



Strategic Analysis - Blackberry

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Executive Summary

Overview

Purpose of the report is to assess current strategic position of Blackberry in smart-phone industry. As you are aware, world smart-phone market is crowded and extremely competitive. With the latest quarter 4, 2012 forecast from IDC¹(Exhibit 1), smart-phone operating system (OS) currently lead by Android (Google) at 70.1%, iOS of Apple captured 21%, Blackberry at 3.2% and Windows Phone at 2.6%. Worldwide market growth at 41.7% while Blackberry declined by 43.1%. In short, Blackberry is in crisis, immediate attention based on features, benefits and usability already overcome during the launch of Blackberry 10 OS (BB10) and introduction of Z10 smart-phone on 30 Jan 2013, despite the lose of market share, Blackberry have 79 million users² (worldwide) . However smart-phone market is robust with rapid changes both in software, hardware innovation and competition of mobile ecosystem, it certainly crucial for Blackberry to establish a sustainability business model to cater for near to long term challenges before losing any of current 76 million subscribers As for financial year of Q4 2013, Blackberry just lose another 3 millions subscribers.³

Competitor Analysis

Blackberry have disadvantages with current pricing strategy of Z10 that considered higher than market expectation, while the cheaper BB10 will only available later in the year. Apple sell at premium growth at 29% ,much lower that total smart-phone market growth rate at 41.7% refer to Exhibit 1. Android phones selling mainly medium-low price range achieved 88% growth while new comer Microsoft-Nokia grew 150% as they bundle Windows Phone 8 with carries package at \$99 for 2 years contract⁴. Carrier like AT&T start selling Z10 with \$199 with 2 years contract⁵ seem to be less attractive to consumer. Although high price may increase the margin and profitability , it could also create barrier for other users to switch over. Blackberry is falling behind other in term of market share, number of apps and eco-system (Exhibit 2). Those are important factors that generate switching from one platform to another. Blackberry still dominant in 90% of enterprise sales including Forbes 500 and exclusive usage from government in Canada, US and UK⁶. With introduction of BB10, it may slow down the penetration rate of competitor, however Blackberry need to continue enhance software differentiation in more scrutiny level

¹ IDC - Press Release <http://www.idc.com/getdoc.jsp?containerId=prUS23946013#_UVOu31sYlip> viewed 28th Mar 2013

² BlackBerry's Stock Rally Has Defied Analyst Skepticism
<<http://www.bloomberg.com/news/2013-03-26/blackberry-investors-ignore-analyst-skepticism-corporate-canada.html>> viewed 28 Mar 2013

³ Blackberry New Release Q4 2013 <http://press.blackberry.com/content/dam/rim/press/PDF/Financial/FY2013/Q4_FY2013_Press_Release.pdf> viewed 28 Mar 2013

⁴ Nokia Lumia 920 <<http://www.att.com/shop/wireless/devices/nokia/lumia-920-high-gloss-red.html?source=ICW8AT00500WP800O#fbid=9Qb9L8YJPyB>> viewed 28th Mar 2013

⁵ Blackberry Z10 <<http://www.att.com/shop/wireless/devices/blackberry/z10-black.html#fbid=8GcLFxbiXzN>> viewed 28th Mar 2013

⁶ Blackberry - Is the end near <http://seekingalpha.com/article/1310901-blackberry-is-the-end-near?source=email_rt_article_readmore> viewed 2 Apr 2013

to protect its dominant in enterprise market. In short Blackberry need to focus in software development, encourage switching activities by lower the average selling price of phone and increasing applications for BB10 in near term.

Environmental Analysis

Since Apple introduce iPhone in 2007, the market had swift from keyboard phone to full featured “touch screen” standard. User of smart-phone prefer the mobile ecosystem that provide variety choices of apps (Exhibit 3). Constant update of OS will enable bug fix and improve in performances, it important to keep the OS running at optimum and catch up with latest technology. Price is dominant factor in which under economy down turn and high unemployment region like Europe and US, consumer may prefer medium to low price products. Patent owned is related with R&D activities, firm can enhance the patent owned by increase funding in the software development, acquisition or merger, even buying those relevant patents. As for phone industry, patent owned can be key competitive index, players often use lawsuit to block or restrict other from sell certain popular model due to patent infringement. The rise of freely available of mobile operating system like Android, enable more companies join phone industry, the cost of ownership and price dropped drastically, this will pressure those phone makers that use proprietary OS to have more expensive and resulted less competitive products due to high development and maintenance cost of OS.

SWOT Analysis

Blackberry once owned 16.6% of world smart-phone market share⁷, therefore it have strong relationship and advantages over many carriers around the globe. One of the strength of Blackberry is 150 carriers⁸ that longtime providing Blackberry Enterprise services to respective users (Exhibit 4). It owned 76 million loyal customers that are “die-hard” to Blackberry. Financial savvy with no debt and cash in hand of \$2.9 billion, enable Blackberry to bounce back with no worry of funding (near term). Security featured of Blackberry enable it to enjoy long term supports from institutional sales, the encryption feature is one of Blackberry’s core competency. However current 76 million users of Blackberry are mainly old OS 7 users. OS 7 is outdated smart-phone compare to new BB10, high price of Z10 may delay the switching from OS 7 to BB10, therefore Blackberry may have revenue loses or take longer period to regain profitability. Lack of apps and take too long for OS 10 to launch can be past issue, however it still cause lose of confident among ex-Blackberry users, that may potentially a BB10 owner. Switching current OS 7 users to BB10 will minimize the potential of losing subscribers, as Blackberry already lose 3 millions in the last 3 months⁹.

Overall market still growth rapidly at 41.7%, this provide opportunity for Blackberry to retaliate and gain some market share. BB10 is competence with other leading mobile OS, overwhelming responds¹⁰ from several leading market like UK, India, South Africa and Canada boost potential user’s confident, that Blackberry wasn’t a outdated smart-phone now. However Blackberry face stiff competition from Android and iOS, both platform already achieved economic of scale in which dominant more than 90% of market share, it can cause Blackberry quickly run out of financial resources due to any retaliation activities. Not forgetting, Nokia that partner with Microsoft have excellent hardware innovation capability and Nokia Maps is consider

⁷ Gartner Says Worldwide Smartphone Sales Reached Its Lowest Growth Rate With 3.7% <<https://www.gartner.com/newsroom/id/910112>> viewed 29 Mar 2013

⁸ RIM turns to carriers to help avoid a repeat of

Palm <<http://www.bloomberg.com/news/2013-01-11/rim-turns-to-carriers-to-help-avoid-a-repeat-of-palm.html>> viewed 29 Mar 2013

⁹ Blackberry New Release Q4 2013 <http://press.blackberry.com/content/dam/rim/press/PDF/Financial/FY2013/Q4_FY2013_Press_Release.pdf> viewed 28 Mar 2013

¹⁰ Blackberry Z10 Early Sales Garner Positive Response

<<http://www.hngn.com/articles/1486/20130308/blackberry-z10-early-sales-garner-positive-response.htm>> viewed 29 Mar 2013

one of the best off-line capable navigation system in smart-phone industry. Nokia once the leading mobile phone maker, have similar crisis and recently have taken aggressive pricing to regain market share.

VRIN Analysis

Based on VRIN analysis (Exhibit 5) Blackberry owned an unique competency that can be considered a leading in mobile computing, i.e. the security features of high standard mobile encryption technology, this enable Blackberry to secure large institutional sales of 400,000 units like Minister of Defense (US)¹¹ and other government agencies, it grant Blackberry a sustainable competitive advantages. Blackberry owned 3 temporary competitive advantages likes financial savvy, R&D capability and new management team, since the change of management took place in July 2011, development of BB10 OS and BB10 Enterprise solution already in place with good market response¹². The new management is energetic and more sensitive to Blackberry's crisis. To return to profitability, Blackberry not only need to push the acceptance of the BB10, BB10 Enterprise system but also to clear the inventory of old phones and turn it into cash. This will ensure financial resources capitalize for the next marketing campaign for BB10, clearing the sales channel inventory, before BB10 move into retailer or carriers shelf¹³. Based on the financial report release on 28 Mar 2013¹⁴; Blackberry have achieved the objective of what Nokia failed, as Nokia sold their flagship head-quarter to gain liquidity¹⁵ to fund their operation. With the cash in hands of \$ 2.9 billions, Blackberry can boost not only investor, but the rest of stakeholder's confident much better than Nokia. However those advantages are temporary, it could be eroded as time passed, therefore Blackberry need to enhance those 3 temporary competitive advantages and turn it into sustainable competitive advantages.

5 Forces Analysis

Refer to Exhibit 5, summary of the 5 forces as below

- Threat of Entry

Barrier of entry remain high, the fixed cost of R&D on software and hardware, loyalty for patents and other intellectual property, talent and manpower, as the market evolve rapidly, the sunk cost of new company that enter the market remain high.

- Intensity of Rivalry

Rivalry remain fierce in smart-phone market.

Product attributes likes features and design can be quickly imitate or encounter with better quality or advance specification, likes camera and touch screen resolution, processor and storage, connectivity and even software bundle.

- Bargaining Power of Buyers

¹¹ Pentagon approves use of BlackBerry 7 models <<http://www.reuters.com/article/2012/05/09/us-researchinmotion-idUSBRE8480WF20120509>> viewed 29 Mar 2013

¹² BlackBerry: Street Likes BB10 Phones, But Stock Hit By Downgrades; 5-Day, 30% Slide <<http://www.forbes.com/sites/ericlavitz/2013/01/31/blackberry-new-phones-get-good-reviews-the-stock-not-so-much/>> viewed 29 Mar 2013

¹³Blackberry Stars are aligned <<http://seekingalpha.com/article/1304321-blackberry-s-stars-are-aligned>> viewed 29 Mar 2013

¹⁴ Blackberry New Release Q4 2013 <http://press.blackberry.com/content/dam/rim/press/PDF/Financial/FY2013/Q4_FY2013_Press_Release.pdf> viewed 28 Mar 2013

¹⁵ Nokia Sell Lease Headquater <<http://www.guardian.co.uk/technology/2012/dec/04/nokia-sell-lease-helsinki-headquarters>> viewed 28 Mar 2013

Consumer have many choices, either in the ecosystem or between different ecosystem, Many apps developers providing apps in 2 or more ecosystem. Therefore switching cost is low. Relative concentration fall into competitive as equally many buyer to supplier

- Bargaining Power of Suppliers

Suppliers have many options, majority of the hardware used to produce smart-phone is the same, like ARM architecture processor, same storage and Gorilla glass screen.

Relative concentration fall into competitive as equally many buyer to supplier

- Threat of Substitute

Cross price elasticity is high, mainly from featured phone. Consumers may only need a featured phone with basic call and text. Tablet is likely to substitute smart-phone as it share similar interface, functionality and apps

Conclusion

Blackberry have unique business model and have 2 main source of revenues, services subscription thru carriers at 36% and hardware sales at 61% for Q4 2013. Apparently high phone price may slower the rate of increasing subscription, furthermore the economic down-turn may slow down the revenue in both key market like North America and Europe that represent 66.9% of total revenue, hence Blackberry need to juggle between high margin or increase service revenue with consideration of economic issue around key markets. BB10 is new and start to emerge as new mobile ecosystem that need a bit of leaning curve to deal with market acceptance (Exhibit 8). With new products likes Z10 and Q10, Blackberry should utilize current resources to boost market share or may end up neither not having any accounting profit nor economic profit in near term. Blackberry should utilize the reminding 600¹⁶ telecom carriers that yet to move in with Z10 or Q10, as the first waves is only focus on 50 carriers¹⁷.

Recommendation

Refer to all the analyses, Blackberry will return to profitability and a relevant player in smart-phone industry, if

Short term

1. Focus on software differentiation, build on core competency - Blackberry's security featured
2. Reposition Blackberry 10 to medium price smart-phone to gain more subscribers and create path for long term strategic (Exhibit 7)

Long term

- Launch BB10 phone in other 600 carriers
- License OS to other phone makers, loyalty can be a good source of income
- License unique BB10 features likes Balance and Hubs to other platform i.e. iOS and Android

¹⁶ Prem Watsa Comment on Blackberry <<http://www.gurufocus.com/news/211864/prem-watsa-comments-on-blackberry>> viewed 2 Apr 2013

¹⁷ RIM: Over 50 carriers testing BlackBerry 10 now <http://news.cnet.com/8301-1035_3-57543178-94/rim-over-50-carriers-testing-blackberry-10-now/> viewed 29 Mar 2013

LIST OF EXHIBITS

Exhibit 1: Market Share and Growth rate of Top 5 Smartphone OS 4Q 2012

Top Five Smartphone Operating Systems, Shipments, and Market Share, 4Q12 (Units in Millions)

Operating System	4Q12 Unit Shipments	4Q12 Market Share	4Q11 Unit Shipments	4Q11 Market Share	Year over Year Change
Android	159.8	70.1%	85.0	52.9%	88.0%
iOS	47.8	21.0%	37.0	23.0%	29.2%
BlackBerry	7.4	3.2%	13.0	8.1%	-43.1%
Windows Phone/ Windows Mobile	6.0	2.6%	2.4	1.5%	150.0%
Linux	3.8	1.7%	3.9	2.4%	-2.6%
Others	3.0	1.3%	19.5	12.1%	-84.6%
Total	227.8	100.0%	160.8	100.0%	41.7%

Source: IDC Worldwide Mobile Phone Tracker, February 14, 2013

Exhibit 2: Competitors Analysis of Smart-phone Industry (Self-construct)

Competitor Analysis of Smart-phone OS					
	Market Share	Number of Apps	Enterprise Sales	Price	Ecosystem
iOS (Apple)	Established 21%	Established (650,000)	Partially Established	High	Established
Android (Google)	Established 70%	Established (700,000)	Emerging	Low, Medium, High	Established
WindowPhone 8 (Microsoft)	Emerging 2.6%	Emerging (75,000)	Emerging	Low, Medium, High	Emerging
Blackberry 10 (Blackberry)	Emerging 3.6%	Emerging (70,000)	Established	High	Emerging

Exhibit.3: Environmental Analysis of Smart-phone Industry (Self-construct)

Environmental Analysis of Smart-phone Industry

Demographic Trends	Social-Culture Influence	Technological Development
~ Phone user that prefer intuitive touch interface	~ Prefer to use apps to enhance overall phone's functionality ,usability and entertainment	~ Constant update of OS provide more stable, enhance features and improve performances
Macroeconomic Impacts	Political Legal Pressure	Global Trade Issues
~ Economy slow down and high unemployment rate may change consumer demand on high price phone	~ Patents owned is critical in smart-phone marketplace	~ Emerging market crowded with low price phone, especially Android from China

Exhibit 4: SWOT Analysis of Blackberry (Self-construct)

SWOT analysis of BlackBerry

	Strength	Weakness
INTERNAL Firm Capability	<ul style="list-style-type: none"> ~ Owned 76 million of loyal users ~ Well-known security encryption featured ~ Preferred enterprise phone ~ QWERTY keyboard ease typing experiences ~ Strong relationship with 650 worldwide carriers ~ No debt and with 2.9 billion cash in hand 	<ul style="list-style-type: none"> ~ Slaggy OS 7 phone with poor user interface and usability still largely in the market. ~ Lack of apps ~ Taken too long to introduce OS 10 ~ High price of OS 10 phone
	Opportunity	Threat
EXTERNAL Competitive Environment	<ul style="list-style-type: none"> ~ Smart-device market growing at 41.7% yearly ~ Competence features of OS 10 compare with other leading mobile OS ~ Overwhelming acceptance of BB 10 in India, Canada, UK and Indonesia 	<ul style="list-style-type: none"> ~ Competition from market leader that already achieved economic of scale like Android and Apple ~ Challenges from Nokia that capable to produce strong product differentiation ~ Stiff competition may quickly burn retained cash in hand of BlackBerry

Exhibit 5: VRIN Analysis of Blackberry (Self-construct)

VRIN Analysis of BlackBerry

VRIO Analysis	Valueble	Rarity	Inimitability	Non-substitutable	Competitive Advantages	Organization Performances
Global 650 Carriers supports	✓	○	○	○	Competitive Disadvantage	Below average
New management team	✓	○	○	✓	Temporary Competitive advantages	Average
High standard of encryption technology	✓	✓	✓	✓	Sustainable Competitive advantages	Above average
Financial savvy	✓	○	○	✓	Temporary Competitive advantages	Average
R&D Capability	✓	○	○	✓	Temporary Competitive advantages	Average
*Legend	✓	Meet				
	○	No Meet				

Exhibit 6: 5 Forces Analysis (Self-construct)

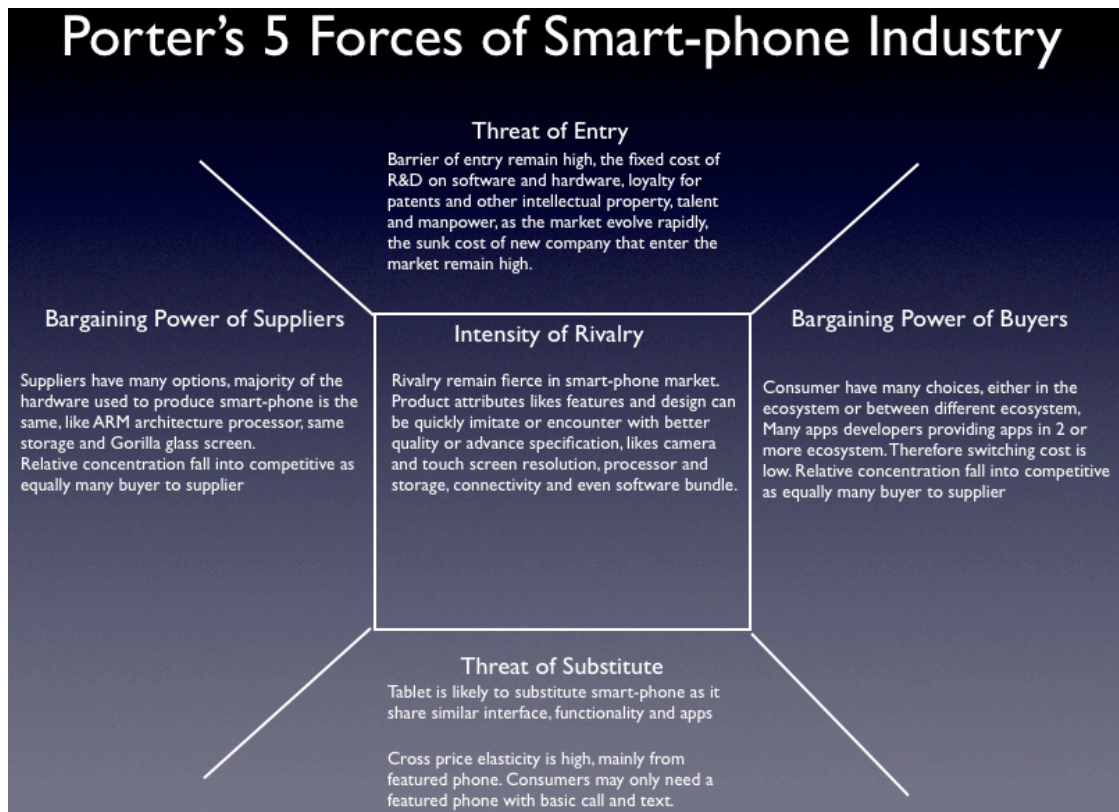


Exhibit 7: Propose Strategic Positioning of Blackberry (Self-construct)

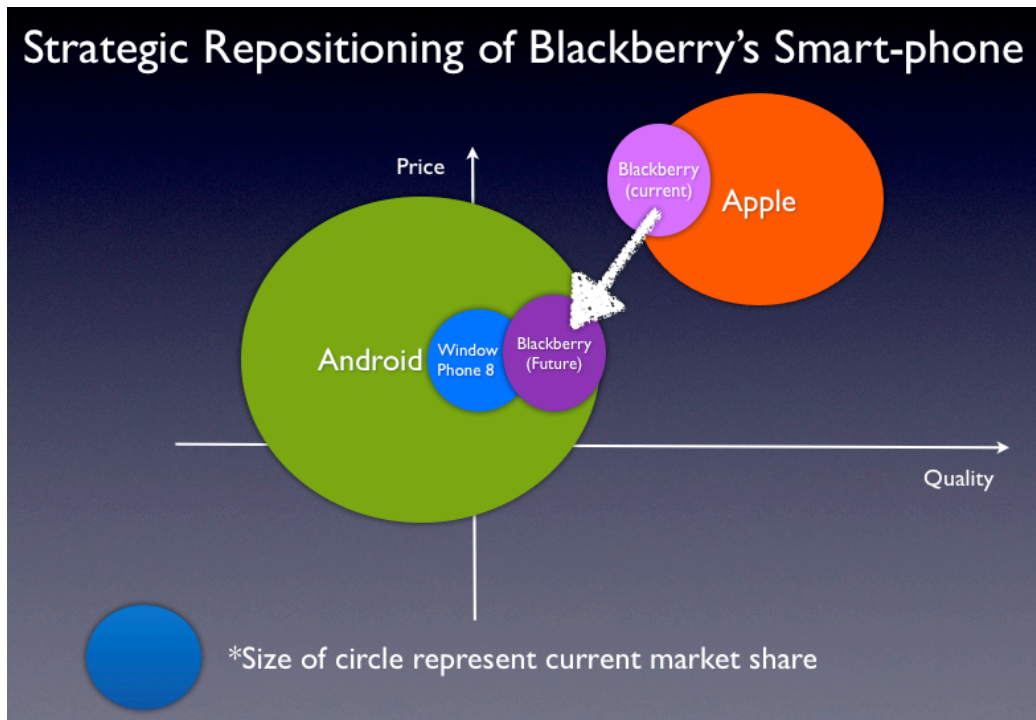
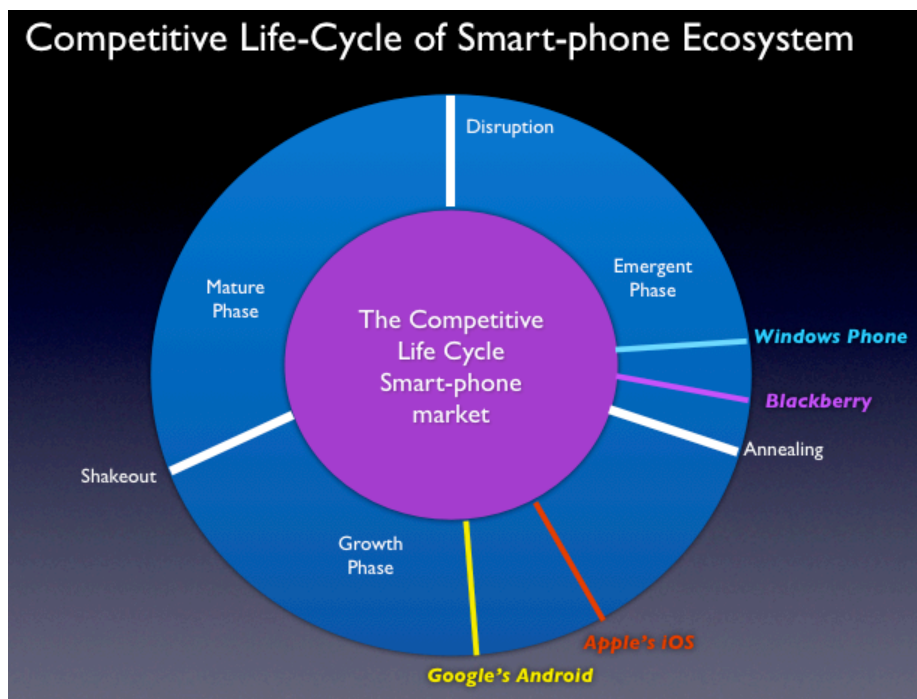


Exhibit 8: Competitive Life-Cycle of Smart-phone Ecosystem (Self-construct)



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