

RIM: To stay on top is to remain cost effective

Marguerite Reardon – May 13, 2010

For Research in Motion, the maker of the popular BlackBerry smartphone, staying No. 1 isn't about apps or fancy hardware, it's about cost effectiveness.

For all the hoopla surrounding Apple's iPhone and the various Android smartphones that have hit the market recently, many forget what is still, by a healthy margin tops in the market: RIM's modest BlackBerry. And RIM intends to stay on top by doing what it does best: Offering something that's more affordable and can operate on wireless networks more efficiently than its flashier competition.

RIM is currently the second biggest smartphone company in the world with market share of 19 percent, according to a [recent report by IDC](#). For the first time ever, the device maker [was among the world's top five cell phone makers in the world](#), displacing the once mighty Motorola, according to IDC. And it is the top smartphone maker in the US, NPD Group said in a recent report.

During the first quarter, RIM added 4.9 million new BlackBerry subscriber accounts for a total of 41 million subscribers. The company's device shipments were up 40 percent to 37 million compared with the same quarter a year ago, executives said on its [quarterly earnings call](#). For the moment, RIM is a strong leader in the smartphone market. But chinks in its armor are already starting to show as competition from Apple and Android heats up.

"Weak offerings in touch (phones) and 3G leave the company heavily exposed to a slew of new smartphones now hitting the market," Ed Snyder, an analyst with Charter Equity Research, wrote in a note to investors when first-quarter earnings came out. "While it will certainly maintain its lead in e-mail-based smartphones, we see little chance it can sustain its market share, pricing or margins long-term."

Prices already seem to be under pressure. The average selling price of a BlackBerry in the fourth quarter was about US\$311, below management's own estimate of US\$320. The company said it expects first-quarter 2010 shipments to average US\$305 to US\$310.

Meanwhile, Apple and Android each had strong quarters. Worldwide iPhone shipments surged 131.6 percent in the first quarter over the same period last year, according to IDC. Android, a mobile operating system used on several different phones, also grew during the first quarter taking the No. 2 position in the US market, according to NPD Group.

BlackBerry devices have become synonymous with mobile email. And the company still has a strong corporate following. But critics complain it hasn't kept up with more

technically advanced devices from competitors that have gigabytes more memory, faster processors, slicker software and better browsers. RIM is aware of the perceived shortcomings.

At the company's corporate conference called WES last week, co-CEO Mike Lazaridis provided a sneak peek of BlackBerry 6, the new BlackBerry operating system that has a new user interface and WebKit browser. The new software is set to debut next quarter. BlackBerry fans welcome the updates, but they note that the company is still playing catch-up to the competition. And they wonder if the new software will be enough to stave off market share erosion.

While there's no evidence to suggest that RIM is not trying to compete in the high-end of the smartphone market, it's also clear that the company's executives see a big opportunity in the lower-end mass market. And why wouldn't they. That's likely to be where growth will come from in the next few years.

As of the fourth quarter of 2009, only 21 percent of American wireless subscribers were using a smartphone, compared with 14 percent at the end of 2008, [according to data from Nielsen](#). This means that almost 80 percent of the market has not yet upgraded to a smartphone. There are indications that the growth in smartphone use will grow rapidly over the coming months. According to a Nielsen survey, 45 percent of respondents said the next phone they'd buy would be a smartphone.

"We are just at the beginning of a new wireless era where smartphones will become the standard device consumers will use to connect to friends, the Internet, and the world at large," Roger Entner, senior vice president of research at Nielsen wrote in a report published in March. "If we combine these intentional data points with falling prices and increasing capabilities of these devices along with a explosion of applications for devices, we are seeing the beginning of a groundswell."

In the past RIM may have generated more revenue from its own high-end devices. Now the company is selling a higher volume of its low-end phones, such as the Curve or Tour series. These phones are geared toward consumers upgrading to smartphones for the first time. This might explain why RIM expects the average sales price of its devices to be lower going forward.

And even though much of the hype around smartphones today is focused on applications, email access is still a feature that entices many voice-only customers to upgrade their plans to include data services.

"Email as an important smartphone application that is easy to overlook," said Ross Rubin, an analyst with NPD Group. "Web browsing and other apps are growing in importance, but email is what often drives people to adopt a data plan. And historically, that has been the BlackBerry's strength."

Mass market consumers are also more influenced by price than early adopters. And RIM

offers a wide range of devices that are highly subsidized by wireless operators. Verizon Wireless has offered a buy-one-get-one free program for BlackBerry devices for at least a couple of years. It has expanded the offer to other smartphones as well.

But more than the cost of the device, RIM might have the opportunity in the future to provide more value for customers in terms of their data service when compared with smartphones made by competitors. Because BlackBerry phones use wireless networks more efficiently than other devices, such as the iPhone or other Android phones, it is cheaper for wireless operators to operate RIM devices.

Today, carriers in the US offer unlimited data plans. Consumers on average pay US\$30 extra a month regardless of what type of smartphone they use for unlimited data. But because RIM has built an overlay network that compresses, pushes, and prioritizes e-mail and other data traffic when it goes through RIM's BlackBerry servers, a customer with a BlackBerry uses far fewer network resources than a customer using an iPhone. As a consequence it costs carriers less money to offer data services to a BlackBerry customer and this means that it can generate more revenue from these customers.

Carriers have already said they're feeling the strain from data-hungry smartphones. The nation's two largest wireless operators, Verizon Wireless and AT&T, have hinted that they may revise their pricing. In December, Ralph de la Vega, AT&T's head of wireless, said AT&T needs to come up with a [different way to price its service](#) to encourage customers to use less data.

And earlier this year, Verizon Wireless Chief Technology Officer Dick Lynch was [quoted by The Washington Post](#) saying that the wireless operator is also considering implementing usage-based billing for services it will soon introduce on its upcoming 4G wireless network.

"The problem we have today with flat-based usage is that you are trying to encourage customers to be efficient in use and applications but you are getting some people who are bandwidth hogs using gigabytes a month and they are paying something like megabytes a month," Lynch told the Post. "That isn't long-term sustainable. Why should customers using an average amount of bandwidth be subsidizing bandwidth hogs?"

AT&T and Verizon have already begun to [tier the pricing of their data services](#). In January, the operators each [revised their data pricing plans](#) for "quick messaging" or "3G multimedia" devices. The new plans require all customers using these phones to subscribe to some sort of data plan.

If wireless operators move toward usage based billing or if they develop a tiered pricing model, then the amount of data a smartphone uses could affect a consumer's monthly bill, which could factor into his buying decision.

RIM co-CEO Jim Balsillie noted this advantage during a quarterly conference call in 2009.

"[Carriers] are very well aware of how profitable BlackBerry is for the business," he was quoted as saying. "And they're very well aware of how strategically aligned we are with them, both current and long term."