



# *Motorola, Inc.:*

## *Smartphones and the Android OS*

### **Introduction**

November 6, 2009 was to be a big day for Motorola executives and for the Motorola brand. This day, they believed, would be the turning point for Motorola, the day they launched their newest and best hope for turnaround: the Droid phone. Its success could mean the start of a much-needed recovery for Motorola, while its failure could doom the company to failure.

Motorola had not released a “smart” phone since the Razzr in 2004, and with technology life cycles growing increasingly as they are, Motorola was drastically behind its competitors in innovation. With such strong competitors as Apple’s iPhone and Research in Motion Limited’s (RIM) Blackberry, Motorola needed to respond with a strong competitive offering in order to have any hope of a significant market presence going forward. Motorola executives waited nervously for news about their latest offering. But they could not help thinking about the events that had led them to this point: The fate of the entire company would depend on one new product launch.

### **The History of Motorola**

Motorola was founded on September 25, 1928 by Paul V. Galvin and his brother Joseph in Chicago, Illinois. Originally called the Galvin Manufacturing Corporation, the company’s first product was a battery eliminator which allowed battery-powered radios to run on household electricity. The company then expanded into radios, producing some of the first commercially successful car radios and other similar devices such as home entertainment radios and two-way radios.<sup>1</sup>

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This case was prepared by Research Assistants Sarah Anderson, Jennifer Gilardi, Megan Sennett, and Joseph Westerhaus under the direction of James S. O’Rourke, Concurrent Professor of Management, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Information was gathered from corporate as well as public sources.

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The 1940s saw the establishment of the company's research and development program, which quickly introduced such devices as commercial two-way radios, and more importantly, portable two-way radios. Galvin Manufacturing also had its first public stock offering in 1943, selling for \$8.50 a share, before changing its name to Motorola in 1947, the same year the company developed its first television set. The 1950s brought internal expansion and development of the well-known Motorola logo. During the 1960s, Motorola radio transponders relayed the first words from the moon to the Earth. In 1976 the company headquarters moved to its current location in the Chicago suburb of Schaumburg. Motorola also had the distinction of developing the world's first computerized engine control and the world's first commercial portable cellular phone in the early 1980s.<sup>2</sup>

Unfortunately for Motorola, tough financial times were impending. The company was forced to spin off its global communication network in 1999, its government and defense business in 2001, and its semiconductor products section in 2003. Most importantly, Motorola's Board of Directors recently approved a split that would make the handset division into another corporation; due to declining economic conditions, the move had been postponed indefinitely until February 2010 when the company announced its split into two independent companies by the first quarter of 2011. This split, along with changes in top executive management, has caused some unrest within the company.

While Motorola's research and development division has a good track record with innovation, Motorola's last "hit" phone was the Motorola Razr, which was launched in 2004. With the introduction of the iPhone and other more popular cellular models, Motorola's lack of a new hit phone made investors, employees, and general observers increasingly skeptical of Motorola's viability as a profitable company. The newest phone launch, the Droid, is the company's beacon of hope in an increasingly bleak landscape.

### **Droid by Motorola**

On November 6, 2009, Motorola, in conjunction with Verizon Wireless and Google, released the Droid, the first smartphone powered by Google's Android 2.0 operating system. The Droid is the first phone to arrive with Google Maps Navigation pre-installed. Other features of the smartphone include Wi-Fi networking, a 3.7 inch high-resolution screen, a five megapixel camera with an included 16 GB memory card, and the ability to run up to six applications at a time. At the time of its launch, the phone was available exclusively at Verizon Wireless Communications Stores and online for \$199.99 with a new two-year contract after a \$100 mail-in rebate. Customers were also required to subscribe to a Verizon Wireless Nationwide voice plan, which begins at \$39.99 for monthly access and 450 minutes per month, and an e-mail and Web for Smartphone plan, which would begin at \$29.99 for monthly access.<sup>4</sup>

During the Droid's first full week in stores, an estimated 250,000 phones were sold. This was four times the launch-week sales figure for the myTouch 3G, which had previously been considered the fastest-selling Android device. However, the first week sales of the Droid fell far short of the 1.6 million iPhone 3GS units sold during its initial week, five months earlier. While sales of the Motorola Droid paled in comparison to Apple's iPhone, the iPhone launched in eight countries while the Droid was initially released solely in the U.S. Also, the iPhone 3GS had a loyal customer base comprised of users of its previous iPhone models, whereas the Droid did not

have an established user base yet. For these reasons, even when compared to the iPhone 3GS's initial sales figures, the sales performance of the Droid in its first week were considered strong.<sup>5</sup>

In the fourth quarter of 2009, Motorola sold two million Android-powered smartphones, with the vast majority of those being Droids. The company planned to ship between 11 and 14 million more Android-powered phones during 2010. Due in large part to the debut of Motorola's first buzz-worthy phone since the launch of the Razr more than five years ago, the company reported a fourth quarter profit of \$143 million, reversing a \$3.66 billion loss from a year earlier. However, despite strong sales of smartphones, Motorola's Mobile Devices business segment saw a 22% decrease in sales. The company planned to launch four new Android smartphones in the first quarter of 2010, bringing its total number of smartphone offerings to six, but still projected a small loss for the quarter.<sup>6</sup>

### Reception of the Droid

*PC Magazine*, a provider of reviews and previews of the latest hardware and software in information technology, praised the Droid as "the first truly lust-worthy" and "mind-blowing" smartphone serviced by Verizon. Besides the slide-out keypad and massive screen, the magazine raved about the Android 2.0 operating system with its ability to support Microsoft Exchange, better software keyboards, and better browsing.<sup>7</sup> Furthermore, the Droid talk time lasts seven hours, seven minutes, among the longest times registered for a Verizon-serviced phone.

However, the magazine also offered a few complaints. For one, the QWERTY keys were too small, tight, and flat to consider it elite among its physical keyboard competitors.<sup>8</sup> Another criticism of the phone was the poorly programmed camera application, which performed sluggishly relative to the Droid's processing speed. While the reviewer wrote negatively on several of the Droid's deficiencies, the product received a mostly favorable appraisal.

As a popular blog covering consumer electronics, *Engadget* reviews many of the high-end smartphones prior to their release on the market. *Engadget* spoke highly of the Droid's industrial design and the Android operating system's increased functionality in terms of messaging, e-mail, and customization. The blog also notes that the key strength of the phone would be its sole carrier, Verizon Wireless, an option preferred by many over the iPhone's provider, AT&T. With more than 80 million subscribers and coverage spanning 280 million people, Verizon's expansive network would place the Droid within reach of a considerable customer base.

Despite the Droid's appeal in many respects, *Engadget* listed several drawbacks that could cause the consumer to be cautious before purchasing the phone. Specifically, the blog cited the unpleasantness of using the camera, the limited quality and quantity of applications, and a certain degree of non-intuitive functionality.<sup>9</sup> Aside from its imperfections, the Droid, according to *Engadget*, is "easily the best Android phone to date."<sup>10</sup>

Another consumer electronics blog known for its topical and edgy writing style is *Gizmodo*. The Gawker Media website offered a warm reception to Motorola's newest phone as it cited powerful new processors and "delicious" new sky-high resolution among its better

qualities. The blog enthusiastically endorsed the pixel density and clarity of the screen as it illuminates its images and reduces strain on the eyes caused by activities involving long periods of concentration (i.e. reading an e-book).<sup>11</sup>

However, *Gizmodo* posted several less-than-flattering remarks about the Droid and its operating system. The blog complained about the phone's camera feature and its inability to take a quality photo in a reasonable time. *Gizmodo* also noted the deficiencies found in many of the Android applications, including the GPS application that often identified the user hundreds of miles away from its current location. Imperfections aside, *Gizmodo* noted that the Droid stood out as the second best phone – to the iPhone – on the smartphone market, while raising the bar for the industry as a whole.<sup>12</sup>

### **Competitors in the Smartphone Industry**

Not only has the market for smartphones grown faster than the rest of the mobile phone market for several years now, but it has continued this growth in the midst of an economic downturn. By the end of 2008, smartphones comprised 13% of the total handset market,<sup>13</sup> and sales of the devices had grown 35%, compared to the overall market growth of 10%.<sup>14</sup>

Although smartphones are generally defined as mobile phones with advanced features such as e-mail and Web browsing capability, a standard definition does not exist. For some, any mobile phone that combines traditional voice capabilities with e-mail, fax, pager, or Internet access is considered a smart phone,<sup>15</sup> while others consider it to be a phone that runs complete operating system software with a standardized interface and platform allowing users to download applications from third parties.

The first “smartphone” was designed and shown by IBM in 1992 as a concept product.<sup>16</sup> It included features such as a calendar, world clock, address book, calculator, note pad, and e-mail and fax capabilities. Nokia released several phones in its Nokia Communicator line starting in 1996. Successive models in this line included the Nokia 2210, which was the first color screen Communicator model and the first to run on an open operating system, and the Nokia 9500, which was the first camera phone model as well as Nokia's first Wi-Fi phone. The Ericsson R380 was the first to be sold as a “smartphone” and the world's first touch screen phone.<sup>17</sup> The Sony Ericsson P800, released in 2002, was a successor to this model, based on the Symbian operating system, and with full PDA functionality, it also included features previously unseen on mobile phones, such as a color touch screen, camera, and MP3 player with a headset jack.<sup>18</sup> Also in 2002, RIM released its first BlackBerry model, which was the first smartphone equipped with wireless e-mail, meaning it can send and receive e-mail wherever it has access to the wireless networks of certain cell phone carriers.

Motorola's primary competitor among cell phone makers is Nokia, the current #1 manufacturer of cell phones. The wide variety of products in the company's mobile phone unit has helped it claim 40% of the global cell phone market, with 70% of the business split between the European and Asian markets, and less than five percent of sales coming from North America.<sup>19</sup> Nokia continues to strive to be the best in the mobile Internet market, and has made acquisitions in an attempt to pack more features into its mobile phones. As navigation features become more standard on smartphones, Nokia acquired NAVTEQ for digital map data and

content. In 2008, Nokia acquired Symbian, developer of the leading global operating system for smartphones, and reorganized it as a not-for-profit, licensing its operating system as open source software available to any manufacturer on a royalty-free basis.<sup>20</sup>

RIM is a provider of wireless hardware, software, and services and sells the popular BlackBerry smartphones. BlackBerry phones were the first to offer wireless e-mail services, and can also handle voice, text messaging, Internet access, and multimedia applications. The BlackBerry line of smartphones comprises 20.8% of smartphone sales worldwide,<sup>21</sup> and is regarded as the most popular smartphone model among business users.<sup>22</sup> RIM sells its products to corporations, wireless carriers, and resellers, so the BlackBerry devices are offered and supported by service providers such as AT&T, T-Mobile, and Verizon Wireless.<sup>23</sup>

Another significant force that has entered the mobile phone market is Apple Inc. with the unveiling of the iPhone in 2007. The iPhone combined the capabilities of a high-end smartphone with those of an iPod. The iPhone became immensely popular, making up 18% of Apple's sales in 2009<sup>24</sup> and capturing a significant share of the U.S. smartphone market. Since the iPhone's debut in 2007, AT&T has been named the exclusive wireless carrier for the device, creating some dissatisfaction among users. iPhone users have complained about AT&T's network speed and service reliability, as well as its inability to keep up with features being added to the iPhone.<sup>25</sup> Though talks of opening up the iPhone to other service providers are said to be occurring, there has been no formal announcement that this will happen in the near future. This provides Motorola with a significant opportunity to introduce the Droid as a legitimate competitor to the iPhone, while giving customers a different service provider.

## Litigation

**Research in Motion (RIM).** RIM, the Canadian-based maker of the popular BlackBerry smartphone, finds itself defending allegations of technology patent infringement brought forth by Motorola. Motorola alleges RIM illegally used patents protecting certain technologies used in the production of its smart phone devices, including Wi-Fi capability, application management, user interface, and power management. The dispute originated in a Texas court in February 2008 following the December 2007 lapse of a pact agreement, which allowed cross-licensing of Motorola-controlled technologies.<sup>26</sup> The litigation cites twelve BlackBerry devices as infringing on patents and other intellectual properties held by Motorola, which constitute many of RIM's most successful products.

In addition to the pending litigation, Motorola filed a complaint with the U.S. International Trade Commission accusing RIM of using Motorola-owned technology in its smartphones.<sup>27</sup> The ITC, a quasi-judicial federal agency that monitors international trade practices, complied with Motorola's request to investigate allegations of patent infringement, a process that may span 12-to-14 years. Furthermore, Motorola asked the ITC to prohibit the importation of future RIM patent-infringing products and halt the sale of those currently existing with U.S. retailers.<sup>28</sup>

**Former Executives.** In 2008, Michael Fenger, a six-year vice president for Motorola's mobile-device business in the Europe, Africa, and Middle East markets, accepted a position with

smartphone competitor Apple, becoming the vice president of global iPhone sales.<sup>29</sup> Motorola responded to Fenger's departure with a lawsuit claiming the former vice president's employment with Apple violated a written agreement not to work for a competitor for at least two years. The company cited in its complaint that Fenger was "privy to the pricing, margins, customer initiatives, allocation of resources, product development, multiyear product, business and talent planning and strategies being used by Motorola."<sup>30</sup> Fearing that Fenger may disclose trade secrets known through his position with Motorola, the company sought to enjoin the former executive from working with Apple and abiding by his contract. Furthermore, Motorola tried to reclaim more than \$1 million from Fenger for breaching company stock-option agreements. This case is currently unresolved.

Following his December 2009 resignation from Motorola, David Hartsfield, another vice president of the mobile devices division, joined Nokia as the vice president of its global Code Division Multiple Access (CDMA) business.<sup>31</sup> In response, Motorola filed a temporary restraining order against Hartsfield alleging violations of a non-compete agreement and possible leaks of competitive information due to his "access to Motorola's most competitively sensitive information" related to the CDMA industry. While Hartford's attorney denies wrongdoing on the part of his client, Motorola will continue to seek a preliminary injunction for further restrictions and damages.<sup>32</sup>

**Defendant.** In the midst of Motorola's efforts to protect its intellectual properties, the company must fend off a potential claim alleging similar violations. Judah Klausner, inventor and owner of Klausner Technologies, filed suit against Motorola and RIM for infringements of technology patents related to visual voicemails.<sup>33</sup> Klausner claims that Motorola's use of visual voicemail technologies implemented in its Chiq phone violated twenty-five patents related to the functionality. Prior to bringing suit against Motorola, Klausner sued, among others, Apple and LG Electronics and prevailed with lucrative settlements in both cases.

### What's Next for Motorola?

Recognizing the dire need for a new strategic plan going forward, Motorola announced on February 11, 2010 that it planned to split into two independent companies in the first quarter of 2011. One company would focus on mobile cellular devices and television set-top boxes while the other would focus on wireless network equipment and enterprise radio systems operations. The reorganization would split Motorola's Home and Networks Mobility business into two pieces, with the home systems business joining Mobile Devices and carrier infrastructure joining Enterprise Mobility Solutions. The two companies, each of which accounted for approximately half of Motorola's 2009 sales of \$22 billion, will be split through a tax-free stock distribution to shareholders.<sup>34</sup> The enterprise and networks business will assume Motorola's debt of slightly more than \$3 billion. After news of the split was publicized, Motorola's share price rose 3.9% to \$6.93, indicating the public's confidence in Motorola's handset business.

Motorola's co-CEOs will each lead one of the two new entities, with Sanjay Jha leading Mobile Devices and Home Businesses and Greg Brown leading Enterprise Mobility Solutions and Networks. Plans to separate the struggling handset business had been in the works for a while in order to focus on creating a better opportunity for success in the mobile devices

industry. Additionally, by creating a new company that combines mobile devices and television set-top boxes, Motorola hopes to position itself as a leader in “multiscreen” experiences. These will allow users to watch content interchangeably on phones, other mobile devices, and home entertainment equipment.<sup>35</sup> Several advancements have already been made on this frontier. Motorola has adapted its MotoBlur social media interface to fit set-top boxes in addition to mobile devices. Also, a new device called the Mover was just developed by Motorola to shift digital content from set-top boxes to mobile cellular devices. These innovative new product offerings are all part of Motorola’s strategic plan going forward to attempt to stay a step ahead of the competition.

Encouraged by the initial Droid sales numbers, Motorola executives were optimistic about the future of the company. So far, it seemed that the Droid might be the key to rescuing Motorola from its recent downturn. However, Motorola’s top management could not afford to sit idly by and ride the wave of success brought by the Droid and the positive reaction to the split of the companies. Even though the split garnered a positive initial reaction, it would take careful management and communication to ensure its real world success. With that goal in mind, top management must rely not only on their research and development team, but will also develop an effective communication strategy to solidify each company’s image as they strive to regain market share.

### Discussion Questions

#### *Retrospective Questions:*

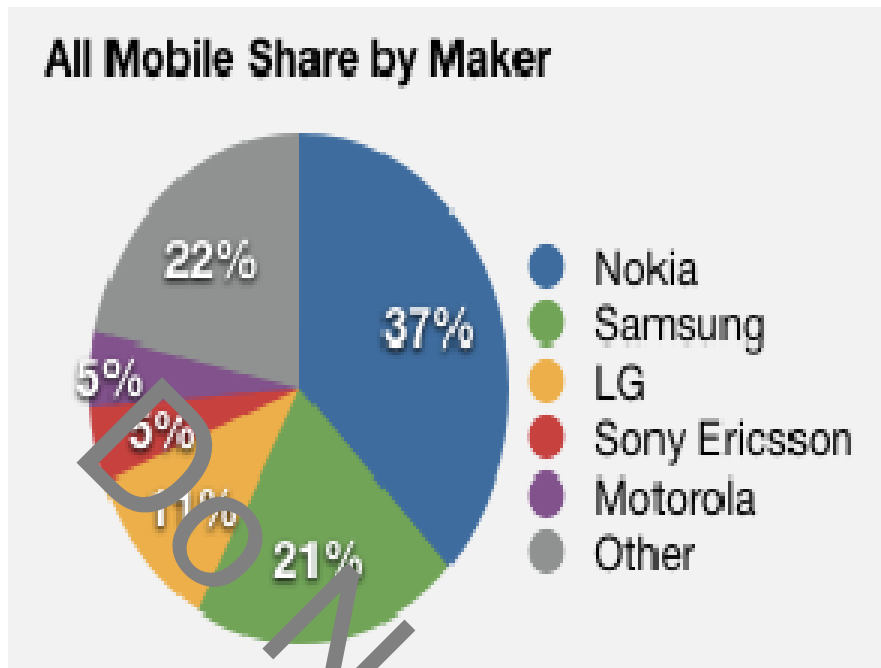
1. Is there room for Motorola to enter the smartphone market? Where could the company look to capitalize on the shortcomings of its competitors?
2. Did Motorola make the correct decision to employ co-CEOs to lead two different product segments? What challenges could this pose?
3. How much of the Droid’s potential success depends on its allied partners, Google and Verizon?

#### *Prospective Questions:*

1. Should Motorola create plans to extend the shelf life of the Droid or focus its resources towards new, yet untried, products?
2. By using Google’s operating platform, does Motorola expose itself to long-term issues related to the controllability of its product?
3. What threshold will the Droid need to surpass for Motorola to consider it a success?

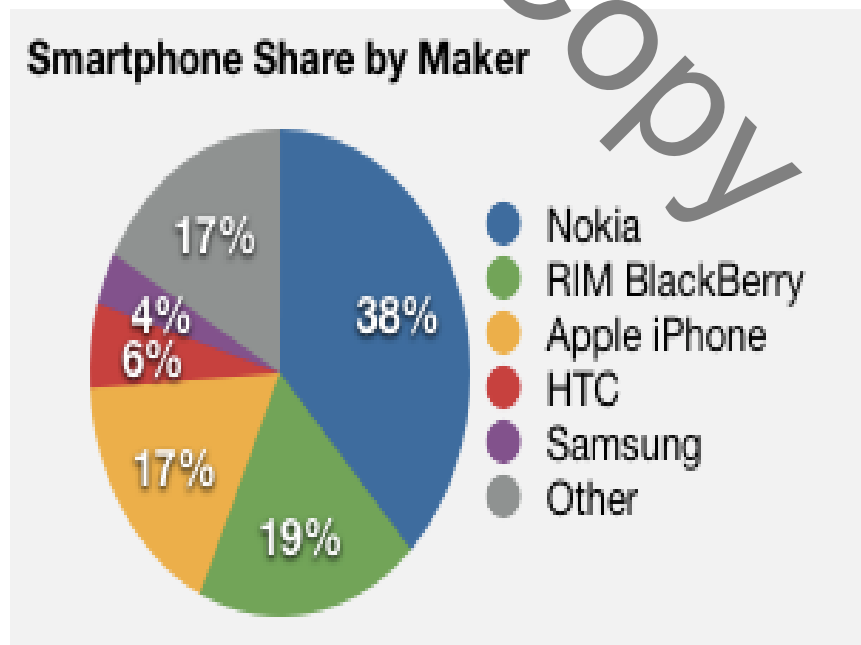
With layoffs already a concern, how can Motorola best communicate with employees regarding the split into two separate companies?

Appendix A



Source: Strategy Analytics

Appendix B



Source: Strategy Analytics

### Appendix C



### Appendix D



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