

# Crucial, long-overdue BlackBerry makeover arrives

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In this Sept. 9, 2008, file photo, the logo on a BlackBerry smartphone is shown in Bochum, Germany. The maker of the BlackBerry smartphone is promising a speedy browser, a superb typing experience and the ability to keep work and personal identities separate on the same phone, the fruit of a crucial, long-overdue makeover for the Canadian company. (AP Photo/dapd, Volker Hartmann)

The maker of the BlackBerry smartphone is promising a speedier device,

a superb typing experience and the ability to keep work and personal identities separate on the same phone. It's the fruit of a crucial, long-overdue makeover for the Canadian company.

Thorsten Heins, chief executive of Research In Motion Ltd., will show off the first phone with the new BlackBerry 10 system in New York on Wednesday. A marketing campaign that includes a Super Bowl ad will accompany the long-anticipated debut. Repeated delays have left the once-pioneering BlackBerry an afterthought in the shadow of Apple's trend-setting iPhone and Google's Android-driven devices.

Now, there's some optimism. Previews of the software have gotten favorable reviews on blogs. Financial analysts are starting to see some slight room for a comeback. RIM's stock has nearly tripled to \$16.18 from a nine-year low in September, though it's still nearly 90 percent below its 2008 peak of \$147.

Most analysts consider a BlackBerry 10 success to be crucial for the company's long-term viability.

"The old models are becoming obsolete quickly," BGC Financial analyst Colin Gillis said. "There is still a big user base but it's going to rotate off. The question is: Where do they rotate to?"

The BlackBerry, pioneered in 1999, has been the dominant smartphone for on-the-go business people. Corporate information-technology managers like the phones because they're relatively secure and easy to manage. Many employees loved them because of physical keyboards that were easier to type on than the touch-screen iPhone. President Barack Obama couldn't bear to part with it when he took office. Oprah Winfrey declared it one of her "favorite things." People got so addicted that the device was nicknamed "the CrackBerry."

The BlackBerry began to cross over to consumers. But when the iPhone came out in 2007, it showed that phones can do much more than email and phone calls. They can play games, music and movies. Android came along to offer even more choices. Though IT managers still love BlackBerrys, employees were bringing their own devices to the workplace—a trend Heins acknowledged RIM was slow to adapt to.

Suddenly, the BlackBerry looked ancient.

Even as BlackBerry sales continued to grow in many parts of the world, many BlackBerry users in North America switched to iPhones and Android devices. BlackBerry's worldwide subscriber base peaked at 80 million in the quarter that ended Sept. 1, before dropping to 79 million in the most-recent quarter. In the U.S., according to research firm IDC, shipments of BlackBerry phones plummeted from 46 percent of the market in 2008 to 2 percent in 2012. Most phones in use today are either iPhones or Android devices.

RIM promised a new system to catch up, using technology it got through its 2010 purchase of QNX Software Systems. RIM initially said BlackBerry 10 would come by early 2012, but then the company changed that to late 2012. A few months later, that date was pushed further, to early 2013, missing the lucrative holiday season. The holdup helped wipe out more than \$70 billion in shareholder wealth and 5,000 jobs.

Although executives have been providing a glimpse at some of BlackBerry 10's new features for months, Heins will finally showcase a complete system at Wednesday's event. Devices will go on sale soon after that. The exact date and prices are expected Wednesday.

RIM redesigned the system to embrace the multimedia, apps and touch-screen experience prevalent today.

"Historically there have been areas that have not been our strongest points," Rick Costanzo, RIM's executive vice president of global sales, said in an interview. "Not only have we caught up, but we may even be better than some of the competition now."

Costanzo said "no one else can touch" what RIM's new system offers.

The new operating system promises better multitasking than either the iPhone or Android. Simply swipe a finger across the phone's display screen to switch to another program.

All emails and notifications from such applications as Twitter and Facebook go to the BlackBerry Hub, a nerve center accessible with a finger swipe even if you have another application open. One can peek into it and open an email, or return to the previous application without opening the email.

"You are not going in and out of applications; you're flowing through applications with one simple gesture of your finger," Costanzo said. "You can leave applications running. You can effortlessly flow between them. So that's completely unique to us."

That said, multitasking will still be limited. If you're watching a video, it will still run while you check for email. But it will pause if you decide to open an email and resume when you are done.

The BlackBerry's touch-screen keyboard promises to learn a user's writing style and suggest words and phrases to complete, going beyond typo corrections offered by rivals. See the one you want, and flick it up to the message area. Costanzo said that "BlackBerry offers the best keyboard, period."

Gus Papageorgiou, a Scotiabank financial analyst who has tried it out,

agreed with that assessment and said the keyboard even learns and adjusts to your thumb placements.

The first BlackBerry 10 phone will have only a touch screen. RIM has said it will release a version with a physical keyboard soon after that. That's an area RIM has excelled at, and it's one reason many BlackBerry users have remained loyal despite temptations to switch.

Another distinguishing feature will be the BlackBerry Balance, which allows two personas on the same device. Businesses can keep their data secure without forcing employees to get a second device for personal use. For instance, IT managers can prevent personal apps from running inside corporate firewalls, but those managers won't have access to personal data on the device.

With Balance, "you can just switch from work to personal mode," Papageorgiou said. "I think that is something that will attract a lot of people."

RIM is also claiming that the BlackBerry 10's browser will be speedy, even faster than browsers for laptop and desktop computers. According to Papageorgiou, early, independent tests between the BlackBerry 10 and the iPhone support that claim.

Regardless of BlackBerry 10's advances, though, the new system will face a key shortcoming: It won't have as many apps written by outside companies and individuals as the iPhone and Android. RIM has said it plans to launch BlackBerry 10 with more than 70,000 apps, including those developed for RIM's PlayBook tablet, first released in 2011. Even so, that's just a tenth of what the iPhone and Android offer.

Papageorgiou said the initial group will include the most popular ones such as Twitter and Facebook. But RIM will have to persuade others to make a BlackBerry version, when they are already struggling to keep up

with both the iPhone and Android.

Like many analysts, Papageorgiou recently upgraded RIM's stock, but cautioned that longtime BlackBerry users will have to get used to a whole new operating system.

He said RIM can be successful if about a third of current subscribers upgrade and if the company can get 4 million new users overseas, especially in countries where the BlackBerry has remained popular. IDC said smartphone shipments grew 44 percent in 2012. If those trends continue, it will be possible for the BlackBerry to grow even if iPhone and Android users don't switch.

"This doesn't have to be the best smartphone on the planet to be a success for RIM," he said. "I think the big question though is, if it fails, is it just too late? Are the other two ecosystems just so advanced that no one can catch up? That's a big risk."

## **A look at BlackBerry maker Research in Motion**

Research In Motion Ltd. is set to launch a new version of its BlackBerry operating system this week, a crucial makeover that the company hopes will help with a turnaround. Here's a look at recent developments as the company struggles to regain market share lost to Apple's iPhone and devices running Google's Android operating software.

Sept. 15, 2011: RIM says it has sold far fewer PlayBook tablet computers than it expected, as the company reports a sharp drop in net income and revenue in the fiscal second quarter.

Oct. 25: RIM says it is delaying the launch of an upgraded operating system for the PlayBook until February, saying it isn't up to its standards yet. The company also says the new version initially won't have the

popular messaging service BlackBerry Messenger. It's the third delay announced since the features were promised in April.

Dec. 2: RIM says it is writing off much of its inventory of PlayBook tablets after it had to sell them at a deep discount. The model originally priced at \$500 now costs \$200. The company says it's taking a pre-tax charge of \$485 million in the just-ended quarter. RIM also says it will sell fewer BlackBerrys in the holiday quarter than in the one that just ended. It also says it won't meet full-year earnings guidance of \$5.25 to \$6 per share, the third cut in a row.

Dec. 6: RIM says "BlackBerry 10" will be the new name for its next-generation system after the company loses a trademark ruling on its previous name, BBX.

Dec. 15: RIM says new phones deemed critical to the company's future won't be out until late 2012. The company says the BlackBerry 10 phones will need a highly integrated chipset that won't be available until mid-2012, so the company can now expect the new phones to ship late in the year. The company also says BlackBerry sales will fall sharply in the holiday quarter compared with the three months that ended Nov. 26. RIM says it would only ship between 11 million and 12 million BlackBerrys in the fourth quarter, down from 14.1 million in the third quarter.

Jan. 22, 2012: RIM founder Mike Lazaridis and long-time executive Jim Balsillie announce they will step down as co-CEOs. Thorsten Heins, a chief operating officer who joined RIM four years ago from Siemens AG, was named as their replacement. Lazaridis and Balsillie remain on the board.

Feb. 21: RIM finally releases an upgraded operating system for its PlayBook. The free upgrade allows for built-in email, calendar and

contacts on the tablet—features promised within 60 days after the PlayBook's launch last April. The PlayBook had received negative reviews because it launched without an email program and the popular messaging service BlackBerry Messenger. The new version still doesn't include the messaging service.

March 29: RIM says Balsillie has resigned from its board, and two top executives are leaving. RIM also writes down the value of its product inventory again as the company reports a loss of \$125 million, its first quarterly loss since fiscal 2005. Heins doesn't rule out a sale, but he says it is not the main direction of the strategic review he's overseeing.

April 26: Newest board member of RIM says a turnaround could take three to five years. Prem Watsa, RIM's third-largest investor, says he sees his investment in the company as a long-term one, adding that RIM's fortunes won't be reversed soon.

May 1: RIM unveils a newly designed smartphone prototype powered by its upcoming BlackBerry 10 system. The prototype BlackBerry has a touch screen, but no physical keyboard like most BlackBerry models. No update was given on the new system's launch date.

May 2: Company stresses that while the prototype has no physical keyboard, RIM will continue to make some models with one.

May 8: RIM announces hiring of two senior executives from struggling tech companies. Frank Boulben, the new chief marketing officer, comes from LightSquared. Kristian Tear, the new chief operating officer, is from Sony Mobile Communications.

May 29: RIM says it will have an operating loss in the current quarter and significant layoffs. The company says it has hired J.P. Morgan and RBC Capital Markets to help evaluate various strategies, including

opportunities to partner with other companies and to license software.

June 20: RIM says it has started laying off employees as part of a restructuring plan aimed at saving about \$1 billion in 2012.

June 21: Company says the first BlackBerry device running BlackBerry 10 will not have a physical keyboard, only a touch-screen one. Ones with hard keyboards will eventually be made, but the company declines to say when.

June 28: RIM says it's cutting 5,000 jobs, or about 30 percent of its workforce, and delaying the launch of BlackBerry 10 yet again, to the first quarter of 2013. It also reported worse results for its latest quarter, which ended June 2, than analysts had expected.

June 29: Stock hits nine-year low on day after earnings announcements.

July 10: At RIM's annual shareholders meeting, Heins asks disgruntled investors for patience as the company develops new devices to rival the iPhone and Android smartphones. He says the past year has been very difficult for RIM, and he says the company is "around the clock" to get BlackBerry 10 out.

Nov. 12: RIM says it will hold an official launch event for BlackBerry 10 smartphones on Jan. 30.

Nov. 28: Nokia Corp. says that it is suing RIM for breach of contract in Britain, the United States and Canada over cellular patents the two companies agreed on nine years ago. RIM says it "will respond to Nokia's petitions in due course."

Nov. 29: RIM's stock rises after Goldman Sachs upgraded the company's shares, saying there's a "30 percent chance" that BlackBerry 10

smartphones will be a success.

Dec. 20: RIM announces that it lost subscribers for the first time in the latest quarter, as the global number of BlackBerry users dipped to 79 million. RIM also says it is changing the way it charges service fees, putting an important source of revenue at risk. Only subscribers who want enhanced security will pay fees under the new system.

## **A comparison of smartphone and tablet shipments**

On Wednesday, Research In Motion Ltd. plans to unveil a new BlackBerry phone. BlackBerry devices have been losing market share to rivals, such as Apple's iPhone. Here are details on the number of devices RIM and Apple shipped in recent quarters, with percentage change from the same period a year earlier.

### **RESEARCH IN MOTION:**

— Quarter ending Dec. 1, 2012: 6.9 million BlackBerry smartphones (down 51 percent), 255,000 PlayBook tablets (up 70 percent)

— Quarter ending Sept. 1, 2012: 7.4 million BlackBerry smartphones (down 30 percent), 130,000 PlayBook tablets (down 35 percent)

— Quarter ending June 2, 2012: 7.8 million BlackBerry smartphones (down 41 percent), 260,000 PlayBook tablets (down 48 percent)

— Quarter ending March 3, 2012: 11.1 million BlackBerry smartphones (down 26 percent), 500,000 PlayBook tablets (not on sale previous year)

— Quarter ending Nov. 26, 2011: 14.1 million BlackBerry smartphones (down 1 percent), 150,000 PlayBook tablets (not on sale previous year)

APPLE:

— Quarter ending Dec. 29, 2012: 47.8 million iPhones (up 29 percent), 22.9 million iPads (up 49 percent)

— Quarter ending Sept. 29, 2012: 26.9 million iPhones (up 58 percent), 14.0 million iPads (up 26 percent)

— Quarter ending June 30, 2012: 26.0 million iPhones (up 28 percent), 17.0 million iPads (up 84 percent)

— Quarter ending March 31, 2012: 35.1 million iPhones (up 88 percent), 11.8 million iPads (increase of about 2.5 times)

— Quarter ending Dec. 31, 2011: 37 million iPhones (more than double), 15.4 million iPads (more than double)

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