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As Cellphone Industry Shifts, Motorola Needs a Quick Fix and a Long-Term Plan

By [IAN AUSTEN](#)

Edward J. Zander, the chairman and chief executive of [Motorola](#), generally has little in common with Hollywood's studio chiefs. But like them, his future may depend, at least in the short term, on whether he can produce another hit.

Mr. Zander arrived at Motorola early in 2004, a few months before the introduction of the unusually slim Razr V3, which went on to become the cellphone industry's equivalent of "Star Wars."

But an announcement on Wednesday confirmed what steady and substantial price drops for the Razr and follow-up models had suggested. Motorola unexpectedly cut its quarterly revenue forecast for the second time in two quarters, this time by \$1 billion, and warned that the next reporting period would bring more bad news.

A conference call with analysts provided a long list of problems and few specifics about the company's short-term escape plan.

Investors punished Motorola yesterday, pushing the company's shares down 6.6 percent, to \$17.50, as some equity and debt analysts downgraded the company.

Mr. Zander now faces two somewhat contradictory tasks. In the short term, Motorola's best hope for a quick turnaround is coming up with a successful sequel to the Razr. In the long run, however, several analysts suggest that Motorola needs to turn away from the hit-driven business model.

Looking over Mr. Zander's shoulder through all of this will be the activist investor [Carl C. Icahn](#), who holds more than 2 percent of Motorola's stock and has been pressing the company for change.

"Motorola's short- to medium-term fortunes are going to be tied to what they have in the product pipeline already," said Hugues De La Vergne, a wireless communications analyst with Gartner. "But they have some definite issues they're going to have to resolve."

Motorola has been here before. In 1996 it introduced the cellphone industry's other certified hit, the StarTAC, the first clamshell-style phone. But by the end of that decade, the company was in enormous financial turmoil after being bested by [Nokia](#) and other rivals as cellular networks shifted to digital technology.

The Razr was largely the creation of Mike S. Zafirovski, who was brought in from [General Electric](#) in 2000 to revive Motorola's handset business. But after being passed over as chief executive, Mr. Zafirovski left in 2005 to head [Nortel Networks](#), which competes against Motorola in the business of making wireless

network equipment.

“They’ve kind of become victims of their own success,” said Charles Golvin of [Forrester Research](#). “There haven’t been many breakout products in the cellphone business. Success has been much more about having the right, broad mix of products and being really, really efficient about your supply chain and manufacturing.”

As Mr. Zander acknowledged during the conference call, Motorola is now a company that is weak at the market’s extremes. Recent efforts to penetrate the high-price, high-profit segment of the market have been disappointing.

The ROKR brought [Apple](#)’s iTunes software to the phone world, for example, but lacked a processor powerful enough to operate efficiently, and it was initially hobbled by a 100-song storage limit.

More worrisome to many, however, is the company’s inability to compete at the low end of the market. This week, Motorola attributed much of its restatement to lost sales in developing countries that followed a decision to not match price cuts by competitors. Mr. Zander said Motorola decided to trade market share for profitability.

Nokia, by contrast, has emphasized phone designs that reduce production costs, while relying on software as a way to add attractive features. And to a greater extent than Motorola, it has used economies of scale to push down production and distribution costs.

Mr. Zander proposed similar moves for Motorola this week but acknowledged that some changes will take time.

Of course, even if someone at Motorola did think up a new hit phone tomorrow, it would take at least 18 months for the product to reach the market.

Edward Snyder, a longtime critic of Motorola and the principal of Charter Equity Research, said that it was unlikely that Mr. Zander would have that sort of time.

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