## A PLAYBOOK FOR FIGHTING APPLE AND GOOGLE

With its new tablet computer, RIM has a small window of opportunity to reinvigorate itself and match the momentum of its rivals.



REUTERS/ROBERT GALBRAITH

**BY ALASTAIR SHARP**WATERLOO, ONTARIO, MARCH 15

NCE UPON A TIME, BlackBerry was king. Then came the iPhone, followed by Android. And BlackBerry seemingly lost

its way -- if not quite its throne.

Research In Motion is holding on to profit growth and impressive margins. For all the consumer appeal of Apple products, BlackBerry is still dominant in corporate mobile communications and RIM sells

millions of its workaholic devices each quarter to a growing global audience.

But the attention of investors, analysts and developers is drifting elsewhere and the Canadian company, in the midst of a major platform and product transition,



is seen possessing but a small window of opportunity to reinvigorate itself and match the momentum of rival mobile monarchs Apple and Google.

The PlayBook tablet computer, due to launch within weeks after a six-month pitch, is RIM's first product to use an industrial-strength operating system based on QNX, a powerhouse microkernel (rather than the typical monolithic kernel) which RIM bought last year and aims to incorporate into its future smartphones.

QNX -- which also runs nuclear power plants, medical instrumentation and Cisco's core Internet routers -- is the brains behind many of the infotainment systems shipping in new cars, and RIM plans seamless interaction between those dashboards, its PlayBook and its range of BlackBerry smartphones.

The PlayBook is a multitasking behemoth in a petite package, able to stream a high-definition video to a television screen via a HDMI cable while a user simultaneously edits a presentation or plays an immersive game on the 7-inch device.

It is also a minor revolution for a myopic company that has long been intolerant of risk, insiders say.

"The Playbook shows that RIM has lost some of its collective fear, but only because it's a proven moneymaker for other companies who have already blazed a path for RIM to take," said one former RIM software engineer.

Those who know him best say Mike Lazaridis, the engineer founder of Research In Motion, never believed a tablet computer was the right fit for the BlackBerry maker.

"Mike is a purist. He sticks to his main theme," said Robert Fraser, an early wireless pioneer and RIM partner whose concept of a personal communicator was eventually embodied by the BlackBerry. "One of the reasons RIM has been so successful is because they haven't deviated."

That theme was wireless email, sent via a server network that compresses and encrypts messages and guarantees delivery, vital for business in a world of limited radio resources.

Part of RIM's solution, the BlackBerry Enterprise Server, sits behind a corporate firewall and ties closely to proprietary back-end systems. The whole operation is managed by massive data centers run by RIM, which also enable the free BlackBerry Messenger service so beloved by teenagers.

RIM's BlackBerry service, launched in 1999, was an immediate hit with white-collar workers and politicians, and today there are more than 250,000 of its enterprise servers

### Research In Motion and its peers



Reuters graphic/Stephen Culp

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installed worldwide.

That overwhelming success, however, coupled with a lawsuit that almost shut the whole operation down, bred intense caution that could ultimately threaten the company's future as it shies away from betting on risky innovations.

### **SOMETHING CHANGED**

AS FAR BACK AS 2005, when it became feasible to display a browser on a wireless device, Fraser was pushing his friend Lazaridis to branch out to a larger screen, to no avail.

Yet a year after Apple's iPad captured imaginations and made the long-possible tablet computer a market reality, RIM is about to follow suit, with its smaller, more business-friendly version, the PlayBook.

"Something changed his mind in the last



two years," Fraser said. If it was the iPad's runaway success that forced RIM's hand, Lazaridis ain't admitting it.

In several interviews with Reuters in recent months, executives including Lazaridis and his salesman co-chief Jim Balsillie have painted the PlayBook as a gilded object blessed with perfect timing and pedigree.

"For me, it's all about mobile computing and always was. And it's about always choosing the right moment, the right time, the right technology," Lazaridis said.

That's why RIM took the painful decision to delay the project to ensure it packed Texas Instruments' dual-core processor at launch, which is expected within weeks.

"We decided the tablet market was still in its infancy, it hasn't really taken off yet," Lazaridis said, dismissing the headstart of Apple, which pocketed \$9.5 billion from sales of almost 15 million iPads in 2010, three times most initial forecasts, and this month unveiled an updated version.

It may be in its infancy, still dwarfed by both smartphone and laptop sales, but it is growing fast and a verdict on the viability of PlayBook and its QNX centerpiece is expected by year-end.

# Connect to everything you love in life.

**CONNECTED:** A man uses a mobile phone as he walks in front of a poster advertising BlackBerry phones inside a hall of the upcoming CeBIT fair in Hanover February 28, 2009. **REUTERS/HANNIBAL HANSCHKE** 

"Let's not make any bones about it, they're trying to fulfill this transition during an incredibly hectic time and one where they're seeing a huge amount of competition externally," said Geoff Blaber, an analyst at CCS Insight.

"It gives them the framework, it gives them the opportunity to compete," he said in reference to QNX. "What is uncertain now ... is how they're going to deliver that beyond the tablet."

Then he adds a hedge: "History has taught us to be very careful of writing RIM off. By the end of this year I'd expect to see a pretty big change in terms of what they're offering."

### **BUSINESS ALTERNATIVES**

PERHAPS THE BIGGEST threat RIM faces is the impression its secure enterprise solution can be easily replicated or even dismissed as unnecessary, allowing employees to use their own device and handily saving corporations the cost of providing and managing a fleet of BlackBerrys.

Business software company SAP is certainly not waiting on RIM to move on its own mobile computing strategy. It has bought 3,500 iPads for internal use as it advises its more than 100,000 corporate customers that there is life beyond BlackBerry.

# RIM keeps impressing with BlackBerry numbers. Millions Net subscriber additions\* Units shipped 14 12 10 8 FY 2008 FY 2009 FY 2010 FY 2011 \* RIM will no longer publish subscriber metrics on a quarterly basis Source: Company reports REUTERS

Reuters graphic/Stephen Culp

"There will be a need for one system that supports multiple devices," says the company's chief technology officer, Oliver Bussmann.

And SAP has one, called Afaria, which promises device-agnostic security and application management for Apple's iPhone and iPad and Android devices from Samsung.

"Other device makers are catching up on encryption and how to share information without storing it on the device," he said.

RIM's Waterloo neighbor Open Text, a leading provider of software to manage enterprise content and workflows, recently bought a company that builds app platforms on any device.

### **NO VISIBILITY**

THERE IS PERHAPS no other technology company on the planet, no other established company in any sector for that matter, whose future prospects elicit such determined variance of opinion as Research In Motion.

Its fiscal 2011 results are due by the end of the month, with analysts expecting the company's earnings to have grown by 44 percent to \$6.33 a share. Yet for the next twelve months, expectations range between \$4 and \$8 a share.

"The PlayBook is a great example of where we don't feel like there is any visibility whatsoever," said Tim Caulfield, head of equity research at Franklin Templeton's Bissett Investment Management. "It's extremely intriguing but it just leaves me with so many question marks."

Bissett exited its position in RIM by late in 2007 -- around the time RIM briefly became Canada's most valuable company -- after building it since early 2005.

They sold because the price "was discounting not only a bright future but an incredibly bright future in a scenario that would have required flawless execution and zero competition to come true," Caulfield said. RIM has had neither.

### IT'S AN APP WORLD AFTER ALL

RIM IS FACING two distinct and powerful forces in its life-or-death battle for relevance as smartphones straddle corporate and consumer markets.

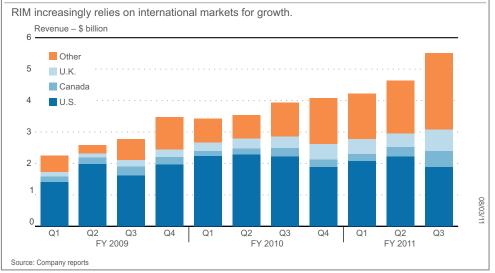
In one corner is Apple and the cult of Steve Jobs, a man who brought the computer company back from the brink by revolutionizing portable music, redefining what phones are for and reinvigorating a tablet market that lay dormant for years.

RIM, like much of the mobile phone industry, was blindsided by the popularity of Apple's first iPhone, which burst onto the scene in mid-2007 and was immediately set upon by a voracious developer community building small applications, now universally known as apps, to improve the experience.

The smartphone, once the domain of RIM and its addicted white-collar workers, had gone mainstream.

"RIM didn't expect iPhone to take off the way it did because it was so badly flawed from day one," the former RIM employee said. "They believed that users wanted great battery life, great security, great mail handling, minimal network use, and a great keyboard experience. They never expected

### Research In Motion: revenue by region



Reuters graphic/Stephen Culp



REUTERS

"Smart Money" and Research in Motion, click here:

http://r.reuters.com/quv38r



**OLD STYLE:** BlackBerry devices are seen in Los Angeles in this March 3, 2006 file photo. **REUTERS/ MARIO ANZUONI/FILES** 

users didn't care."

In the other corner stands Google, the darling of the first commercial wave of the Internet, a search engine machine that targeted mobile and within two years leapfrogged the U.S. smartphone market share of both Apple and RIM.

It gives its Android operating system away to all and sundry, its scale in turn refreshing the fortunes of the likes of Motorola and allowing once low-end manufacturers like HTC to play in the big-time.

Another giant of the pre-iPhone world, Nokia, has succumbed to the pressure, discarding its Symbian operating system to throw its lot in with Microsoft.

Both Apple and Android nurtured what are now thriving ecosystems around their products, populated by energetic third-party developers. RIM has many more coders writing for its BlackBerry platform but most work on proprietary programs that never see the light of the app store day.

"RIM dramatically misjudged ... they completely missed the rich user experience end of the market which is the driving force of smartphones today," said Chris Albinson, a Silicon Valley-based Canadian whose Panorama Capital has ploughed half of a \$240-million fund into companies working in mobile.

With the PlayBook, RIM has lowered the barriers to developer entry by offering many more coding tools, dropping (first temporarily, now permanently) the entrance fee it charged and the requirement of a notarized identity, and incorporating a unified system to deliver payments collected via advertising, credit card and carrier billing.

The development environment RIM has built for QNX is similar enough to Android that coders can easily rewrite their applications for the PlayBook.

Albinson, who says RIM should open its Messenger and enterprise servers to the world to avoid irrelevance, is doubtful it's enough. "Every single venture capitalist in Silicon Valley is telling their companies to focus on Apple and Android," he said.

While most developers will make the choice to engage or shun RIM based on a perceived return on investment, one outfit started by a University of Waterloo graduate had that choice imposed on it by legal writ.

### KIK'D IN THE TEETH

TED LIVINGSTON LEARNED a little too much from his time at RIM, at least as far as the company's lawyers were concerned.

In a lawsuit filed late last year, RIM accused Livingston and his startup Kik Interactive of infringing patents relating to its BlackBerry Messenger platform to create what quickly became a popular cross-platform alternative to one of the unique consumer selling points of BlackBerry.

The move had a chilling effect on Jason Braverman, whose company Blue Planet Apps was working on similar software.

"They would have shut us down and then they would have sued us and probably gone a little crazy trying to figure out how we did it," he said. "But that's all history at this point because I dropped the project. And not only did I drop the project, I dropped RIM as a developer because it was just not worth it to develop for them anymore."

Braverman, who is also building a biometric scanner for Android and Windows platforms, said manufacturers using these platforms are forced to focus on improving their hardware offerings to be noticed, and RIM is struggling to keep up.

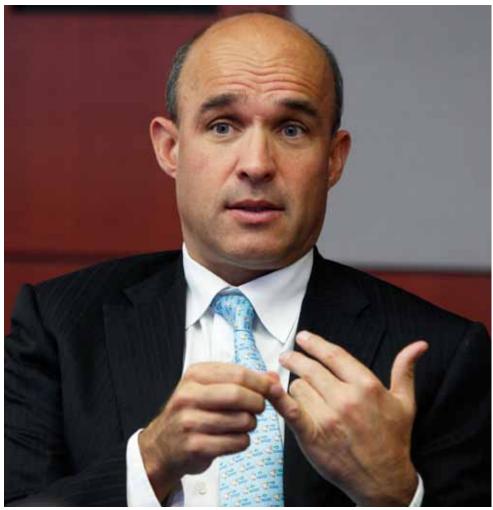
"There's no indication the company is doing anything interesting going forward, the stuff they're showing is ancient history at this point, the PlayBook isn't a really impressive device anymore compared to what's coming out," he said.

And Kik? It just scored \$8 million in series A venture capital funding and added group chat and picture sharing to its offering, which has close to 3.4 million users.

### MEANWHILE, ELSEWHERE...

ALL IS FAR FROM LOST FOR RIM, however, especially in emerging markets outside of North America where carriers are much less likely to subsidize device costs, users are much more likely to prepay and smartphone penetration is much lower.

Nokia and RIM are frontrunners in the race to convert billions of feature phone users



**PLAYING HARD:** Research in Motion co-CEO Jim Balsillie discusses the new BlackBerry PlayBook device during an interview with Reuters in New York September 24, 2010. **REUTERS/LUCAS JACKSON** 

into data-wielding smartphone customers. And the Finnish company just gave itself a handicap with its Microsoft partnership unlikely to produce a refreshed product until late in 2012.

These are not trifling funds in play, either: the total North American market likely had handset sales of \$35 billion in 2010, the rest of the world around \$115 billion.

RIM retains a strange mix of pricing power and prestige branding in emerging markets, especially useful in countries with massive populations, rising economic power and expanding middle classes such as India, Indonesia and much of Latin America, especially Argentina and Brazil.

In such price-sensitive markets, RIM's ability to crunch email down to one-fifth its weight on competing devices and to use up to two-thirds less bandwidth to browse the web is a major drawing card. Add in BlackBerry Messenger as a free alternative to texting which can now be used to transfer airtime and other goods and the package is

compelling.

"We have decidedly taken a different approach than some of our competitors and contemporaries. We decided to work closely with our carrier partners because we understand the physics and the economics" of their operations, Lazaridis said.

In early 2002, RIM was carried in around ten countries. Three years later it was in forty. By early 2008 its phones were sold by more than 350 carriers in 135 countries and by early 2010 it was 580 carriers and 175 countries.

Lazaridis is dismissive of suggestions the company he built right next to the university he attended is in any way deficient when stacked up against Californian competitors six and ten times its size.

"Just because the rest of the world wants to go one way doesn't mean it's the right way and we will continue to chart our own course," he said. "Don't let the hype cloud the truth."

(Editing by Jim Impoco and Claudia Parsons)

### 0&A

### RIM'S PLAYBOOK, WORTH THE WAIT?

Research In Motion will soon launch its PlayBook tablet computer, joining a market dominated by two versions of Apple's iPad and filling quickly with a slew of devices running Google's Android software.

Below are some questions and answers about the PlayBook.

### DO I NEED A BLACKBERRY TO MAKE THE MOST OF PLAYBOOK?

IN A WORD, YES. The first version will not have its own cellular connection, instead relying on WiFi to access the Internet for itself.

Using a secure Bluetooth connection, the PlayBook will "bridge" with a BlackBerry to access corporate or consumer email, address book, calendar and other features including BlackBerry Messenger.

When the link is broken, all that data is instantly wiped.

The company has set up this relationship deliberately to pitch PlayBook to corporations and other security-conscious enterprises that will not need to verify the PlayBook's credentials; it will effectively not exist on their radar.

It can also pair with any smartphone able to act as a mobile hotspot; this point has not been heavily advertised.

A software upgrade some time after the launch will add native email, calendar and address book apps for users who do not also own a BlackBerry.

### WILL IT GET ITS OWN CELLULAR CONNECTION LATER?

Yes. The company will release radio-enabled versions later this year for use on high-speed WiMax, LTE and HSPA+ networks, and these devices will be able to connect directly to RIM's enterprise servers if so desired by the hosting company. The first named carrier is Sprint in the United States.

### WORTH BUYING A PLAYBOOK IF I DO NOT OWN A BLACKBERRY?

DIFFICULT TO SAY. The PlayBook's tech specs are certainly impressive (see below), though some have been matched by other devices in the market since its September unveiling. Price will be a bigger

issue for non-BlackBerry types.

The company has not said as much, but packaged PlayBook-plus-BlackBerry sales will likely be a major plank of the sales pitch for carriers, who stand to gain little from selling a tablet without a data plan.

### WHAT ARE THE TECHNICAL SPECIFICATIONS? WHY SHOULD I CARE?

THE PLAYBOOK IS POWERED by a 1 GHz dual-core processor from Texas Instruments (if you really must know, it's their OMAP 4430) and has 1 GB RAM system memory.

It has a 7-inch touchscreen, comes with either 16, 32 or 64 GB of storage, and weighs in at 425g, or just under a pound.

Its two high-def video cameras should make video conferencing and recording momentous occasions a breeze. For stills its got 3 megapixels up front and 5 megapixel out back.

It runs an all-new BlackBerry Tablet OS, powered by the QNX Neutrino kernel, and multitasks with ease. Numerous demos have shown it playing HD video, running a Quake demo and two or three others applications without a hitch. Why you would want to do all those things at the same time is another matter.

One reason could be to play a video or presentation on a bigger screen via HDMI cable while doing other tasks on the device.

Oh, and it supports Adobe's Flash, which is prevalent on today's Web, as well as HTML5, which will one day replace it. The iPad does

not support Flash, Android tablets do.

In fact, with support for WebKit and HTML5 coding as well as Adobe AIR, web developers should have little trouble making very attractive applications to run on it.

Native applications will be written in C/C++ and it also supports Java, meaning apps designed for BlackBerry smartphones can be ported.

### ANYTHING ELSE I SHOULD KNOW?

THE BORDERS OF THE SCREEN, known as the bezel, are also touch-sensitive. Swipe up from the bottom to minimize what you're doing, down to access in-app options, and from left or right to toggle between applications. A gesture from the bottom left corner brings up the virtual keyboard.

It comes with a full suite of editable word processor, spreadsheet and presentation software.

### SO WHEN CAN I GET IT AND HOW MUCH WILL IT COST?

THOSE ARE SOME BIG QUESTIONS. RIM hasn't been very forthcoming on either point, maintaining a vague "under \$500" price tag and a "very soon" launch.

Whether this means the 16 GB WiFi-only PlayBook will be \$499, the exact pricing of the cheapest iPad, or the entire fleet is more competitively priced remains an open question.

Initially saying it would launch in the first quarter, then narrowing it to March, the company has lately been hinting at an April start date.

> (Reporting by Alastair Sharp; Editing by Claudia Parsons)



COMING SOON: A new BlackBerry tablet, the PlayBook tablet computer, is displayed at the GSMA Mobile World Congress in Barcelona February 16, 2011. REUTERS/GUSTAU NACARINO

### TIMELINE

### RIM, CREATOR OF MOBILE EMAIL, FACES FRESH CHALLENGE

Research IN MOTION is putting the finishing touches to its PlayBook tablet computer ahead of an expected March or April launch. Here is a timeline of major milestones for the Canadian company.

### FEBRUARY 1985

Mike Lazaridis and Douglas Fregin cofound Research In Motion as an electronics and computer science business based in Waterloo, Canada, where Lazaridis studied. Their first big job is to supply wireless message screens to General Motors' assembly lines, for which the firm received \$600,000.

### 1989

RIM develops software and equipment to work with the Mobitex wireless packet-switched data communications network. RIM starts work on a network gateway later introduced as RIMGate, a predecessor to its BlackBerry Enterprise Server.

### 1992

Jim Balsillie joins RIM as co-CEO, mortgaging his house and investing \$250,000. He is charged with business development and strategy, finding investment capital, taking RIM's technologies to market and building client relations.

### 1994

RIM launches first handheld point of sale card reader, which could verify and handle debit and credit transactions directly to the bank host.

### 1995

RIM builds its own radio modem for wireless email.

### 1996

RIM introduces the RIM 900 Inter@ctivePager, a two-way pager offering peer-to-peer delivery and read receipts. It sends faxes and leaves telephone voice messages. It talks to the Internet, peer users and the



**TOUCHSCREEN:** The BlackBerry Torch 9800 smartphone is introduced at a news conference in New York August 3, 2010. **REUTERS/SHANNON STAPLETON** 

phone network via a gateway. RIM issues a special warrant that raises \$36 million.

### 1997

RIM lists on the Toronto Stock Exchange, raising more than \$115 million from investors.

### **JANUARY 1999**

Launches rebranded BlackBerry email service across North America, offering the first wireless device to synch with corporate email systems. Sales jump 80 percent to \$85 million. The next year revenue is \$221 million.

### **LATE 1999**

Lists on Nasdaq, raising another \$250 million. Introduces BlackBerry 850 Wireless Handheld, combining email, wireless data networks and a Qwerty

keyboard. Demand explodes.

### **NOVEMBER 2000**

Raises \$900 million via share issue.

### **SEPTEMBER 11, 2001**

People trapped in New York's World Trade Center use BlackBerrys to communicate after cellular networks collapse.

### **NOVEMBER 2001**

NTP sues RIM for patent infringement, a legal tussle that lasts five years and brings entire U.S. patent system into question. Late in the tussle, the U.S. Justice Department says a threatened BlackBerry shutdown would damage the public interest due to their heavy use by government.

### 2002

RIM adds voice transmission to the BlackBerry.

### 2004

Surpasses one million BlackBerry subscribers.

### MARCH, 2006

RIM pays \$612 million to settle NTP dispute.

### **JANUARY 2007**

Apple's Steve Jobs unveils first iPhone, which launches in June. Time names it Invention of the Year.

### **OCTOBER 2007**

RIM passes 10 million subscribers. News of a China distribution deal boosts shares, making it for a time the most valuable company in Canada by market capitalization.

### **NOVEMBER 2007**

Google's open source Android platform is unveiled. It launches in October 2008.

### **MAY 2008**

RIM introduces the Bold, a major refresh and still one of its top-tier products. The new model matches the resolution, but not size, of Apple's iPhone screen.

### **JULY 2008**

Apple opens App Store and releases iPhone 3G, preloaded with App Store support, in 22 countries.

### **NOVEMBER 2008**

RIM launches BlackBerry Storm, both its first touchscreen and keyboard-less device. The screen uses a tactile feedback technology known as haptics, which allows a user to click down to select actions. It bombs.

### **APRIL 2009**

RIM's App World goes live.

### **JUNE 2009**

Apple announces and releases iPhone 3GS.

### **AUGUST 2009**

RIM buys Torch Mobile, which provides the updated browser seen in the eponymous device a year later.

### **JUNE 2010**

RIM pays C\$200 million for QNX Software Systems, getting an industrial-strength operating system used in massive Internet routers, nuclear power plants and car infotainment systems. In same month Apple launches iPhone 4.

### **AUGUST 2010**

RIM launches BlackBerry Torch, a touchscreen phone with slide-out keyboard and improved web browser.

### **SEPTEMBER 27, 2010**

RIM announces PlayBook, due to launch in early 2011, which runs on a QNX kernel.

### **DECEMBER 2010**

Acquires user interface company The Astonishing Tribe.

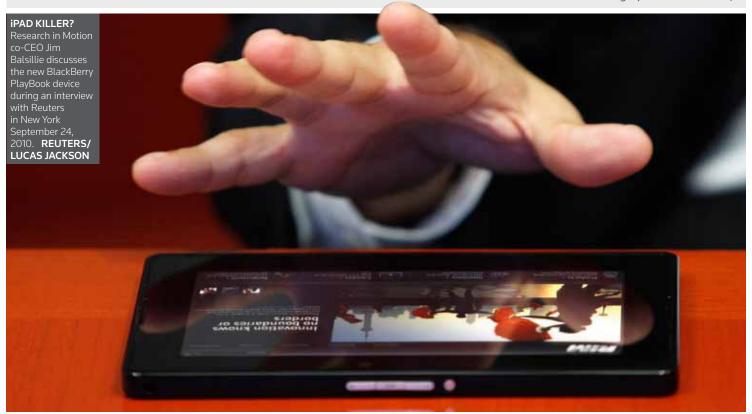
### **FEBRUARY 2011**

Nokia, the world's largest smartphone vendor by volume, abandons its Symbian operating system to form alliance with Microsoft.

### MARCH 2, 2011

Apple unveils iPad 2 with dual-core processor, front and back cameras to ship on March 11 in the United States and in 26 countries by March 25.

(Reporting by Alastair Sharp; Editing by Claudia Parsons)



**COVER PHOTO:** Mike Lazaridis, president and co-chief executive officer of Research in Motion, holds the new Blackberry PlayBook with a screen projection of the new device as he speaks at the RIM Blackberry developers conference in San Francisco, California September 27, 2010. **REUTERS/ROBERT GALBRAITH** 

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