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RIM and Nokia – Not Quite Dead Yet. But Moto May Be

It's the best of times (not so much) and the worst of times (not totally). This may sum up the survival chances of former high flying mobile companies: RIM, Nokia and Motorola. All were early pioneers in the cellular (Nokia, Moto) and smartphone (RIM) markets. But over the past few years, the market has simply "blown by" these companies. They simply didn't innovate quickly enough to keep pace. Can they recover?

On the plus side, the market (and especially the carriers) is looking for a third ecosystem to compete against the Android/iPhone juggernaut. This potentially helps RIM and Nokia. Further, iPhone market share is slipping (even as they sell record units) and we expect the market share of iPhone will continue to fall. Android is picking up share around the world, which potentially helps Motorola. This increase was expected considering how many vendors produce Android phones (and the fact that Samsung, the biggest Android player, has so much clout in the smartphone market).

So what might propel RIM, Nokia or Motorola to rebirth? For RIM and Nokia the potential lies in their respective ecosystems and dependencies. For Motorola, the picture is much less clear.

Nokia relies solely on Windows 8 adoption for success. If Win8 fails, they face a bleak future. Not that they don't have some fallback capabilities, especially around the Navteq technology powering its HERE and Nokia Maps/Nokia Drive, which could be ported to other platforms (as HERE has already been). But if Nokia bases its success on Navteq, it would have to shrink substantially from its current shape/size. So achieving success in Windows phones (and potentially tablets) is imperative. We expect Win8 phones to achieve a 5%-10% share of the market over the next 3 years. That is not huge, but since Nokia is the primary vendor of Windows phone devices (along with HTC who also produces them in reasonable numbers, and Samsung), this could be enough to propel Nokia back to profitability. But it will not be an easy task, and assumes that Nokia can maintain an edge over the Win8 competition, and that the market potential for Win8 is truly achieved. So far Win8 has received lukewarm acceptance, but it will grow as Microsoft refines the OS over the next 12-18 months and carrier marketing increases.

RIM, on the other hand, still has a fairly large installed and loyal base (even with some public defections as of late). And this is true especially in the LatAm and Asian markets (e.g. Indonesia). Its 70M or so installed base gives it a steady revenue stream. And despite what many predict, we expect 20%-25% of the business market share to stay with RIM over the next 3 years (confirmed by our recent Enterprise Mobility research study). This is a substantial number of users. Of

course, if BB10 is a failure, the company faces some very dire circumstances. But since we already know pretty much what BB10 will look like (based on the PlayBook OS and early “leaks” of devices), it’s unlikely that BB10 will be a failure. And with a pent up demand for upgrades from its existing base, RIM should get a lift when BB10 is introduced. Although it’s never easy to get defecting customers back, a growing sense of displeasure by some past users of BB with other devices they adopted may help RIM succeed. Finally, since RIM sells services along with its devices, and obtains revenues for every device activated on carrier networks, its profitability is more certain (although not completely certain) than others who only sell devices.

Motorola has a much more difficult road to travel. Since its acquisition by Google, it has “de-invested” in its presence in several countries, in its manufacturing capability, and has substantially reduced the number of employees in R&D, marketing and sales. Google seems bent on turning Motorola into a re-labeler of ODM designs rather than a fully vertically integrated vendor as it was in the past. It will become increasingly hard for Motorola to compete in the Android ecosystem against power house Samsung. We believe Google has basically retained what it wanted from the Motorola Acquisition (i.e., the intellectual property) and has essentially eviscerated the company. Google seems impatient with turning Moto around which may lead to an asset sale, or ultimately a shut down. This does not bode well for the long term survivability of Motorola in the smartphone market, and of the three vendors, we’re most bearish on Moto longer term. We see no signs of Google making the required investments in Moto necessary for it to thrive.

So of the companies above with a chance to recover (e.g., RIM, Nokia), which has the better shot of making it as number 3 in the mobile ecosystem wars? We give RIM the edge. While no easy task to recover market share, it does have a more complete ecosystem and still has a substantial loyal following to build upon. And its service revenues could propel it to profitability quickly. Nokia may be able to build on Windows 8 momentum (if it occurs), but it probably faces a longer term battle and success may not materialize for 2-3 years. Can it stay viable that long? Only time will tell.

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