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### Is the iPhone killing RIM?

Aug 14, 2009 by Colin Campbell



Last month, a posting appeared on the popular *Business Insider* blog that no doubt filled some Research In Motion executives with a sense of dread. Under the heading “How I Ended My Affair With BlackBerry And Eloped With The iPhone,” former tech analyst Henry Blodget described how he somewhat reluctantly went out and bought Apple’s latest “it” phone, the new iPhone 3G S, after 12 years of loyal BlackBerry service. Business users have long been skeptical of the sleek iPhone and its touchscreen display, which can make emailing and typing a chore, but Blodget wasn’t disappointed with his switch. “It’s nice here in Apple world,” he concluded.

Research in Motion (RIM) is still a smartphone juggernaut, but the defection of influential business leaders like Blodget sends a chilling signal to the Waterloo, Ont.-based company. More than half of its 28.5 million subscribers are business users, and while they haven’t been dropping their BlackBerries en masse, momentum is quickly building behind the iPhone. While RIM reported a decline in the number of new subscribers in its latest quarterly results, Apple saw iPhone sales jump sevenfold. And when the new iPhone 3G S launched this summer, U.S. buyers snapped up one million of them in just three days. If the trend continues, and iPhone sales continue to rocket up, it’s easy to see who will come out on top. Analysts say that Apple’s rise out of nowhere to become a legitimate rival to the BlackBerry is something that RIM is now going to extraordinary lengths to guard against.

Just how far will RIM go? All the way to Parliament Hill, for starters. Last week, an emergency parliamentary hearing was held to look at the fairness of a recent auctioning off of some of Nortel’s wireless assets. RIM had complained vehemently that it was unfairly shut out of the auction, which was eventually won by the Swedish firm Ericsson. “RIM is extremely disappointed that Nortel’s world-leading technology, the development of which has been funded in part by Canadian taxpayers, seems destined to leave Canada,” said RIM co-CEO Jim Balsillie. In a statement, the company sought to stoke the nationalist fires by adding that the move could “significantly, adversely affect national interests, with potential national security implications.”

The squabble over the leftovers of a bankrupt company might appear to have little to do with iPhones (let alone national security). But observers say that RIM's gambit to grab a piece of Nortel is very much a part of a bigger strategy to protect its place as the go-to smartphone maker in a wireless market that is becoming increasingly crowded. Competitors such as Apple are grabbing more attention as Internet-based smartphones begin to outshine RIM's often clunkier, suit-and-tie set BlackBerries, and among the Nortel assets, analysts say RIM sees some key pieces of technology that could help turn the tide back in its favour.

At the parliamentary hearing, RIM co-CEO Mike Lazaridis said that RIM "almost had a deal" with Nortel to buy some of its wireless technology. He confirmed what analysts already suspected—that RIM is primarily after the patents on a new wireless broadband standard called Long Term Evolution, or LTE. LTE has emerged as the technology most likely to form the backbone of the next generation wireless systems over the next few years—systems that will allow smartphones to connect to the Internet far faster than they do now, and handle the kind of data-heavy services that are just beginning to appear on cellphones, like video-on-demand and video conferencing.

That's what makes RIM's interest in Nortel so revealing, say analysts. This kind of technology is normally the concern of companies that build wireless networks, not those that make handsets. But if RIM were to control these LTE patents and employ the engineers developing them, it would be at a huge competitive advantage. RIM wouldn't just be a cellphone maker, but a one-stop, wireless powerhouse. It could, for instance, negotiate much cheaper access or even exclusive rights to the wireless networks it operates on, says Joe Compeau, a professor at the Richard Ivey School of Business, who has been following the company. It could also license the technology to other cell phone makers—a potentially profitable side business. RIM would become "the kid who owns the ball in the playground," says Carmi Levy, an independent technology analyst.

RIM knows better than anyone the risks of not controlling patents vital to its future. It has paid almost a billion dollars to settle two major patent disputes, including a US\$267-million payment just last month. Those disputes threatened the very survival of the company. Nevertheless, a bid to control the underpinnings of a wireless system is an unprecedented move. Apple, for instance, has shown no interest in dirtying its hands in this side of the business. "It is not normal that a handset vendor would get that deeply involved in its supply chain. Handset vendors typically stick to handsets and partner with telecom vendors like Nortel or Ericsson," says Levy.

For now, BlackBerries remain big sellers, though it's easy to see why RIM is looking to alternate strategies for the future. "They're still the device of choice for businesses and they're gaining space in the consumer market," says Compeau. RIM sold almost eight million of them in its latest quarter (though analysts caution that was helped by a buy one get one free offer from Verizon Wireless in the U.S.), and its Curve model outsold the iPhone in the first quarter of this year, according to the NPD Group.

But while RIM still holds a sizable 41 per cent of the global market, Apple has managed to snatch away 25 per cent of the market in just two years, according to a report by ChangeWave Investing. Now, rather than calling the shots, it's BlackBerry that's struggling to appear hip in the age of the iPhone. It is sponsoring U2's latest concert tour and has been running slick commercials featuring the band and the slogan, "BlackBerry Loves U2." That might help (Apple once sold a U2-branded iPod), but what RIM really needs is a knockout new product, one with a top-notch touchscreen that betters the iPhone. Its first effort at a touchscreen phone, the Storm, was a flop with critics (although RIM said early sales were "stronger than anticipated"), and a newer version is due out in the coming months.

Perhaps most worrying of all for RIM is the potential erosion in sales among members of the next generation. According to a survey of future smartphone buyers, 44 per cent now say they are planning to buy an iPhone, while just 23 per cent say they would buy a BlackBerry, according to ChangeWave. Those numbers may partly be a result of the timing of the survey, which was done at the same time Apple released its new iPhone 3G S, but the threat from Apple is growing quickly as it slashes prices (you can now get iPhones for \$99 with

a three-year contract), adds new carriers, and improves the look and functionality of its phones. “Truth be told, the real darling is the iPhone hardware design. Nothing can touch it,” says Levy.

Apple is also beating out RIM in the emerging market of third-party smartphone applications. It has been just a year since Apple launched its online App Store, but there are already over 50,000 applications and counting, and the site boasts more than a billion downloads. The variety of applications has made the iPhone more appealing to consumers, and Apple has demonstrated that smartphones are about a whole lot more than just emailing and browsing the Internet. RIM has launched its own app store (which has a few thousand apps), but analysts say that Apple’s lead in this area may simply be insurmountable.

RIM’s best bet may indeed be to focus on research into new wireless network technology, but so far it’s not going all that well. Most observers say the odds of the government intervening in the Nortel sale to award the patents to RIM at this late stage are small. After all, the LTE patents are simply being leased—not sold—to Ericsson. However, it’s conceivable that RIM could pursue its strategy through other means. Nortel isn’t the only company developing LTE, and RIM still has plenty of cash on hand for acquisitions. Of late, RIM has been buying patents and intellectual property at a great rate; it has spent \$1.3 billion on patents over the past two years, according to a report by Genuity Capital Markets analyst Deepak Chopra.

But will that be enough? Most observers expect that over the coming years Apple will continue to pick away at RIM’s business market, leveraging its sleek looks and status to win over the suits. “It’s still a two-horse race,” says Levy, but just like there’s only room for one Coke, there may only be room for one true smartphone leader with a brand and design strong enough to make consumers swoon. Right now, it looks like that brand will be the iPhone.

A few weeks ago, Blodget wrote an update about his breakup with the BlackBerry. Despite a few frustrations, he said, “I’m still happy I bought the iPhone.” There’s no getting away from the fact that people who use the iPhone just seem to like it better. Experiences like that will be pretty tough for RIM to overcome.

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<http://www2.macleans.ca/2009/08/14/is-the-iphone-killing-rim/> printed on Aug 19, 2009

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