

Competitive Intelligence Report

Motorola Q Arrives Fashionably Late, Wearing Low Cut Price

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Current Perspective:

Very Positive

Vendor Importance:

High

Market Impact:

Very High

Summary

Event Summary

May 22, 2006 – Motorola announced that the Moto Q will be available exclusively at Verizon Wireless for \$199 with a two-year contract on May 31 online, or on June 5 at any Verizon Wireless retail store. The Moto Q's style is built upon the design revolution created by the Motorola RAZR. The Q runs Microsoft Windows Mobile 5.0 and combines voice, personal productivity, enterprise connectivity and entertainment in a thin and stylish form factor. The Moto Q utilizes Verizon Wireless' EV-DO BroadbandAccess network.

Analytical Summary

- **Current Perspective:** Very positive on Verizon Wireless offering Motorola's Q for just \$199 with a two-year contract. The Q is disruptive on three fronts: it is the first time fashion enters the business world of QWERTY devices, it reshapes the pricing expectation for smartphones, and it is a hot device available exclusively at Verizon Wireless.
- **Vendor Importance:** High to Motorola because it has never had a successful smartphone in the U.S. market, and the Q plays off its wildly popular RAZR in terms of branding and design motif.
- **Market Impact:** Very high to smartphones because the \$199 price point reshapes the price curve for QWERTY devices. The Q is the first smartphone consumers would be willing to be seen with after 5 PM, making it an attractive proposition for prosumers buying a single device for dual business and personal use. The Q attacks Palm's multimedia features and makes inroads into the BlackBerry's on-device e-mail browsing experience with a side scroll wheel. However, the Q is dependant on Microsoft for its built-in e-mail synchronization. ActiveSync still lags RIM in providing a polished push e-mail experience, and lacks critical end-to-end security. As such, many IT managers are likely to stick with RIM, but Palm will suffer collateral damage.

Current Analysis

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Target Markets

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

Perspective

Current Perspective:

Very Positive

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Vendor Importance:

High

We are taking a very positive stance on Verizon Wireless offering Motorola's Q for just \$199 with a two-year contract. The Q is disruptive on three fronts: it is the first time fashion enters the business world of QWERTY devices, it reshapes the pricing expectation for smartphones, and it is a hot device available exclusively at Verizon Wireless.

Market Impact:

Very High

When Motorola first announced the Q with few details, we warned that the device – then expected to ship in late December 2005 – would likely be late, and very expensive (see, "Motorola Launches Q: Not the James Bond Character, His E-mail Phone," July 27, 2005). We were half right – the Q is quite late. However, the Q's \$199 price point reshapes the price curve for QWERTY devices. RIM does have several of its basic BlackBerrys in this price range, but its more capable 8700 model – which still does not have EV-DO or HSDPA – sells for \$299, while QWERTY phones from Palm, Samsung, Nokia, and Sony Ericsson also sell for \$300 - \$600.

This is actually the second time Verizon Wireless and Motorola teamed up to shatter the baseline price curve for an industry segment. The two companies paired up and launched the E815 for \$99 at a time when high end multimedia devices typically sold for two to four times as much. Still, the E815 is a fairly boring clamshell design; the appeal of the device is based on its multimedia features. With the E815 Verizon Wireless was still focusing on the power of its network by adding an inexpensive EV-DO phone for its V CAST service. Getting exclusives on productivity devices such as the Q and 700w – rather than mass market consumer phones – is an odd way to go about recognizing the power of handsets to pull customers to the network, but it's better than nothing.

The Q is the first smartphone consumers would be willing to be seen with after 5 PM, making it an attractive proposition for prosumers buying a single device for dual business and personal use. RIM's QWERTY devices have been thick slabs focused on productivity, while Palm's more balanced Treos sport an even thicker (though narrower) profile. RIM's most directly comparable model, the 8700, lacks 3G networking capabilities, is considerably thicker than the Q, and costs an additional \$100, while Palm's Treos are priced \$200 above the Q in both PalmOS and Windows Mobile versions. The Q attacks Palm's multimedia features and makes inroads into the BlackBerry's on-device e-mail browsing experience with a side scroll wheel. However, the Q is dependant on Microsoft for its built-in e-mail synchronization. Despite push e-mail enhancements via Windows Mobile 5.0, and the ROI arguments in favor of an all Microsoft solution, ActiveSync still lags RIM in providing a polished push e-mail experience, and lacks critical end-to-end security. As such, many IT managers are likely to stick with RIM, but Palm will suffer collateral damage.

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Positives and Concerns

Competitive Positives

- The Q's \$199 price point reshapes the price curve for QWERTY devices overall, and gives Verizon Wireless a powerful incentive to draw high value prosumers who talk a lot and are willing to pay for data plans.

Current Perspective:

Very Positive

- The Q is slightly wider than a Treo 650, but considerably thinner. As such, it is the first easily pocketable QWERTY device, and usable as a phone for voice. The thin case, coloring, and laser etched send and end keys build on the RAZR's iconic design. The combination of productivity and style makes it an attractive proposition for prosumers buying a single device for dual business and personal use.

Vendor Importance:

High

Market Impact:

Very High

- The inclusion of EV-DO makes the Q far more powerful and useful than smartphones with 2.5G connectivity. E-mail attachments download quickly, the Web browser is useful, and streaming media becomes a real possibility from the carrier, or off portal with products like SlingMedia.
- 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.
- The Q is not only a relatively low cost device, it offers a low cost mobile e-mail solution (free, actually) for companies using Exchange ActiveSync SP2 as their e-mail server. Verizon Wireless also offers Wireless Sync and GoodLink e-mail options for other users.
- Motorola got a lot of the multimedia details right with the Q, at least for prosumers (some IT managers will want a more stripped down version). 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 a Q user's bare hands.

Competitive Concerns

- The exclusive deal is great for Verizon Wireless but of course limits sales, at least temporarily, for Motorola.
- 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.
- Windows Mobile 5.0 Smartphone Edition does not include native Office or PDF document handling. A third-party solution is provided, but it requires a lot of scrolling to see anything

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useful.

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- As with most Verizon Wireless devices, there are no global data roaming options, limiting usage for multinationals or U.S. companies with frequent traveling requirements. So far, Verizon Wireless only has one business device, the Samsung i830, that supports international travelers for data and e-mail access.

Current Perspective:

Very Positive

Recommended Actions

Vendor Importance:

High

Recommended Vendor Actions

Market Impact:

Very High

- Motorola needs to offer a Triband/EDGE/WCDMA version for Europe as well as a quadband/EDGE/HDSPA version for Cingular once exclusivity wears off.

- Motorola has amazing packaging for its fashion-first consumer handsets that slides open to dramatically “reveal” the phone. Motorola uses boring regular cardboard boxes at U.S. carriers because the carriers are not willing to pay an additional dollar per unit for packaging to flog the handset vendor’s brand. Since presentation is a key element of style and style is driving Motorola’s brand, Motorola should insist on paying for the boxes itself and wow customers from the outset of the purchase experience.

- Microsoft needs to build a true e-mail push solution, not just a pull-more-often solution. While this may be transparent to new users, business people who have used a RIM BlackBerry in the past will find the differences frustrating.

- Microsoft needs to build end-to-end encryption into its solution set. This is not a wish list item, but a basic requirement for use in the healthcare, government, and financial communities.

- Verizon Wireless should actively seek out exclusive hot devices for “pure” consumers. The carrier might try a piece of LG’s Chocolate for starters.

Recommended Competitor Actions

- RIM needs to create a sub-brand and launch more multimedia-centric, fashion-oriented handsets of its own. In the meantime, the company must aggressively protect its all-business, all-the-time base by clearly making its case that a BlackBerry provides a secure, instantaneous, addictively productive push e-mail solution, while Microsoft’s “solution” works “most of the time, eventually” for companies that “don’t mind hackers being able to read their unsecured messages.”

- Palm is going to pay for not innovating beyond a single form factor. In the meantime, Palm should stress its legendary PIM functionality (still a bit ahead of Microsoft) and extensive library of third-party Palm OS applications (well ahead of all other mobile OS platforms).

- Samsung needs to give the SGH-T719 an actual name, not a license plate. It cannot debut for more than \$199 – ideally, less – and should be heavily promoted. The combination of a super thin clamshell design, BlackBerry Connect, SureType keyboard, megapixel camera, and removable memory should be quite competitive with the Q.

- Good Technologies and Nokia’s Intellisync division must herald – loudly – that by adding their messaging solutions on top of the Q, users get the best push e-mail experience on the hottest device. In addition, they should note that the Microsoft ROI arguments are questionable given

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the costs of added security measures.

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• LG needs to build a smartphone for the U.S. market. Now the company knows where the bar has been set.

Current Perspective:

Very Positive

Recommended End User / Customer Actions

• If mobile e-mail remains the key priority, stick with RIM, as real push e-mail and built-in security and management from a NOC solution still make sense for many companies.

Vendor Importance:

High

• If global roaming is a priority, RIM, Palm, or Samsung all offer GSM smartphones. Samsung has a dual CDMA-GSM Windows Mobile device on Verizon Wireless, and Motorola offers an iDEN-GSM Windows Mobile Smartphone for Sprint's Nextel division.

Market Impact:

Very High

• Verizon Wireless customers addicted to specific Palm applications – such as medical texts, GPS add-ons, and numerous personal applications – should get a Palm Treo 700p when it comes out in the next few weeks.

• Consumers looking for a clamshell phone with rich e-mail capabilities can wait for Samsung's SGH-t719.

• For everyone else, the Q offers a compelling balance of style, productivity, and pricing.