BlackBerry is back: strategy and product updates point the way forward

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21 FEB 2017

Under CEO John Chen, BlackBerry has significantly improved its financial position and product focus. It has some significant challenges still ahead, but we think it has come far enough under Chen to assert that it is indeed back.
BlackBerry held an event for industry and financial analysts in San Ramon, California last month. Executives, including CEO John Chen, provided strategy and product updates, and plenty of insight into how BlackBerry is thinking about its future. It is the first such event for industry analysts the company has run in a while, which signals that it believes it has indeed turned a corner.

THE 451 TAKE
John Chen went to BlackBerry with a reputation for focus, troubleshooting and turnarounds. All three have been evident during his tenure. Radically improved margins, a stronger focus and better balance in its product strategy, a maturing marketing narrative and plenty of white space give cause for optimism. But it also has some big questions to answer. Its network is a very expensive asset, but it doesn’t yet have a clear idea on how to monetize it following the decline of its hardware business. In IoT, where much of its future needs to lie, BlackBerry must craft a vertical narrative with less of an emphasis on IT that appeals to budgetholders. It must determine how it can differentiate its long-term workforce productivity strategy as well. But these are not bad questions per se. Unlike those it was having to answer three years ago, these are laden with opportunity. BlackBerry has come far enough under Chen's tenure so far for us to assert that it is bouncing back.

CONTEXT
Three years into Chen's tenure as CEO, BlackBerry has already achieved an impressive feat by getting its financials under better control. At the end of January, total non-GAAP revenue for FY2017 stood at just over $1bn, with almost half coming from software. Operating income stood at $42m, and it has $1.6bn net in cash. In Q1 through Q3 FY2016, BlackBerry saw a 61% drop in its Service Access Fees (SAF) revenue, which outpaced its software and services growth rate (48% over that same period). However, total software and services revenue exceeded SAF about a year ago, and margins under Chen have doubled to roughly 60%. Its enterprise mobility management suite, QNX-embedded software and mobile security offerings have driven the majority of the past year's growth.

According to Chen, BlackBerry’s hardware business required too much capital, consumed too much cash flow and didn’t provide a margin that it could sustain in the long run. In its pivot away from building devices, it aspires to provide the software to secure, connect, mobilize and make productive what it views as the ‘Enterprise of Things’ (EoT) – the span of corporately provisioned personal and remote-connected devices, and the software and applications running across them.

SECURE PRODUCTIVITY
One of BlackBerry’s main challenges – yet also one of its biggest opportunities – is creating a more seamless ‘secure workforce productivity’ strategy. So what does its security story look like? It is positioning its Unified Endpoint Management (rebranded Unified Endpoint Manager, or ‘UEM’ from BES 12, which is part of its Enterprise Mobility Suite) beyond phones, laptops and tablets to other intelligent endpoints like wearables and connected cars. This isn’t an inherently natural evolution, however. There are significant differences in buying centers, models and requirements. UEM tends to be IT-driven, user-centric and general-purpose, whereas IoT management is driven by operations teams and is more device-centric and vertically specific. BlackBerry acknowledges this, but its UEM features – such as enrollment, authentication, reporting, secure connectivity and scalability – could be exposed as part of a platform to address IoT-specific challenges.

Beyond its Enterprise Mobility Suite, BlackBerry also licenses its own version of secured Android for manufacturers with its hardware, can modify customers’ existing software to support integration of its own applications, and can also implement features like kernel hardening and boot chain. The company is also investing heavily in cybersecurity. It has a separate consulting practice, Cybersecurity Operations Center (CSOC), which was created to guide BlackBerry products to achieve FedRAMP and Agency/Component Authority to Operate (ATO) certifications. In January, the company announced a partnership with consulting firm Giuliani Partners.
Few companies are as strong as BlackBerry on security. However, this is not where it needs to win. It said during the analyst event that it’s looking to have conversations with customers around productivity needs, and it gave examples of mobilizing salesforces, enabling general worker productivity, facilitating workflow creation, and helping customers consolidate their infrastructure to improve total operating costs. It has been steadily moving up the stack to address these and other use cases. BlackBerry has its own personal information management applications, ISV partner applications (built on its Dynamics Platform), its Workspaces file sync and share, instant messaging, AtHoc networked crisis communications (acquired in 2015) and its recently announced BlackBerry Messenger (BBM) Enterprise SDK.

The BBM Enterprise SDK is particularly interesting. It enables developers to integrate secure messaging, voice, video, file sharing, collaboration and real-time notifications into their applications and services. With its global NOC infrastructure and deep expertise in key regulated verticals, BlackBerry has a competitive offering for the markets it plays in compared with generalist consumer PaaS offerings from companies like Twilio and Vonage. BlackBerry says 39% of its revenue comes from unregulated industries – something that should give cause for concern for its CPaaS competition.

Going forward, we believe BlackBerry should explore mass communications use cases beyond crisis management with its AtHoc capability. It should also look at what tools it could offer beyond its SDKs to provide higher levels of abstraction for nontechnical business audiences to develop custom applications and workflows. The mobile application platform and middleware markets have struggled to gain traction as stand-alone offerings because they continue to put the onus on companies to integrate with security, communications and collaboration capabilities. BlackBerry already has these. It should be prudent in how it tackles this space, but it has enough cash to look at acquiring some of the good technologies out there, which would help to unlock far more value from its disparate and stand-alone productivity applications.

INTERNET OF THINGS

IoT permeates the long-term strategic narrative and several distinct products at BlackBerry, including BlackBerry Secure Enterprise, UEM, QNX/Certicom, the BB Secure IoT platform, and its first vertically integrated asset-tracking solution – BlackBerry Radar – which pulls the entire stack together into a subscription service. Almost every product in BlackBerry’s bag of tricks directly or by extension is addressing the challenges of managing a diverse set of IoT devices.

BlackBerry has bet that its well-earned reputation for smartphone security and its embedded OS will translate into major drivers of IoT revenue growth. This strategy plays to BlackBerry’s strengths, although we believe it should make more effort to establish partnerships to address the operational technology (OT) side of IoT security (beyond cars) in verticals like manufacturing and utilities – potentially with OT players like Honeywell, Siemens and Fujitsu. Currently, a major element of its IoT device management is focused on enterprise heads-up-display devices. These devices are promising, but they face near-term headwinds spanning hardware fragmentation, cultural adoption issues and user experience. There are a number of startups BlackBerry might target in order to round out its capabilities and help manage the OT/IT security challenges – the start of such a shopping list can be found here.

We believe the ‘EoT’ marketing umbrella works well for BlackBerry – it speaks to defensible space for the vendor – but without context, it portends a lack of focus on vertical industries where much of the IoT spending currently resides. The EoT opportunity is targeted directly by the company’s Secure EoT Platform 1.0, which offers support for a variety of rich-CPU devices, including Android devices and wearables as well as BlackBerry devices. However, the company’s story gets thinner for devices with constrained memory and compute footprint.

Recently launched BlackBerry Radar, a fully managed asset-tracking PaaS, includes a BlackBerry-designed, contract-manufactured sensor and communications unit, which includes a 3-5-year battery, a universal cellular module, an onboard GPS for location tracking, and multiple sensors to report condition, location and temperature. Radar is listed at a steep $400 per unit. According to BlackBerry, the competitive differentiators for Radar are its fully managed connectivity experience and the richness of the application experience overall (BlackBerry deals with all carrier contracting and management). While it is a solid first effort that seems to work as advertised, we are eager to see a v2.0 with lower hardware costs, customization options for customers who might require different sensor combinations, and longer battery life between upgrade cycles.
QNX is perhaps BlackBerry’s most exciting IoT play because of its deployed footprint in embedded-computing markets and automotive. BlackBerry’s strategy in connected cars is to aggressively expand beyond its deployed footprint in in-vehicle infotainment (IVI) into adjacent areas like telematics, advanced driver assistance systems, gateways and cockpit domain controllers. BlackBerry recently announced a major win here; it will be enabling Ford’s new Sync 3. The company also announced that a team of dedicated engineers will be working with Ford on areas beyond IVI, including expansion of the QNX Neutrino operating system, Certicom security technology, the QNX hypervisor and QNX audio-processing software. QNX has limited penetration in several other verticals, including medical devices and some industrial markets such as nuclear power.

DEVICES
BlackBerry has announced three licensing agreements in the past six months: September 2016 saw the first Indonesian joint venture called ‘PT BlackBerry Merah Putih’; in December 2016, the company signed with Chinese firm TCL Communication Technology; and in February, it announced a JV with Indian telecom group Optiemus Infra-com. BlackBerry claims the first device from the agreements will be a fully branded BlackBerry device available in March in the Philippines. Making money from partners wanting to design, manufacture, sell and provide support for what would otherwise be your depreciating hardware intellectual property is a smart move. However, it is not a guarantee of success. Emerging markets are hungry for high-quality, affordable devices, and competition from other global and regional manufacturers is high.

If these agreements work out, it could give BlackBerry a few crucial things:
- Traction for its own brand of secure Android (where there are still a lot of security concerns over the operating systems’ fragmentation)
- A launchpad into huge markets for the future sales of business solutions (it doesn’t currently have the reach to maintain its brand or sell directly)
- The ability to keep its device business alive, albeit through license partners, allowing an elegant hedge against the perception of decline that would’ve occurred if that business folded altogether (although no clear strategy yet exists on how to monetize its network)

There is another potential opportunity for BlackBerry in devices. It has shown no commitment to this yet, but it could look at new, cheaper device categories. Set-top boxes may be an option that wouldn’t require as much R&D investment as smartphones do. The boxes could be a compelling, highly scalable and high-margin proposition if the hardware and software integration is tight. We are also likely to see new device categories emerge. For example, we anticipate disruption in meeting-room equipment. The price of projectors, remote controls, cameras, microphones and whiteboards needs to come down, and greater integration across hardware and software is required. New device categories are ripe for greater and more portable ubiquity in order to capture the growing amount of unstructured data from voice and video happening in collaborative workforce productivity scenarios. We believe that one day vendors and enterprises will either own the data, or they’ll pay for access to it. Google’s Chrome bases, bits and boxes along with its Jamboard, Cisco’s Sparkboard and Amazon’s Alexa are all examples of new productivity device categories that are attempting to capture the data. BlackBerry’s future as a business productivity software company will be dependent on how it gets access to data. It shouldn’t write off a future in hardware just yet.

COMPETITION
Just a few years ago, BlackBerry’s main competition came from device manufacturers like Apple and Samsung, and EMM vendors like MobileIron, SOTI, VMware’s AirWatch and IBM’s MaaS360. That lens has to be set much wider now. The company has opened up many fronts by doubling down in cybersecurity, building and acquiring its way into productivity software, and tackling toward IoT. BlackBerry’s core competition will remain those vendors with which it has the widest software product overlap, and those with a shared vision of facilitating secure business transformation (e.g., Samsung, Microsoft, Google, Apple and IBM). It will also compete with emerging-markets device manufacturers like Huawei and ZTE, which are crafting stronger software and application strategies.
BlackBerry faces a diverse set of competitors in the IoT segment, ranging from DIY-centric enterprises looking to assemble and integrate their own IoT infrastructure up to large IT software and cloud infrastructure players. These larger competitors include Oracle, SAP, IBM, Microsoft Azure, Red Hat, HPE, VMware and AWS – all of which have organically developed or acquired platforms targeting the diverse IoT requirements for data acquisition, data normalization, device management and application platforms. IoT specialists, such as PTC and LogMeIn’s Xively, also target the enterprise segment. In connected cars, which is a major focus for BlackBerry QNX, the firm runs into ATO specialists like HARMAN’s Redbend Software (subsequently acquired by Samsung), Airbiquity and Nokia’s Mformation.

**SWOT ANALYSIS**

**STRENGTHS**  
BlackBerry is very competitive in security, has a formidable leadership team, improving financials and some strong assets thoughtfully acquired, which in turn opens up new white space for it to attack.

**WEAKNESSES**  
BlackBerry has to decide what it does with its global network. The company can’t afford the drain on resources if the network isn’t enhancing the value of its software assets or opening up new market opportunities.

**OPPORTUNITIES**  
BlackBerry should focus integration efforts on the intersection of its IoT and business productivity strategies, around which significant synergies will exist in customer requirements for management, productivity and security. It would also be wise to help grow partner ecosystems around its licensing partners in emerging markets to catch the uptick in demand for value-added business productivity services. And it should build relationships with IoT OT players and strategize its future in non-smartphone hardware categories.

**THREATS**  
Despite its impressive turnaround, BlackBerry is vulnerable to its much larger competition such as Samsung, Microsoft, Google and Apple. These companies are also investing to target the opportunities in business productivity software and infrastructure.