

Companies drop BlackBerry as it tries to rebuild

July 30 2013, by Andrea Chang

For years, the BlackBerry was the smartphone of choice among professionals seeking ironclad security features and super-fast email.

But its perch at the top of the corporate and government ladder, the cornerstone of its business and perhaps its last bastion, has begun to erode. And that's raising worries among investors and analysts that BlackBerry Ltd. may be running out of time.

A slew of businesses and government agencies have abandoned BlackBerry phones in recent months, a troubling trend for a company that has been refocusing its attention on business users after watching consumers depart in droves.

"Ultimately, we are skeptical that BlackBerry can penetrate the consumer market, and its remaining enterprise installed base is no longer large enough to drive unit sales" beyond August, Kevin Smithen, telecom analyst for [investment firm](#) Macquarie Group Ltd., wrote to investors.

"We think the likely end game for BlackBerry is a breakup or liquidation at a lower price."

BlackBerry's revival efforts are being thwarted by a double whammy of workplace changes: the rise of "bring your own device to work" policies, known as BYOD, and enterprise clients' internal decisions to drop BlackBerrys in favor of iPhones, Android devices and even Windows Phones.

"BlackBerry management may have been underestimating the problem for quite some time," said Scott Thompson, an analyst at FBR Capital Markets.

Analysts say BlackBerry's enterprise business is especially important because it is more profitable than the company's consumer segment.

Rivals that already are beating BlackBerry on the consumer side are taking notice and ramping up their efforts to woo business users - and it appears to be working.

Last year, BlackBerry for the first time shipped fewer smartphones to the [commercial segment](#) globally than Apple Inc. and Samsung Electronics Co., according to market research firm IDC.

Several major government agencies have dumped BlackBerry devices, including the National Transportation Safety Board; U.S. Immigration and Customs Enforcement, the Bureau of Alcohol, Tobacco, Firearms and Explosives; and the National Oceanic Atmospheric Administration.

In a report detailing its decision, the immigration and customs agency said BlackBerry, along with Nokia, "have been relegated to laggards in the consumer market, which has made them too risky for adoption as a 'go-to' choice for enterprise use." The NTSB said its BlackBerry devices "have been failing both at inopportune times and at an unacceptable rate."

Companies are also moving on. Home Depot Inc. dropped BlackBerrys in February and instead provided executives and senior management with iPhones, a spokeswoman said. Over at Yahoo Inc., Chief Executive Marissa Mayer rolled out a new smartphone program last fall that allowed employees to choose from several devices including the iPhone and the Samsung Galaxy S3; BlackBerry devices were left off the list.

The departures of major companies and agencies are worrisome for the Canadian smartphone maker as it tries to turn itself around. Analysts say companies' cost-cutting measures are partly to blame: Businesses save money by having employees bring their own devices to work, and getting rid of BlackBerrys also eliminates fees associated with using the company's software.

Many people had hoped the rollout of the BlackBerry 10 operating system, lauded for several business-friendly features including its smooth transition between work and personal profiles, would help. But analysts say the devices don't appear to be selling as well as expected.

BlackBerry executives insist talk of the company's demise are premature and have argued repeatedly that a turnaround takes time.

But with BlackBerry's total smartphone market share in the United States plummeting from 43 percent three years ago to just 4.8 percent in May, they admit that there is a lot of ground to make up. In its most recent quarter, BlackBerry's global subscriber base decreased again, falling to 72 million from 76 million.

"It's always a concern when you don't meet the needs of your customers and they decide they need to go somewhere else," Scott Totzke, BlackBerry's senior vice president of security, said in an interview with the Los Angeles Times.

But Totzke pointed out that the company still has 1 million government users and provides BlackBerry devices or services to 90 percent of Fortune 500 companies, including MetLife, ADP and Whirlpool. Executives on Wall Street said investment banks overwhelmingly go with BlackBerrys for company-issued phones.

"There's a lot of sensationalism of what's going on," Totzke said. "There

is no solution that is more secure than a BlackBerry. We've been doing it longer and better than anyone else in the industry."

Rivals argue that their own security measures are quickly improving and that security alone is no longer enough to sustain a viable smartphone business. Increasingly, corporate users are looking for devices that are as trendy and fun as they are reliable for work, they say.

"The folks that will be successful from an enterprise perspective aren't just the ones that have the most secure devices. You have to have a healthy mix," said Tim Wagner, vice president and general manager of Samsung Mobile's enterprise business unit, who previously worked for BlackBerry.

"I call it the weekend test. You can use it during the week and it's highly productive, but it's still one you want to bring out on the weekend for personal use," Wagner said. "Samsung has bridged that gap better than anyone else."

As more people move to other mobile brands, BlackBerry has been touting its multi-platform BlackBerry Enterprise Service 10, a software service that manages BlackBerry devices and can also run on iPhones and Android smartphones and tablets.

Some analysts have suggested that BlackBerry could become a company focused primarily on providing such software services for businesses. But in an earnings call last month, Chief Executive Thorsten Heins said that making hardware was still a priority and that corporate customers had indicated they wanted "an end-to-end solution that includes the device."

The company's stock is down 24 percent this year so far.

Rob Enderle, principal analyst at the Enderle Group, pointed out that although BlackBerry's business has weakened in the U.S., the company continues to do well in emerging markets where BYOD policies are rare.

He also noted that BlackBerry's losses on the enterprise side might not be as alarming as they seem. Businesses, particularly government agencies, are typically extremely private about their tech partners, so even though BlackBerry appears to have lost favor among many notable names, the brand still has loyalty behind the scenes.

Domestically, external factors could help BlackBerry's situation, Enderle said. If the economy continues to improve, businesses will be more willing to spend money on company-issued devices instead of having workers buy their own smartphones.

And with BlackBerry still a leader in security, and amid increased concern over privacy, a major security breach could push companies "back into BlackBerry's court again."

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Citation: Companies drop BlackBerry as it tries to rebuild (2013, July 30) retrieved 27 April 2024 from <https://phys.org/news/2013-07-companies-blackberry-rebuild.html>

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