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Motorola Scrambles to Restore Its Lost Cellphone Glory

By MATT RICHTEL

Motorola has had its ups and downs. Fifteen years ago, a gray brick Motorola handset was synonymous with mobile phone. Sales slipped, but the company came back five years ago with the sleek Razr, the must-have cellphone.

Motorola's cellphone sales are now falling almost 50 percent a year. Bereft of a smash hit, the company finds itself in its darkest hour. Once responsible for half of the cellphone sales in the world, its share of the market has plummeted to 6 percent.

Industry analysts are questioning not whether Motorola will again become dominant but whether the handset division will survive.

"They're stuck heavily in the handset death spiral," said Edward Snyder, an analyst with Charter Equity Research. "If they have tens of billions of dollars they want to pour into this black hole, they might be able to save it. Even then, there are no guarantees."

Sanjay K. Jha, Motorola's co-chief executive who was brought in from Qualcomm last year, still contends he can fix the handset business. He said that for now, he was not interested in market share or hit products — not with losses mounting. "I'm interested in break-even performance," he said in an interview. "I'm trying to build a stable machine."

"We need to have profits under all circumstances, and then have hits on top of that," he said Thursday after Motorola announced that the operating loss in the handset division grew to $509 million in the first quarter from a loss of $418 million a year ago.

These are seemingly modest goals for a company that has strong brand recognition. But new tough competitors like LG, Samsung and Apple have transformed the market with phones that can do anything a computer can do and more.

Motorola's first-quarter results demonstrated how challenging Mr. Jha's task is. The company said mobile device sales dropped 45 percent to $1.8 billion. It sold 14.7 million handsets, down from 27.4 million a year ago.

The company, including a more successful unit that makes set-top boxes and other electronic equipment, said the quarter's net loss grew to $231 million, or 10 cents a share, on revenue of $5.37 billion. A year ago, Motorola, based in Schaumberg, Ill., had a net loss of $194 million, or 9 cents a share on revenue of $7.4 billion.

A consensus of Wall Street analysts compiled by Thomson Reuters had projected Motorola would lose 11 cents a share, excluding one-time charges. On that basis, the company reported a loss of 8 cents a share. The analysts projected sales of $5.6 billion for the quarter.

Shares of Motorola fell 7.2 percent on Thursday to close at $5.53.

Todd Koffman, an industry analyst with Raymond James, who said he has a strong buy rating on Motorola stock, said that skeptics were judging the company too quickly. Mr. Koffman said that Mr. Jha should be given more time to prove himself.

“This quarter’s results are not relevant,” Mr. Koffman said. “The June quarter’s results are not relevant.” The real test for Motorola’s handset division will come in the second half of this year, he said, when the company releases handsets that have Mr. Jha’s prints all over them. “To draw some sort of conclusion based on today’s products is shortsighted,” Mr. Koffman said.

Mr. Jha said that he needed to cut the losses and simultaneously build a series of new phones. In the current and next quarter, he said in the interview, Motorola will begin shipping touch-screen phones, the kind Apple, Samsung and LG already have. In the fourth quarter, Motorola will release “a few” phones based on Google’s Android operating system, he said.

He declined to specify how many new phone models the company would release this year.

Introducing a host of phones is critical to Motorola’s survival. Phone makers that do not come up with big hits or a constant flow of midtier successes begin to lose the pricing power and influence with the mobile phone carriers like AT&T or Verizon that determine which phones get into consumers’ hands.

Roger Entner, an industry analyst with Nielsen, said a vivid example of Motorola’s struggles was the release early this year of its phone called the Evoke. The device, meant to compete in the growing smartphone category, was not picked up by the big carriers, like AT&T, Verizon, Sprint or T-Mobile, but by smaller carriers, like Alltel.

“The niche that Evoke is filling is already filled by several other phones,” Mr. Entner said. Motorola “continues to develop late on products.” Motorola is pushing its first touch-screen device as other companies are working on second- and third-generation devices, he said.

“Motorola is not one of those companies that can blame its woes on the economy,” he said. “It’s purely self-inflicted.”

James Kelleher, an analyst with Argus Research, said Mr. Jha’s more modest goals are appropriate. Success, Mr. Kelleher said, might be defined as being a strong regional player that settles for less than 10 percent of worldwide market share.

“The analogy is General Motors,” he said. “They once had 50 percent market share and they’re not getting it back.”