

Competitive Intelligence Report

Motorola Launches Q: Not the James Bond Character, His E-mail Phone

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Current Perspective:

Positive

Vendor Importance:

Moderate/High

Market Impact:

High

Summary

Event Summary

July 25, 2005 – Motorola announces the Q, the world's thinnest, lightest QWERTY phone with a bar form factor but similar design to the RAZR. The Q is based on Microsoft's Windows Mobile 5.0 Smartphone Edition software, enabling advanced e-mail and multimedia features. The Q has an internal antenna, QWERTY keyboard, a one-handed navigation thumbwheel, Bluetooth, and a 1.3 megapixel camera. The Q will be available in Q1 2006; pricing and network availability were not released.

Analytical Summary

- **Current Perspective:** Positive on Motorola's announcing the Q smartphone, because the thin and wide QWERTY handset takes advantage of Motorola's design leadership and provides consumers with a stylish alternative to the Palm Treo 650. The Windows Mobile 5.0 smartphone edition provides excellent PIM and synchronization functionality as well as integrated push e-mail capabilities for users at companies with Microsoft Exchange e-mail systems.
- **Vendor Importance:** Moderate to high to Motorola's handset business, because it extends the RAZR's design aesthetics beyond a single phone model or device category. The Q fills a dire hole in Motorola's lineup for a smartphone now that the MPx has been cancelled and the MPx220 is off the market. However, even a smash hit smartphone would not provide as much revenue as a successful high volume consumer handset, such as the RAZR itself, or Motorola's upcoming SLVR and PEBL.
- **Market Impact:** High on the smartphones segment, because the Q is the first Microsoft Windows Mobile 5.0 smartphone edition device with a QWERTY keyboard for the U.S. market. The U.S. smartphone market is dominated by QWERTY devices from RIM and Palm, but the Q's attractive form factor should lead to strong executive appeal. The price point and features

Current Analysis

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make the Q more of a threat to Palm than to RIM.

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Target Markets

CLECs, Global 2000, Large Enterprises, Small Office/Home Office, Small to Medium Enterprises

Current Perspective:

Perspective

Positive

Vendor Importance:

Current Perspective: Positive

Moderate/High

We are taking a positive stance on Motorola's announcing the Q smartphone, because the thin and wide QWERTY handset takes advantage of Motorola's design leadership and provides consumers with a stylish alternative to the Palm Treo 650. The Q is a coup for Microsoft, which finally gets hot hardware using its Windows Mobile OS, and gets Motorola back into the smartphone race.

Market Impact:

High

The Q is still a mystery in many respects. The price has not been announced, though it is expected to be high. Motorola promises the Q in Q1 2006, but the company's track record of shipping smartphones on time is so bad that this could be off by as much as a year (or worse, if it shares the fate of the MPx, which was delayed multiple times and finally cancelled before shipping). Based on the RAZR's history, a GSM version should be released first, but no information was released on which network technologies would be supported and when. At the Analyst conference following the announcement, Motorola executives did promise versions of the Q with EV-DO and UMTS radios; however, it is not clear if those are to be follow up products, or available at launch.

The Q is not entirely without direct competition. There is one other Microsoft-powered QWERTY device on the market that, like the Q, Palm Treo, and RIM 7100 series, is pocketable and usable as a primary voice phone: the Samsung i730. This Verizon offering runs an older version of Windows Mobile, is very thick, not fashionable at all, and by including both WiFi and EV-DO, is extremely expensive (see "Samsung Takes on the Treo with the i730 at Verizon," June 24, 2005). The Q is already generating a lot of buzz. The form factor is slightly wider than a Treo 650, but considerably thinner. As such, it is pocketable, and usable as a phone for voice. The thin case, coloring, and laser etched send and end keys build on the RAZR's mystique. The QWERTY keyboard and AutoSync e-mail push provide an excellent messaging experience for users who hook up to Microsoft Exchange e-mail servers on the back end. The Windows Mobile PIM is polished, and since the Q is based on the Smartphone Edition, phone-centric PIM usage is optimized (and further helped by a scroll wheel embedded in the right side of the case). Microsoft also handles PC synchronization well, and Windows Media 10 allows use as an MP3 player, including protected WMA tracks bought from various online music stores (i.e., everyone but Apple). If the user has a Windows XP Media Center PC, TV shows can be transcoded and moved to the Q for watching on the bus, train, or plane. And Microsoft Mobile allows extensibility for adding third party tools and games, or mobilizing enterprise applications. Still, the Q is tilted toward consumer purchase, featuring a 1.3 megapixel camera, so consumers buying an e-mail device don't have to give up any convergence goodness.

On the downside, the Q will likely be rather expensive. Motorola's track record on delivering smartphones is terrible, so time to market could be a serious problem. Palm hasn't announced its latest follow up to the Treo 650, but if history is any indication, whatever Palm has planned may



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beat the Q to market. Motorola has also had quality issues with its high end devices (though not the RAZR). Microsoft's Windows Mobile 5.0 offers many improvements, but built in end-to-end security isn't one of them. If that wasn't enough to discourage security-conscious enterprises, the inclusion of a megapixel camera and removable memory may be enough to ban the device from many campuses – which is why RIM has refused to offer them.

Current Perspective:

Positive

The thin form factor and extensive features should be compelling for executives and individual purchasers at companies that use Microsoft Exchange for e-mail. This leaves out users of Domino and GroupWise, a reasonably large number of users, and lots of Palm middleware vendors support them. This limitation, along with the likely price point (very high), and Microsoft's lack of end-to-end security make the Q relatively unattractive for large enterprise deployments. As such, the Q is a potent immediate threat to Palm (which gets the majority of its sales directly from consumers), and only a nascent threat to RIM. In fact, if RIM can port the Blackberry client to the Microsoft Mobile OS (and resolve the NTP situation so that Motorola is willing to deploy it), the Q could be the catalyst for RIM's long stated goal of reducing its reliance on its own hardware and building around its server software and client licensing business.

Vendor Importance:

Moderate/High

Market Impact:

High

Assuming Motorola ships the Q on time, for both GSM and CDMA, and at a competitive price, it is hard to see how it will not be a hit. The combination of design and functionality is quite compelling.

Positives and Concerns

Competitive Positives

- The Q is already generating a lot of buzz, and had been dubbed, “RAZRberry” by the blogging world before the device was officially announced. The form factor is slightly wider than a Treo 650, but considerably thinner. As such, it is pocketable, and usable as a phone for voice. The thin case, coloring, and laser etched send and end keys build on the RAZR's considerable mystique.
- The e-mail experience out of the box is excellent for users who hook up to Microsoft Exchange e-mail servers on the back end, thanks to a QWERTY keyboard and AutoSync e-mail push.
- The use of Windows Mobile 5.0 Smartphone Edition imbues the Q with many powerful capabilities. The Windows Mobile PIM is polished, and phone-centric PIM usage is optimized (and further helped by a scroll wheel embedded in the right side of the case). Microsoft also handles PC synchronization well, and Windows Media 10 allows use as an MP3 player, including protected WMA tracks bought from various online music stores (everyone but Apple). If the user has a Windows XP Media Center PC, TV shows can be transcoded and moved to the Q for watching on the bus, train, or plane. And Microsoft Mobile allows extensibility for adding third party tools and games, or mobilizing enterprise applications.
- Consumers buying the Q for its e-mail capabilities won't have to give up imaging functionality – the Q features a 1.3 megapixel camera and removable memory.
- Unlike some of Motorola's other devices, such as the E815, the Q does not use impossibly small microSD (TransFlash) memory in favor of easier to handle miniSD. Thus, removing and inserting the cards is possible with bare hands.



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Competitive Concerns

- Given its materials and features, the Q will likely be rather pricey. RIM has an entire line of Blackberry devices, from \$99 monochrome models to \$400 PDAs – all of which may be less expensive than the Q.
- Motorola's track record on delivering smartphones is terrible, so time to market could be a serious problem. Motorola has also had quality issues with its high end cameraphones (though not the RAZR). Palm hasn't announced its latest follow up to the Treo 650, but if history is any indication, whatever Palm has planned may beat the Q to market (though Palm has had quality issues of its own).

Current Perspective:

Positive

Vendor Importance:

Moderate/High

Market Impact:

High

- Microsoft's Windows Mobile 5.0 offers many improvements, but built in end-to-end security isn't one of them. If that wasn't enough to discourage security-conscious enterprises, the inclusion of a megapixel camera and removable memory may be enough to ban the device from many campuses. In addition, users of IBM Domino and GroupWise are shut out, which is not the case with Palm devices.

Recommended Actions

Recommended Vendor Actions

- Motorola should build a family of Q's, not a single device. First up should be a less expensive version with no camera and rubberized casing (even if that makes it a tad thicker). This would enable the Q to gain entrée in security conscious enterprises and go after RIM outside the executive suite.
- The other member of Motorola's Q family should be a more powerful version with a 3G modem, WiFi, and better screen to go after the Palm Treo 650 (and whatever Palm has coming next) and Samsung's i730.
- For the U.S. market, GSM should not be prioritized. A CDMA version must be made available at the same time; CDMA holds a larger overall share of the market than GSM, and CDMA carriers Verizon and Sprint are moving aggressively into enterprise sales.

Recommended Competitor Actions

- With the Microsoft smartphones hitting the market with narrow form factors and QWERTY keyboards, RIM needs to reassert its areas of superiority. It must make a concerted marketing effort around device pricing, where it holds a commanding lead for broad deployments, and wireless security, where it has a more robust featureset today than what Microsoft plans to release later in the year. However, if it can resolve the NTP suit and port the Blackberry client to the Q, the Motorola device can become a powerful catalyst to move RIM towards its goal of selling more software and less Blackberry hardware.
- Palm needs to refresh its Treo 650 – even if only minor improvements are made – so that it does not appear to have an aging product line in the face of the sleek Q. Palm also needs to provide SDIO WiFi drivers, and SDIO WiFi card bundles for its Treo 650 models immediately. An EV-DO version should be offered as soon as possible to compete for upper-enterprise deployments where wireless broadband connectivity is prized. In addition, even at the risk of angering its

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middleware partners, Palm must do a better job highlighting to corporations the Treo 650's support for Microsoft's ActiveSync server e-mail synchronization, and upcoming support for the RIM Blackberry client.

- Nokia already has a high end QWERTY smartphone with an innovative form factor – it's called the 9300. The problem is simply that the 9300 isn't available in the U.S. market yet. Nokia has a six month window to get the 9300 established before attention and high end sales shift to the Q.

Current Perspective:

Positive

- Samsung should build a less expensive, less connected version of the i730 to preemptively attack the Q (and the Palm Treo 650, which already costs at least \$200 less than the i730). Additionally, since other carriers don't (yet) offer EV-DO or other 3G data networking technologies, a stripped down version should be more broadly saleable beyond Verizon. Finally, Samsung should publicly promise today that a no-charge, hassle-free upgrade to Windows Mobile 5.0 will be provided to all i730 buyers.

Vendor Importance:

Moderate/High

Market Impact:

High

- LG has followed a "copy Samsung" strategy in the mid-tier handset market, but has no presence in the U.S. smartphone market whatsoever. However, LG does have an appropriate candidate to serve as a lower cost alternative to the Q: it should offer various e-mail clients on its F9100 successor, the LG VX9800, or add Microsoft's Windows Mobile OS to that form factor and turn it into a smartphone.

Recommended End User / Customer Actions

- Enterprises that need security and low device cost should stick with RIM.
- Consumers considering the Q can hardly be faulted for their enthusiasm, but they should settle in for a long wait, and should weigh the risks of being an early adopter. Motorola has terrible history of delays, bugs, or simply canceling its smartphones, and the Q will be using Windows Mobile 5.0, a new OS, which may have its own bugs.
- Verizon Wireless should offer the Q as soon as possible. Like Sprint and Cingular, Verizon Wireless is making a serious enterprise mobile sales push. All carriers need to broaden their enterprise device lineups – heavily skewed toward RIM – with Microsoft Mobile devices that are easier and cheaper to deploy by enterprises using Exchange on the back end. Verizon Wireless launched Samsung's i730 to meet this need, but it should also offer the Q as soon as possible. It cannot afford to let rival carriers launch hot devices months ahead of it, and the Q will generate buzz where the Samsung i730 went relatively unnoticed.
- Sprint should offer the Q, though it should also push Palm to refresh the Treo 650. Sprint has been the launch carrier for Palm's Treo line, but has recognized the need to carry Microsoft OS devices to attract enterprises using Exchange on the back end. However, the only Windows Mobile device Sprint offers is the PPC-6600, a gigantic connected PDA that also happens to include a phone. Thus, the Q would fill a large hole in Sprint's enterprise device lineup.
- Cingular and T-Mobile should offer the Q as soon as possible. T-Mobile has been phasing out Palm products (it does not offer the Treo 650), and Cingular has strong brand associations now with Motorola's RAZR-style designs.