones".



## BlackBerry Storm



The BlackBerry Storm was RIM's first attempt at a touchscreen smartphone and was created at the request of Verizon in response to Apple's launch of the original iPhone. The Storm has all of the characteristics of a traditional BlackBerry, but is operated solely through a 3.25 inch touchscreen.

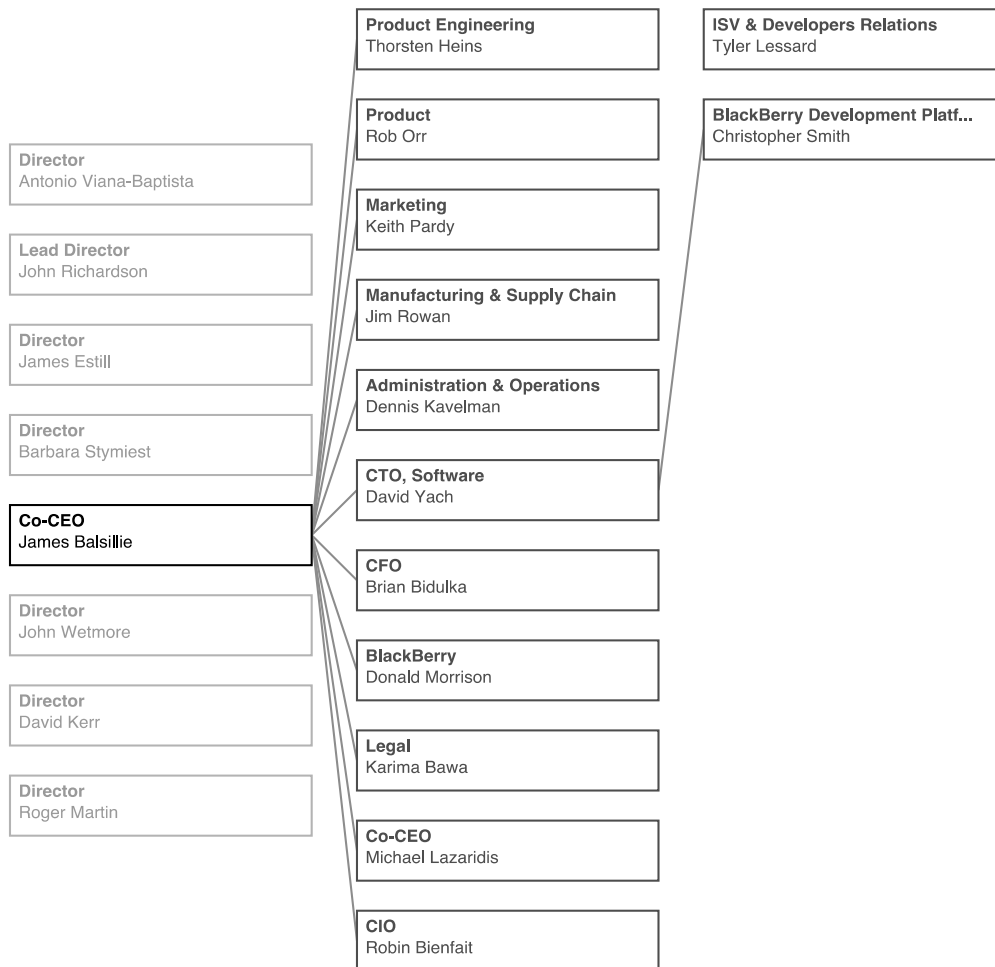
## BlackBerry PlayBook

The BlackBerry PlayBook is RIM's entrance into the tablet computer industry segment and is a direct response to Apple's iPad and iPad 2. The PlayBook operates under BlackBerry's newly acquired QNX operating system and has many characteristics that are meant to attract both business and non-business consumers. The PlayBook is expected to go on sale to the general public in early April.





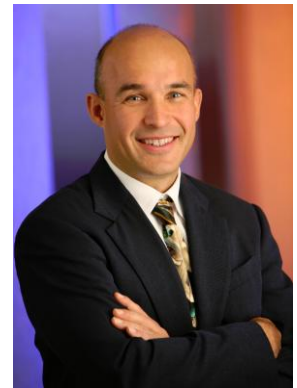
## Research in Motion's Executive Team



**Jim Balsillie, *Co-Chief Executive Officer Research In Motion***

Balsillie is a graduate of the University of Toronto and the Harvard Graduate School of Business and also holds many honorary doctorate degrees. He is also a chartered accountant and a fellow of the Ontario Institute of Chartered Accountants.

Balsillie has been Co-CEO at Research In Motion since 1992, where he is responsible for driving corporate strategy, business development, marketing, sales, and finance.

**Mike Lazaridis, *President and Co-Chief Executive Officer Research In Motion***

Lazaridis holds honorary doctoral degrees from the University of Waterloo (Engineering), McMaster University, University of Windsor Ontario and Universite Laval. Lazaridis has been awarded The Ernest C. Manning Principal Award, which is Canada's most prestigious innovation prize. He was also listed on the TIME 100 List of Most Influential People and is also a Fellow of the Royal Society of Canada. In addition, he was named to the Order of Ontario and is an Officer of the Order of Canada.

In his role at RIM, he is responsible for product strategy, research and development, product development and manufacturing.

**Don Morrison, *Chief Operating Officer***

Morrison graduated from the University of Toronto with an MBA and a BA and has also participated in the Executive Program at the University of Virginia, Darden Business School.

In his role of COO at RIM, which began in 2000, Morrison is

responsible for overseeing all domestic and international operations focusing on the development and support of the BlackBerry wireless solution.

Prior to RIM Morrison had senior leadership roles in various countries with AT&T and Bell Canada.

### **Robin Bienfait, *Chief Information Officer***

Bienfait holds a master's degree in Management of Technology from the Georgia Institute of Technology along with a bachelor's degree in engineering from Central Missouri State University and an associate in business degree from Maryland University-European Division.

Before gaining the position of Chief Information Officer at RIM, Bienfait held senior leadership positions at AT&T Labs and Global Network Services.



### **Brian Bidulka, *Chief Financial Officer***



Bidulka holds an Honours Bachelor of Commerce degree from McMaster University and received his Chartered Accountant's designation in 1989.

Prior to joining RIM, Bidulka held financial positions with Molson Inc. and Ernst & Young LLP.

The executive team of RIM manages 17,500 employees worldwide. Of the 17,500 employees, 9,912 are employed full-time in Canada, 500 located at headquarters in Waterloo, Ontario, Canada. RIM also has branch locations in: Mississauga, Ontario Canada; Ottawa, Ontario, Canada; Halifax, Nova Scotia, Canada; Alpharetta, Georgia, U.S.A.; Bellevue, Washington, U.S.A.; Andover, Massachusetts, U.S.A.; Irving, Texas, U.S.A.; Redwood City, California, U.S.A.; Rolling Meadows, Illinois, U.S.A.; Sunrise,

Florida, U.S.A.; Mexico City, Mexico; Caribbean, Singapore, Southbank, Vicotria, Australia; Minato-Ku, Tokyo, Japan.

## Board of Directors

The current Board of Directors for RIM is made up of eight members, two of which are inside members and are the Co-CEOs, Jim Balsillie and Micheal Lazaridis. The remaining five are John Wetmore, Barbara Stymiest, John Richardson, Roger Martin, David Kerr, Antonio Viana-Baptista. The Board members make up four different committees for RIM: the audit committee, compensation committee, nominating committee and corporate governance committee.

Mr. Wetmore was the former CEO of IBM Canada ltd. and brings the experience of running a successful technology company to the Board of RIM.



Ms. Stymiest is the COO of Royal Bank of Canada and is responsible for its strategic development as well as corporate functions such as risk management, finance and treasury. Ms. Stymiest brings her strategic development and risk management experience and expertise to the RIM Board.

Mr. Richardson was a former Senior Partner of Ernst & Young (Chartered Accountants) and has also served as an Executive Vice President of Corporate Development at Lonvest Corporation, which has since become London Insurance Group Inc. Mr. Richardson brings his extensive accounting and corporate development experience to the RIM Board.

Mr. Martin is the Dean and Professor of Strategy at the Joseph L. Rotman School of Management at the University of Toronto and was also a Co-Head and Director of Monitor Company, a company that specializes in helping corporations with growth. Mr. Martin brings both strategy and company growth experience to the RIM Board, which is

very beneficial to RIM, considering the company has experienced rapid growth over the years.



Mr. Kerr serves as a Managing Partner of Edper Financial Group and is also an independent director of Sun Life Financial Inc. where he is a member of the Investment Oversight Committee and Director of Sun Life Assurance. Mr. Kerr brings his financial and investment experience to RIM's Board.

Mr. Pedro de Carvalho Viana-Baptista served as the Chariman and Chief Executive Officer of Telefonica Moviles SA and also served as General Manager of Telefonica Spain. MR. Pedro Carvalhp Viana-Baptista brings his international business experience



as well as his telecommunications experience to the Board of Directors of RIM.

The Board members of RIM have varying backgrounds related to the industry in which RIM operates. The board consists of members with backgrounds in math, engineering, accounting, technology products, strategy and business management. All of the board members have significant experience in the varying fields of their expertise, which gives RIM's board the knowledge and experience that is relevant to the business that RIM operates in.

### **Executive Compensation**

(Compensation in U.S. dollars)

The Board of Directors at RIM currently has a compensation committee which reviews and recommends compensation levels for the executive team. The committee is made of up of three Board members: David Kerr, John Richardson and John Wetmore.

According to BloomBerg Businessweek, the current compensation for Co-CEO Jim Balsillie includes a salary of \$1,079,234. His restricted stock options are valued at



\$2,497,500 with a total stock option value of \$35,963,652 for 903,735 options. Balsillie's total annual cash compensation accumulates to \$2,077,058. His fellow Co-CEO Michael Lazaridis currently earns the same salary and total annual cash compensation, but his stock option value differs. Lazaridis has a total of 1,250,000 stock options that are valued at \$54,486,510 according to Bloomberg.

Total compensation drops significantly once below the CEO level. Donald Morrison, Chief Operating Officer for BlackBerry, has a reported salary of \$625,056. His total number of stock options is 200,000 and is valued at \$7,463,510. His total annual cash compensation adds up to \$2,673,533.

Brian Bidulka, current Chief Financial Officer of RIM has a reported salary of \$393,471. He has a total of 110,000 stock options valued at \$1,918,693 and receives total annual compensation of \$609,581.

When compared to Apple, RIM's total annual cash compensation varies between the categories of salary, stock options and total annual compensation with RIM's executives having higher dollar values in some categories and Apple's having higher values in others. Apple's CEO, Steve Jobs, has a very unique salary of only \$1 and total annual compensation of only \$1. Apple's Chief Operating Officer, Peter Oppenheimer, has a salary of \$700,014, stock option awards of \$28,377,000 and total annual compensation of \$1,412,666. Apple's Chief Financial Officer and Senior Vice President, Timothy D. Cook, has a salary of \$800,016, stock option awards of \$52,334,250 and total annual compensation of \$6,758,322.

RIM's executive compensation is neither significantly higher nor significantly lower than its immediate competitors. Stock option values differ because of the relative worth of the competing companies' common stock.

## Corporate Governance Stability

The corporate governance of RIM seems to be fairly stable. Lazaridis has been CEO and Co-CEO ever since he helped create the company in 1984 and Balsillie has also been Co-CEO since 1992 when he first became a part of the company. This unusual Co-CEO governance style has seemed to work very well throughout the years and has even survived the company's trouble with the SEC and Canadian Ontario Securities Commission (OSC) with regard to the company's historical stock option granting practices.

The company was forced to settle with the OSC and the SEC by paying back some the gains that certain executives realized through their stock option grants that the company participated in. As a result of the stock option grant issues, the Board of Directors created a special committee that conducted an internal review of the Company's stock option granting practices. As part of the settlement with the SEC and the OSC, RIM agreed to submit an independent assessment of its governance practices, which was conducted by Protiviti Co.. Protiviti was a consultant that was selected by the OSC and has experience with governance assessments.



Per the recommendations of the internal review and the review done by Protiviti, RIM has agreed to adopt 27 of the 29 recommendations in whole and two others in part. Since March 2007, five new independent directors have joined the Board as part of the internal investigation that was conducted prior to Protiviti. Many of the Board's special committee recommendations were similar to those recommended by Protiviti and the Board has taken significant time and effort to improve RIM's governance.



The members of RIM's Board of Directors will most likely be very stable in the coming years, with minimal changes. It is also apparent that the co-CEOs of RIM will remain the

leaders of the company into the foreseeable future, creating stable executive leadership for RIM.

## **PESTLDG Analysis**

### **Macro Environment**

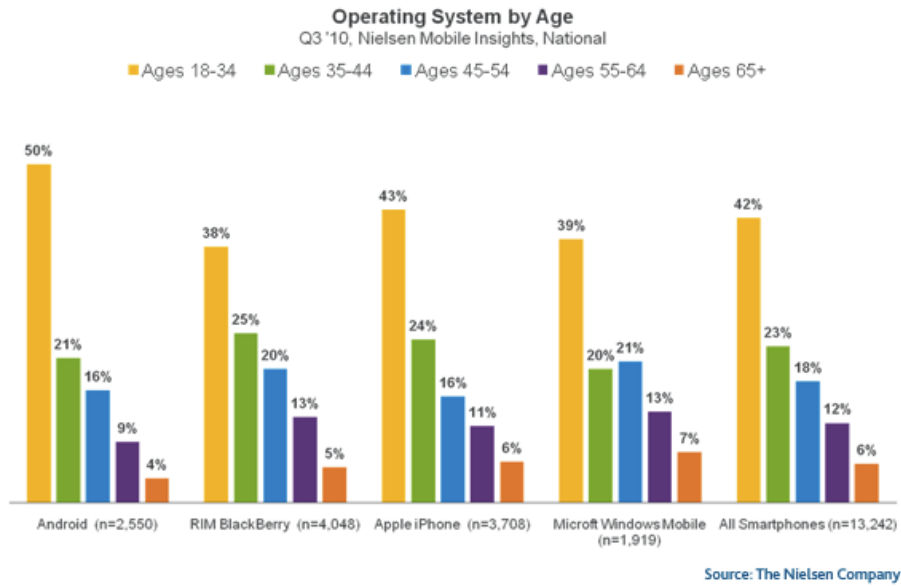
A company's macro environment plays a large role in the success of the company and also the different methods the company uses for growth. A good way to analyze the external environment of the company is by running a PESTLDG analysis. This test consists of six main environmental factors: Demographic, Economic, Political/Legal, Sociocultural, Technology and Global. A company like Research in Motion, has to know the different affects these environmental factors have on their customers.

### **Demographic**

The Demographic factor has to do with the type of people who are purchasing the products. By studying this, it helps the company understand who their target customers are and also aid them in acquiring new customers. RIM's largest revenue stream comes from selling its BlackBerry products and services and in order for RIM to continue to be a dominant force in the telecommunications industry, they must be able to attract many demographics.

### **Age**

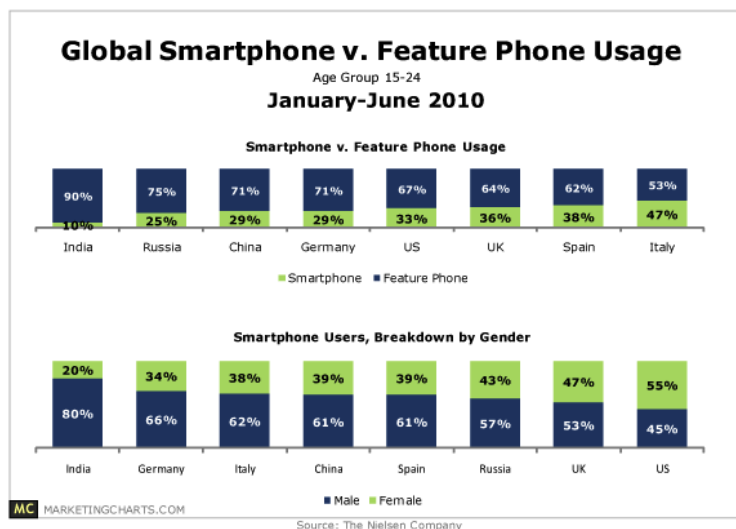
RIM's products were initially targeted towards older, business-oriented people who found it very convenient to be able to use their corporate email outside of the office via a wireless device. However, since the creation of the BlackBerry device, smartphone sales has increased with younger consumers who are now using them for enhanced text messaging purposes as well as mobile social networking.



This graph shows the distribution of smartphone users by age for all smartphones as well as for some individual producers of smartphones. The age range of eighteen to thirty-four is the biggest market for smartphone users and sixty-five plus is the lowest market.

### Gender

How the different genders use smartphones around the world must also be considered by RIM. The chart below shows how males typically dominate smartphone usage outside the United States and the United Kingdom. RIM may be able to target its advertising and product design towards women in countries where women are a lower percentage of users than males are. This may mean highlighting more than business uses for BlackBerry phones.



## Income Distribution

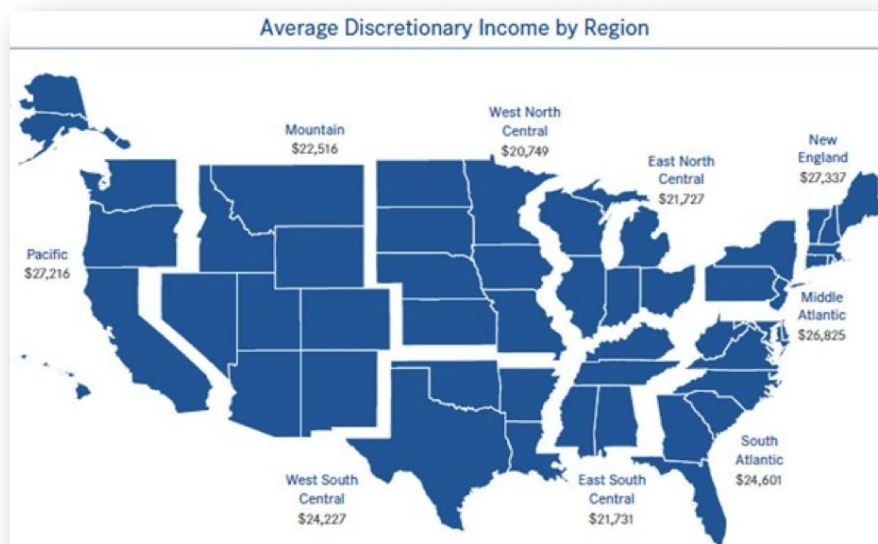
BlackBerry smartphones and the BlackBerry Enterprise Server services are fairly expensive for consumers to purchase and pay fees for. People and businesses with tight budgets and moderate incomes will most likely be unable to afford the costs that are involved with the BlackBerry devices. Generally, each user of a BlackBerry must have the data option of their cell phone plan activated, which incurs a monthly fee of around \$30 per phone for the average personal consumer. Businesses utilizing their own BlackBerry Enterprise Servers are also required to pay significant fees for the service.

## Economic

### State of the Economy

The global and North American economies have struggled the past few years, but there are signs that economic activity is on its way out of the slump that was at its worst in 2008. As business and individual consumers are finding ways to save money and cut back on expenses, it makes selling BlackBerry devices and services more difficult as such products are generally purchased with disposable income.

Overall discretionary income levels may be on the rise within the next few years and the map below shows the discretionary income levels by region within the United States, which is RIM's largest market.



Source:  
Marketingcharts.com

## Stock Market

RIM is listed on the Toronto Stock Exchange (TSX) and the NASDAQ. The prices that RIM's stock trades for are fairly similar between the two exchanges. This chart shows RIM's stock performance on the NASDAQ over the past five years. RIM's stock took a significant hit during late 2008 when investor uneasiness was at its worst and the stock has not fully recovered since.

As RIM is a technology company, systematic and industry variables can affect the stock performance positively or negatively. According to Google Finance and its analysis of RIM's stock, RIM has a beta of 1.92. This means that RIM's stock performance is very sensitive to movements in the market. For every point the market moves, RIM stock will move in the same direction by a magnitude of around 1.92.



Source: BigCharts.com

## Political/Legal

The Political and Legal environments have significant affects on the business of RIM. RIM must continue to patent any new developments that its research and development departments create and also must engage in patent litigation should any of their patents be infringed upon. RIM must also defend itself from litigation initiated by other parties.

In RIM's 2010 annual report, management summarizes 33 lawsuits that the company has been a party to since 2005. The company takes the potential costs of these lawsuits into consideration when calculating their business expenses and when preparing their financial statements.



RIM has also had some issues with the political environments in some of their foreign markets. Most notably was with the Gulf nations United Arab Emirates and Saudi Arabia. The unique nature of RIM's business model does not allow cellular service providers or other third parties access to the content of e-mails or messages that are sent over a BlackBerry Enterprise Server by individuals using a BlackBerry device. Messages and emails are automatically encrypted and sent to servers that are often located in North America. This unique security feature is seen as a positive in North America, but the



UAE and some other gulf nations are worried that members of terrorist organizations could use BlackBerry devices to organize terrorist activities. The UAE and Saudi Arabia want to be able to monitor the content that is sent through BlackBerry devices.

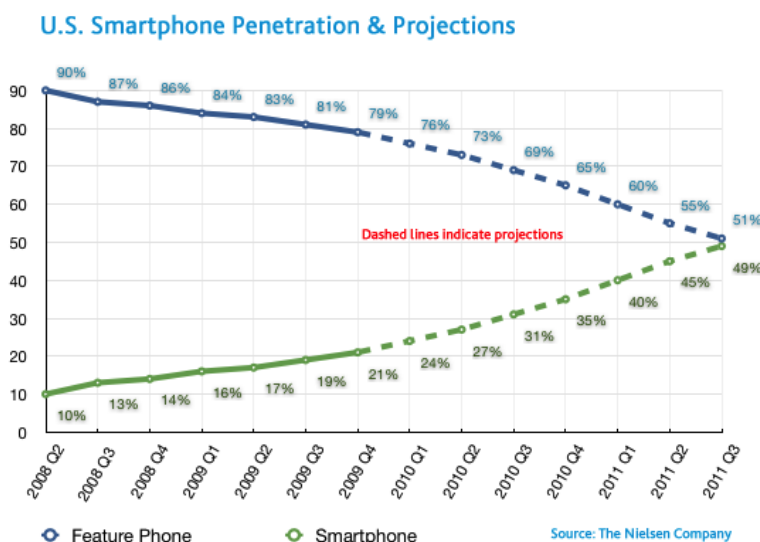
Saudi Arabia, The United Arab Emirates and India have threatened to ban the use BlackBerry devices if RIM does not come up with a way for the governments to monitor the content sent by BlackBerry devices. The threats of such bans were eventually taken back after RIM made some apparent concessions with the governments. The specific details of the possible concessions were not released to the public.

RIM does contribute to lobbying techniques in order to help sway political decisions in favor of the company. According to lobbying disclosure records RIM spent more than \$3 million on lobbying fees since registering in 2006. Lobbying efforts were expanded in 2009 in order to press for a patent reform bill that would impose limits on patent lawsuits. The increased pressure in favor of the bill was a response to the NTP lawsuit that RIM faced and which forced RIM to pay about \$612 million to settle.

During the 2009 lobbying efforts RIM increased its lobbying efforts by hiring Beto Cardenas, a former general counsel to Sen. Kay Bailey Hutchison (R-Texas), through the account with Vinson & Elkins. RIM also hired Clark Lytle & Geduldig, where Sam Geduldig lobbies for patent reform and other issues for the company. Sam Geduldig was once a senior adviser to Rep. Roy Blunt (R-Mo.). Mehlman Vogel Castagnette and Mckenna and Long & Aldridge also lobby for the company.

**Sociocultural**

RIM also must deal with the rapidly changing social attitudes about its products both in the business world and with individual consumers. Smartphones are rapidly becoming the cell phone of choice within the United States and other markets. The graph below shows how the use of smartphones has increased over the past few years relative to conventional cell phones, which the graph refers to as feature phones.





RIM also must deal with how consumers perceive BlackBerry products. Many business oriented people once saw the BlackBerry as the smartphone to have for business, but that may be trailing off due to the entrance of the Apple iPhone and other smartphones utilizing Google's Droid software. The chart below shows how RIM's market share within the United States dropped between September 2010 and December 2010.

<b>Top Smartphone Platforms</b> <b>3 Month Avg. Ending Jan. 2011 vs. 3 Month Avg. Ending Oct. 2010</b> <b>Total U.S. Smartphone Subscribers Ages 13+</b> <b>Source: comScore MobiLens</b>			
	Share (%) of Smartphone Subscribers		
	Oct-10	Jan-11	Point Change
<i>Total Smartphone Subscribers</i>	100.0%	100.0%	N/A
Google	23.5%	31.2%	7.7
RIM	35.8%	30.4%	-5.4
Apple	24.6%	24.7%	0.1
Microsoft	9.7%	8.0%	-1.7
Palm	3.9%	3.2%	-0.7

## **Technology**

The Technological factor is dealing with the company's ability to develop new products and more efficient ways of producing them. RIM has a variety of BlackBerry products it sells to consumers and businesses that must continue to be updated with the latest technology in order to for RIM to continue to stay competitive within this rapidly changing industry.

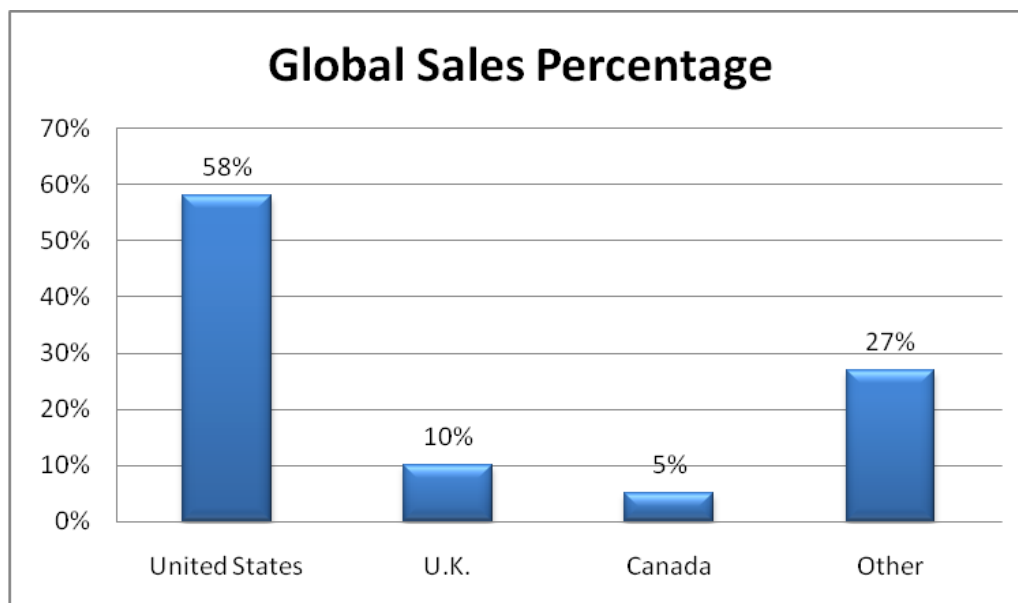
One of the most recent technological developments that RIM has unveiled is its PlayBook computer tablet, which was developed to compete with Apple's iPad. RIM has also recently unveiled a new smartphone that it hopes will sway some consumers away from the iPhone 4. The BlackBerry Torch is equipped with a newly developed operating system and can be operated via both a touch screen keyboard and the traditional QWERTY keyboard pad.

Other smartphone developments that RIM must be aware of and attempt to adopt into their future products are video chat capabilities, currently available on the iPhone 4 with the Face Time application, and increased speed ratings beyond 4G.

### **Global**

The Global factor has to do with different efforts of the company to globalize and also the status of the global economy. Production and distribution lines can be affected through the global state as well as positioning.

RIM has successfully moved into overseas markets outside of North America and is a very strong competitor in those markets. RIM is attempting to increase its sales in those markets as it expands into both the corporate and consumer areas of those overseas economies.



## Porter's Five Forces and Research in Motion

### Supplier Power

RIM contracts with a variety of hardware and software companies in order to supply the final products and the inputs to the final products that RIM sells to both its corporate and consumer buyers.

The suppliers are pre-approved and must adhere to RIM's Supplier Code of Conduct in order to retain their contracts or to be approved by the company to become a supplier. When performing an analysis of a potential or existing supplier RIM will take into consideration whether or not a supplier can "in an open and objective manner demonstrate its active pursuit of compliance with the Code" (Supplier Code of Conduct). The Code contains five sections that outline how a supplier is expected to act with regards to labor, health and safety, the environment, management systems and ethics. This contract that RIM enters into with its suppliers is part of RIM's desire to be good corporate citizens throughout the world. Any breach of the conditions within the "Code"



by the suppliers is grounds for suspension or termination of the supplier and manufacturer relationship with RIM.

The imposition of this contract by RIM on potential suppliers limits the number of available suppliers that RIM can enter into business with. RIM currently receives 90% of its inputs towards its products from only five different suppliers located throughout the world (iStockAnalyst). One of RIM's largest suppliers, Elcoteq SE accounts for one third of RIM's input costs. This illustrates that RIM's suppliers have significant bargaining power over the company, due to the fact that losing a large supplier and having to find another one that complies with the Code could take a considerable amount of time. During that time RIM's production would most likely drop off of pace with normal production and they could lose important sales.

This supplier bargaining power is lessened, however, when RIM's importance to some of its suppliers is considered. The supplier Elcoteq SE that was mentioned earlier has a significant amount of sales through RIM, around 20% of its total sales. The loss of a contract with RIM would greatly reduce the profits of this company, which increases RIM's bargaining power.

RIM's growth during weak economic times has also increased the company's importance with its suppliers. The increasing revenues that came from RIM became even more important to the suppliers of the company and in April 2009 the company began to demand discounts from its suppliers. This illustrates further bargaining power that RIM has over its suppliers.

Overall, the supplier power as it relates to RIM is moderate to low. The Code and the fact that 90% of RIM's inputs come from five suppliers leads to a higher supplier power, but RIM's growth during economic times and its relative importance to supplier revenues lessens that supplier power.

### **Buyer Power**

RIM was a first mover into the smartphone industry with their early BlackBerry phones that could send and receive email as well as browse the Internet and make phone calls. Competitors quickly caught on to the potential profits that could be made in the smartphone industry and began to develop and sell their own versions of a smartphone. Apple, Microsoft and Nokia are RIM's top competitors and they constantly compete for market share in the industry as well as for partnerships with the major cell phone carriers.



RIM has seven categories of the BlackBerry that they produce and sell variations of to all of the major cell phone carriers within the United States. This business model is what co-CEO Jim Balsillie refers to as "Constructive Engagement" and is opposite of what Apple

has traditionally done with their iPhone, which they exclusively sold through AT&T in the United States. The fact that RIM has partnerships with all of the major carriers as well



at&t

as many of the smaller carriers significantly reduces the buyer's power over RIM. RIM has diversified their selling position among several buyers and the loss of one, however important, would not be considered detrimental to RIM.

RIM's products are also very important to the carriers and their potential revenues and sales. The BlackBerry has

become a very popular consumer product and has a very high market share within the smartphone industry. The loss of the ability to sell versions of the BlackBerry by carriers would most definitely result in a significant decline in sales.

One example of the importance of the BlackBerry to carriers is Verizon's request of RIM to develop the BlackBerry Storm to compete with the first version of Apple's iPhone. Verizon needed a smartphone to compete with AT&T and their exclusive right to sell the iPhone, so they sought out RIM to develop the BlackBerry Storm, which was the first BlackBerry with a touch screen. The importance of RIM's products to its buyers significantly decreases the buyer power as it relates to RIM.



The overall buyer power as it relates to RIM is low. RIM sells its products to many carriers, reducing the importance of individual carriers to RIM and RIM's products have become very popular and very important to the carriers sales and revenues.

### **Threat of New Entrants**

Since RIM developed and began to sell their first BlackBerry smartphone, many other wireless technology companies have entered the smartphone industry by developing their

own versions of smartphones. The varying versions all have the ability to send and receive emails, browse the web and engage in wireless social networking. Many companies already producing the traditional cell phones already had the infrastructure



and resources to make the move into the newly created segment of the market. Large wireless companies also already have valuable brand recognition that can be transferred to the smartphone industry very easily.

Software and hardware patents do pose a barrier to entry, but large companies will have the resources to develop their own versions of hardware and software that won't infringe on the already existing patents.

The fact that the demand for smartphones is continuing to increase makes the threat of new entrants into the market even greater, as there is potential for significant profits in the industry. Many companies will see this potential for profits that exists in North America and around the world in other developed countries and attempt to enter the industry.



Overall, the threat of new entrants into the smartphone industry is very high. There are many cell phone producers that have the resources and brand recognition that make it relatively easy to enter the market and there is a potential for significant profits in the industry with the rising demand by consumers and businesses for smartphones.

### **Threat of Substitutes**

The competitive pressure of substitutes exists when companies in one industry produce products that are viewed by buyers as adequate substitutes. In the case of RIM and its products, there are not any substitutes that pose a significant threat to RIM's sales. The

BlackBerry can be considered a substitute for many products, such as landline phones, laptop and desktop computers and even digital cameras. Therefore, the competitive pressure of substitutes towards RIM is almost non-existent.

### **Competitive Rivalry**

The companies in this industry are constantly trying to improve their performance and market share within the industry. RIM has recently developed and introduced its new BlackBerry Torch smartphone to compete with Apple's iPhone 4, which was also recently released for sale. Google is aggressively advertising its Droid operating system that is being utilized in a variety of new smartphones.



The companies competing in this industry are also fairly large with significant resources to utilize to attempt to take market share away from each other. The major buyers in the industry, the carriers, are even pushing the developers to develop new products that have the potential to cannibalize sales from competing smartphones (Verizon and the



BlackBerry Storm). Even though the smartphones have generally the same characteristics, small differences in hardware or software can determine the success of the phone.

The ability of individual buyers to switch the type of smartphones that they use when they upgrade without incurring significant costs also increases the rivalry within the industry.

Overall, the competitive rivalry within the industry is extremely high. The competing companies are constantly coming out with new and improved smartphones, which increases the pressure on the competitors to do the same. Individual consumers also incur little cost when upgrading their phones and switching to a different brand of smartphone. Carriers offer upgrades for relatively cheap prices when an accompanying service

contract is signed. Lastly, the competitors within the industry are fairly large and have significant resources to use when competing with each other.

## The Internal Environment

### Research in Motion's Value Chain



### Support Activities

#### Technology Development

In order for RIM to remain highly competitive and at the top of the smartphone industry, the company must constantly develop new technologies and create technological improvements relating to the services that they provide and the products that they sell. Both the services and products that are sold by RIM are extremely complex and have a reliance on advanced cellular and computer technology.

Development of RIM's BlackBerry Enterprise Server allowed for emails and messages to be pushed through the servers, both commercial and corporate, in a secure and encrypted manner to users' BlackBerry devices. This development is what has allowed RIM to essentially create the smartphone industry and remain competitive within it as they



continue to development new hardware and software that work along with the BlackBerry Enterprise Server.

The company spends a considerable amount on research and development so that they may continue to stay up to date with current technologies and incorporate those technologies into new products. During 2010, RIM spent 6.6 percent of its revenues on research and development or \$267,164,000. During the fourth quarter of fiscal 2010, research and development costs increased by \$84.7 million from the fourth quarter of fiscal 2009. This increase is attributed to an increase in the personnel involved in the research and development department as well as new product development costs and building infrastructure costs. The development of RIM's new PlayBook tablet is most likely the cause of these increases in costs.

RIM has outsourced some of its software development to companies. One example is Silicus who develops applications for BlackBerry devices. The partnership with Silicus by RIM is an attempt to decrease some research and development costs, while continuing to develop software that will enhance the BlackBerry devices.

### **Firm Infrastructure**

The firm infrastructure at Research in Motion seems quite odd when looking at the top of the hierarchy. RIM has very unique co-CEO leadership positions, which are held by Jim Balsillie and Mike Lazaridis. This infrastructure seems to be working very well for the company as it has been in existence since 1990. The two co-CEO's have a unique relationship that enables them to effectively and efficiently share the leadership position of this company. Balsillie is considered the financial whiz between the two and deals with corporate strategy and financial issues, while Lazaridis is the technology whiz of the two and deals with product development and engineering.

The co-CEO's do not socialize outside of work and even have offices in separate buildings on the Research in Motion campus in Waterloo, Ontario, Canada. However, the

two do seem to know each other very well. Lazaridis was quoted as saying, “we each know what we're good at...We don't even have to ask” (Hempel).

This unusual leadership style within the firm infrastructure allows the two to effectively and efficiently utilize both of their expertise, which has allowed RIM to sustain significant growth and a prosperous business model to date.

### **Procurement**

As mentioned earlier, RIM imposes a Supplier Code of Conduct on all of its suppliers that includes quality standards, labor conditions, health and safety standards for employees, environmental conditions, management systems and ethics. Any breach by the agreements made within the Code is grounds for termination of the supplier contract with RIM.

This ensures that the products that RIM receives from its suppliers are of adequate quality and manufactured with RIM’s corporate social responsibility beliefs. The imposition of the Code also gives RIM the ability to threaten revocations of its contracts with suppliers if they fail to adhere to the Code’s conditions after the agreement is made.

### **Primary Activities**

#### **Marketing and Sales**

Since RIM began selling their BlackBerry devices, shipments of their phones has increased from year to year and even grew by 40 percent during the third quarter of 2010 when compared to the third quarter of 2009. During the third quarter of 2010, RIM shipped approximately 14.2 million devices. The continued increases in sales numbers are very important for RIM as they compete against very powerful competitors in the telecommunications industry. According to Beacon Equity Research, Apple shipped 18.65 million iPhones over the company’s last quarter.

RIM initially marketed its devices to business consumers who found it very convenient to be able to access their emails away from the office computer. RIM's BlackBerry's became extremely popular in the business world and RIM began to market to non-business oriented people after realizing significant success in the corporate market. This expansion into the consumer market has allowed RIM to remain one of the top smartphone producers in the industry

RIM also engages in what Co-CEO Jim Balsillie calls "constructive engagement," where RIM partners with all major cell phone carriers. This gives RIM access to a greater number of possible users and allows consumers to be able to purchase a BlackBerry no matter what carrier they prefer and no matter what their plan is.

RIM now also highly publicizes its unveiling of new products in order to gain valuable early advertising for its products. RIM unveiled its latest BlackBerry at a press conference in New York on August 3, 2010 to gain excitement for its new product before advertising it with AT&T. Continued advertising and marketing of new and improved products will enable RIM to remain competitive within the industry.

## **Service**

RIM became very successful based upon the differentiated services that it provided through its devices and infrastructure. The encrypted and secure emails that can be sent and received through the BlackBerry and the BlackBerry Enterprise Servers of companies are very popular and have even become popular among the public using public BlackBerry Enterprise Servers.

As mentioned earlier, the number of BlackBerry subscriber accounts continues to increase. The total account base is over 55 million, 5.1 million of which were added during the third quarter of 2010. In order to provide better service to its customers, RIM has also put significant effort into the creation of its BlackBerry AppWorld. RIM has

partnered with many companies and has given them rights to develop applications that can be easily sold and downloaded through the BlackBerry AppWorld application that now comes standard with all new BlackBerrys.

RIM continues to evolve its products and services around the original service of secure wireless emails and has been able to expand this service around to the world to other markets.

### SWOT Analysis

<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>📱 <b>Market Share</b></li> <li>📱 <b>Brand Name</b></li> <li>📱 <b>Technology Development</b></li> </ul>	<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>📱 <b>Limited Availability of Apps</b></li> <li>📱 <b>Relative Financial Size</b></li> </ul>
<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>📱 <b>Tablet Technology</b></li> <li>📱 <b>International Markets</b></li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>📱 <b>Political Barriers</b></li> <li>📱 <b>Kik Interactive</b></li> <li>📱 <b>Popularity of Competitors</b></li> </ul>

#### Strenghts

- 📱 RIM's internal strenghts are what have enabled the company to remain near the top of the smartphome industry since the company's entrance into the industry. The first strength that RIM possesses is market share. Having been the first company to fully develop and create a smartphone, RIM had significant first mover advantage over its competition. Although RIM's market share has fallen since the entrance of some major competitors, RIM currently holds the second highest market share in the industry with 30.4%, which is just slightly behind Google's leading 31.2% market share.

- Almost anyone in business has used, currently uses, or has at least been exposed to RIM's BlackBerry products. The BlackBerry name and product carries significant weight in the business world because of its popularity over the years. The BlackBerry was even given the playful name "CrackBerry" because of the amount of time users spend on the device. The BlackBerry device is also used by many public figures and also in movies and TV shows, which has helped make the BlackBerry name very well known.
- RIM's ability to develop innovative technology is what enabled the company to create the smartphone industry and hold the highest percentage of market share within that industry for many years. The ability to send and receive emails as well as receive phone calls on the BlackBerry is what established initial popularity with the company's products and the creation of BBM has kept and attracted many customers as well. The company's increased technological developments in regard to the BlackBerry PlayBook and the Torch will attract many more customers to the company.

## Weaknesses

- One major weakness that is affecting the company's sales is its limited availability of applications for its smartphones. The number of apps that BlackBerry users have the ability to download are significantly less than those available to iPhone users and the apps that are available to BlackBerry users are generally more expensive than iPhone apps. In the past, the growth of BlackBerry's AppWorld has not been on par with Apple's App Store. As of mid-September 2010, RIM offered just over 10,000 apps compared to Apple's offering of 262,732 apps and Android's offering of 101,831 apps. The graph below shows the average number of apps created per month for each smartphone creator between December 2009 and January 2010. RIM's historical creation of apps is the lowest among the biggest competitors in the industry.



Source: newsflash.com

- RIM is also relatively small in size compared to its major competitors, which creates a significant weakness for the company, as it will not have as many resources to market, develop and produce its products. RIM's 2010 sales were \$19.91 billion compared to Apple's \$65.23 billion and Google's \$29.32 billion. The other popular divisions that RIM's competitors have allow them to generate significantly more sales and subsequently utilize greater revenues to compete with RIM in the smartphone industry.

## Opportunities

- The growth in popularity of tablet computers presents an opportunity for RIM to expand. The company has developed their version of a tablet computer called the BlackBerry PlayBook, which will go on sale to the general public in early April. The tablet represents a significant opportunity to take some sales and market share away from Apple and its very popular iPad. Successful marketing and further developments to the PlayBook will allow RIM to become a competitive player in the tablet industry segment, especially with expectations that sales of smartphones and tablets will exceed the sales of PC's in the near future.
- International markets present a significant opportunity for RIM and the sales of its BlackBerry products. The company already has 42% of its sales from markets

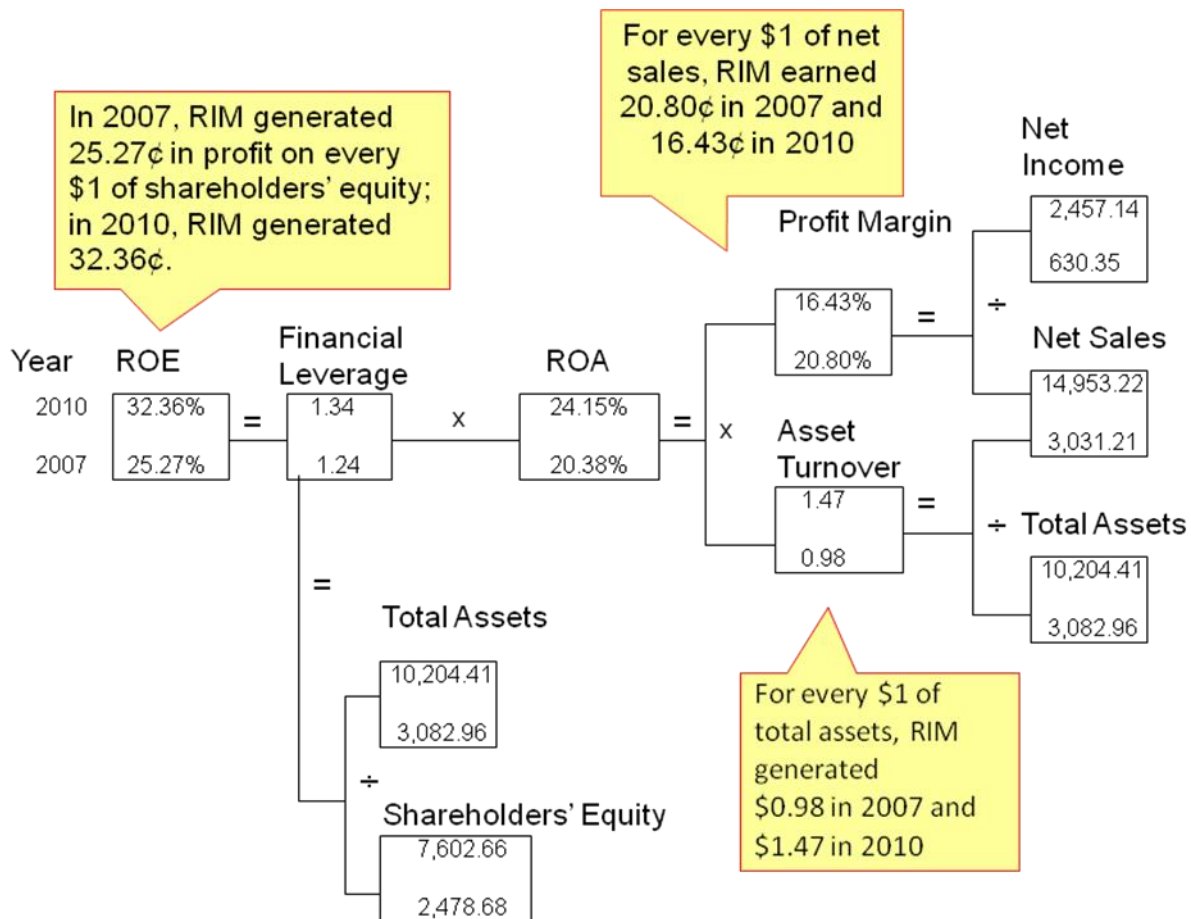
outside the U.S., but with the international smartphone market expected to grow by 49.2% in 2011, according to a report from market research firm IDC (Hefflinger), growth in international markets pose a significant opportunity for the company to increase its sales.

## Threats

- Political barriers have recently become a threat to RIM's business model. The fact that information sent from BlackBerry devices is encrypted and most often sent to servers with North America for processing poses a national security concern for some countries. Although the recent issue with this business model with the UAE has been resolved, it may arise again as BlackBerry products become more popular in other international markets.
- Kik Interactive is a Canadian based company that has developed an application for smartphones that is very similar to the BlackBerry Messenger Service. The Kik application can be downloaded onto many smartphones, except for RIM products, and can be used to send messages to other users through the phones data services, which is exactly what BBM does. The availability of this application on competing smartphones poses a significant threat towards RIM, as many users of the BlackBerry were attracted to the device because of the ability to send text messages through data services and not be charged for text message rates by their respective service providers. According the Canadian Business Magazine, Kik Interactive recently acquired significant venture-capital funding, which increases the threat that the availability of this application could negatively affect RIM's sales.
- RIM's competitors are not only relatively large, but they are also very popular in their respective industries. This poses a significant threat to RIM as its competitors will most likely be able to continue to transfer their consumer popularity over to their smartphone products. Apple and Google have already

been able to accomplish this and it is likely that Microsoft will also be able to accomplish this as well when the company comes out with its Windows 7 phone.

### Strategic Profit Model

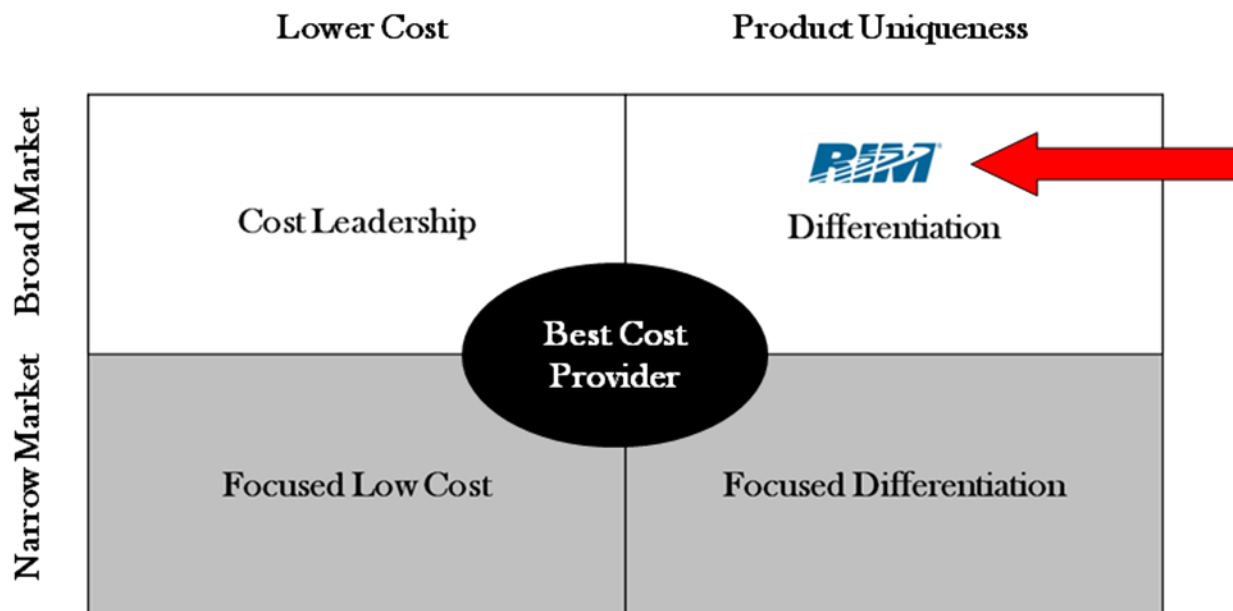


Between the fiscal years of 2007 and 2010, RIM's profit margin declined; however, the increase in asset turnover that the company realized was enough to overcome the decrease in profit margin, which resulted in an overall increase in return on assets. The increase in return on assets combined with an increase in financial leverage resulted in an increase in the return on equity for the company. Despite the difficult economic times during the years between 2007 and 2010, RIM was able to realize an increase in net



income, net sales, return on assets and return on equity. This is a good sign that the company's financials are in good position to help the company continue to compete effectively.

### RIM's Business Level Strategy



During the initial years of RIM's existence and more specifically during the initial years of the BlackBerry, RIM was operating under a focused differentiation business-level strategy. RIM marketed and sold its BlackBerry products mainly towards business oriented consumers and corporate entities. Not much effort was made to market the BlackBerry towards ordinary everyday consumers. Initially, Business personnel who wanted to be able to send and receive corporate emails while away from the office used the BlackBerry.

As the technology that RIM utilized in their BlackBerry products advanced, RIM began to move away from a focused differentiated business-level strategy and towards a differentiated strategy. RIM expanded the market for BlackBerry products towards

ordinary consumers and started to cater more towards their needs with differing versions of the BlackBerry. One specific example is the BlackBerry Pearl, which has a more compact design for those consumers who do not need a large screen or keyboard. The Pearl also has a similar design to the phones that were popular with the general public when it first came out. Other examples are the Storm and Style. The Storm is an all touchscreen BlackBerry for those who prefer only touchscreen inputs to the device. The Style is a flip version of the BlackBerry, which is targeted towards younger users of smartphones that are looking for a smaller and more compact smartphone.

RIM also differentiates its BlackBerry products by adding characteristics such as BlackBerry Messenger (BBM) and BlackBerry AppWorld, as well as including physical characteristics such as a combined ability for touchscreen and non-touchscreen operation (the Torch). Since RIM's products are generally fairly expensive, incorporate many differentiated features and are marketed towards a broad array of consumers, the company's business-level strategy is now most certainly a broad differentiation strategy.

### **International Variations**

RIM realized significant success marketing its BlackBerry products as status symbols to the business public in North America. The BlackBerry was seen as an essential phone for the successful business person and the phone to be proud to have. As the BlackBerry products became increasingly popular, the company's strategy within North America changed slightly and it became about promoting life success and not just business success for BlackBerry customers. This represented RIM's move to attract more non-business users.

The general strategy of the BlackBerry being a status symbol for business and life success worked well in the U.K., but had to be changed slightly in other international markets. The branding of work and life balance was utilized in European countries due to the fact that the status symbol message didn't prove to be as successful as it was in North

America. RIM also utilized the strategy of branding its BlackBerry products as a way to efficiently use your time in Asia and Latin America (e3network).

Despite the slight differences in branding used in the different international markets, RIM still uses a “differentiation” business-level strategy internationally. The company sells the same products as it does within North America and offers the same services along with those products. When operating in international markets, RIM attempts to adapt the way its products are perceived in the market in order to attract the greatest number of customers.

### **Analysis of Strategic Move (RIM in the Tablet Industry)**



On Monday September 27, 2010, RIM announced its entrance into the tablet computer industry by unveiling its version of a tablet computer, the BlackBerry PlayBook. The tablet market took off in early 2010 when Apple introduced its iPad on January 27 of that year. Shortly after Apple’s unveiling of its iPad, the company’s market share in the tablet industry skyrocketed to around 95% according to market research firm Strategy Analytics. That market share has since fallen to around 75% as of the fourth quarter of 2010, because of the introduction of competing tablets from Samsung and Google.

With the introduction of the BlackBerry PlayBook into the market, RIM hopes to be able to reduce the market share of the iPad even more. The PlayBook is expected to be available to the general public on April 19, 2011.

Slightly smaller in screen size than its biggest competitor, the iPad, the PlayBook has a 7 inch display and includes an HD camera on both the front and back of the device, much like the newly released iPad 2. The PlayBook also has the unique ability to wirelessly connect with BlackBerry smartphone devices and control or mimic the functions of the smartphone until the connection is broken. For security purposes, any information that is stored on the PlayBook from a BlackBerry smarhthone is whipped after the connection is broken. This gives users the ability to use the tablet for presentations without the fear that their information may be stored on the tablet for others to see at a later time.

Another unique characteristic of the PlayBook over the iPad 2 is the PlayBook's ability to stream and play Adobe Flash videos, which are very prevalent on websites containing videos. The PlayBook also supports various outputs such as HDMI, mini HDMI, USB and mini USB.

In order to better enable the PlayBook to compete against the very popular iPad and iPad 2, RIM introduced a new operating system into the PlayBook. The latest operating system availbale on RIM smartphones is RIM's BlackBerry 6 operating system, but for the creation of the PlayBook, RIM purchased the company QNX Software Systems from Harman International on April 9, 2010. QNX's open-platform operating system was then integrated into the BlackBerry PlayBook, allowing the device to operate at faster speeds and multitask smoothly.

The Playbook will sell for between \$499 and \$699 depending on how much memory the device is able hold. The newly released iPad 2 sells for the same prices. One of the major criticisms of the PlayBook is that the first released versions of the PlayBook will not have the ability to access the internet through cellular service carriers like the current iPad and

iPad 2 are able to do. RIM executives say that BlackBerry PlayBooks with the ability to access the Internet through 3G and 4G cellular networks will become available shortly after the initial PlayBooks are released to the public.

The move to enter into the relatively new tablet computer market by RIM is definitely needed in order to help maintain some of the sales and market share ground that Apple has cannibalized from RIM in the smartphone industry. Increased competition from Google, Apple and soon to be Microsoft in the smartphone industry means that diversification into another related industry by RIM would be beneficial if their tablet is successful. RIM has already seen some success related to the PlayBook as its stock price has climbed 24% since the unveiling of the device.

Whether or not the PlayBook will be able to establish itself as a legitimate competitor to the iPad still, however, remains to be seen. The tablet definitely has significant potential in this relatively young market, but RIM needs to introduce PlayBook versions that have the ability to utilize 3G and 4G networks before the tablet can make a significant dent in the iPad's current market share. The creation of accessories that can be paired to the PlayBook, such as a wireless keyboard, would also be helpful when competing against the iPad, considering Apple has already developed a keyboard and other accessories for the iPad. RIM must also continue to create relationships with app developers in order to continue to improve the quality and number of apps available for the BlackBerry PlayBook.

### **Future of RIM**

The next few years will be very important for RIM and the sales and popularity of its BlackBerry products. The company is facing very strong competition from Apple and its iPhone, Google and its Android phones and Microsoft with their Windows 7 version of a smartphone that will be released in the near future.



RIM has historically dominated in this industry, which they arguably created, but has seen its rein as the top smartphone seller fall to Google and its Android phones. As mentioned earlier, the latest market share numbers show RIM in second place to Google with a 30.4% market share compared to Google's 31.2% market share. Many expect this downward trend of RIM's market share to continue as more and more BlackBerry users trade in their BlackBerry smartphones for the extremely popular iPhones and Android powered phones.

One of the major reasons for this shift in popularity away from RIM is the lack of "apps" available for download with RIM. RIM has had historically low numbers of new "apps" available on their phones and the ones that are available are typically more expensive than those available on Apple and Google phones.



RIM has realized this issue with their phones and developed the BlackBerry AppWorld in 2010, which now comes installed on every new BlackBerry sold. The company has also partnered with several companies that develop "apps" and user interfaces for smartphones. The acquisition that attracted the most hype and attention for the company was its purchase of QNX, which developed the operating system that was integrated into the PlayBook.

As of August 28, 2010, the company reported that the value of assets it had purchased for the previous six months were valued at around \$357 million. The company also



purchased tinyHippos in March 2011 for an undisclosed amount. tinyHippos is a mobile Web and widget development company that has developed Ripple, which is a mobile environment

emulator that makes it possible to test mobile applications across various platforms.

The acquisitions that RIM has made in response to the growing competition within the industry should give RIM the ability to remain competitive and near the top of the industry. The new QNX operating system combined with the ability of the company to create many more “apps” are definite gains in the company’s ability to compete. To address the app issue even further, RIM announced that the PlayBook will be able to run ported applications created for the Android software.

One issue that RIM may have in maintaining its current market share is the fact that its new BlackBerry Torch will only be available through the carrier AT&T in the U.S., which has become the largest wireless company in the U.S. with the purchase of T-Mobile in March 2011. Being available on the largest network in the U.S. does allow for a significant number of consumers to purchase the Torch, but the Torch is competing against the iPhone and the Google phones, which are available on other wireless networks as well as AT&T, including the second largest network Verizon. The iPhone was originally only available on AT&T as well, but became available to Verizon customers in early 2011. The Torch is the BlackBerry that has the most potential to compete with the iPhone and Droid phones and that fact that it is currently only available to AT&T customers in the U.S. may hinder RIM’s ability to regain and maintain market share.



Despite the limited availability in regards to the Torch’s carriers, the financial numbers seem to be in favor of RIM remaining very competitive in the industry in the future. The company realized 40% growth in sales during the 3<sup>rd</sup> quarter of 2010 by selling a record 14.2 million BlackBerrys to amount to around 35 million daily users of the BlackBerry service. The company has also seen its stock climb 24% since the announcement of the PlayBook in September 2010.

Value Line Publishing LLC predicts a bright future for the company despite the increased competition from its main competitors. As of March 11, 2011, Value Line’s Lester Ratcliff predicts that the company will report fiscal 2010 profits of about \$6.35 per share

versus \$4.38 per share in fiscal 2009. Value Line also states that RIM stock has the potential for wide appreciation up to the 2014-2016 investment horizon. This is due to the fact that the company has very strong financial strength. The company carries no long term debt and saw its cash and long term investments rise 22% from last quarter and also saw cash flow from operations increase 33% from the prior year.

Company executives do predict that net earnings will fall in the short-term as the company continues to invest more money and assets into the initial stages of the PlayBook, but if the company can continue to increase its subscriber base and keep up with its rapid growth, as well as retain a strong executive team, the company should remain at the top of the smartphone industry into the future.



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