

Will Social-Network Smartphones Click?

Motorola is betting that new mobile devices aimed at Twitter-types will reverse its dwindling fortunes

By Roger O. Crockett

Two years ago, Motorola's Rick Osterloh made a pitch to his bosses that almost got quashed before he left the room. In a ninth-floor conference room at Motorola's Schaumburg (Ill.) headquarters, the 37-year-old software executive proposed creating a line of phones that would use the Google-backed Android operating system and feature software designed for the budding world of social networking. As former Chief Executive Officer Edward J. Zander and current co-CEO Greg Brown listened, several top executives attacked the idea, arguing that Motorola already had too much complexity in its product lines. "There was controversy," says Osterloh.

Zander ultimately approved a modest investment. Now, Osterloh's idea is being used not just for one product line but as the leading example of the central strategy for Motorola's

mobile-phone business. On Sept. 10 the company is unveiling the first model in its Android-powered line, a phone called Cliq. The phone uses Motorola-developed software, known as Blur, to create a social networking command center, combining every major service—MySpace, Twitter, Facebook, and more—on one screen. Postings can be typed and zipped to each site simultaneously with one swipe of the phone's touchscreen. Social networking features are embedded in everything from the phone's address book to its e-mail program. "The barrier between people's work and personal life is disappearing," Osterloh says. "We really tried to hit that sweet spot between consumer apps and work [programs]."

The notion that Motorola will try to distinguish itself with software is risky. The company has built standout hardware, from the first compact flip phone in the late 1990s, the StarTAC, to the dazzlingly slim Razr in 2004. But Motorola phones like the Rokr music phone and even the Razr were infamous for their clunky software. "Motorola has spent lots of time and money trying to develop the world's greatest software," says John Jackson, an analyst at the research firm CCS

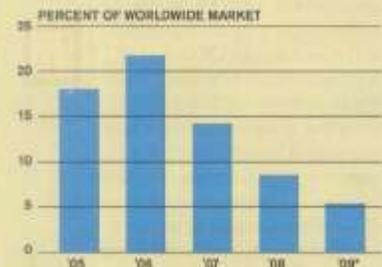
Insight. "But they haven't executed." With Blur, Motorola is betting it can reinvent itself as a master of both hardware and software.

Sanjay Jha, co-CEO and chief of the mobile-phone unit, is the man responsible for making sure this time is different. He has created a half dozen work teams to focus on specialized software areas, including social networking and location-based services. One group is concentrating on corporate e-mail, which suggests a



FALLING STAR

Motorola has lost share in the mobile-phone market in recent years



*Second quarter
Data: Strategy Analytics



clash with BlackBerry maker Research In Motion is on the horizon. Within a month, Motorola is expected to debut its second Android phone, for Verizon Wireless. Over the next year, Jha says Motorola will release phones in the U.S. and overseas that will reflect the breadth of its software development. No more "one-hit wonders," he vows. "If we do all of this we will have a machine that is sustainable."

Motorola needs a change in fortune. Once the world's dominant phone

Osterloh's idea for a new line of phones is now a central part of Motorola's plans

manufacturer, it has tumbled to the middle of the pack.

It is No. 4 in market share behind Nokia, Samsung, and LG, dropping to a mere 5.4% share from 22.4% in 2006, according to researcher Strategy Analytics. In the fast-growing and lucrative smartphone category, Motorola has been surpassed by Apple and RIM.

It required a dose of California innovation to give Motorola hope for a turnaround. Osterloh joined the company as part of its acquisition of Silicon Valley's Good Technology in early 2007. And it took Jha, who left San Diego chipmaker Qualcomm for Motorola last year, to make smartphones the company's top priority.

PRIORITY E-MAIL

The commitment to an Android phone was clinched in a late October 2008 meeting in Motorola's Silicon Valley office, a short jaunt from Google's Mountain View (Calif.) headquarters. On a cool Thursday evening, Jha sat with Osterloh's team amid circuit boards, chipsets, and software schematics from 6 p.m. to 10 p.m. Over Diet Coke and pizza, they reviewed in detail what would become the Blur-equipped phone. After the meeting, Jha knew "this was a team that could take us places," he recalls. The Motorola co-CEO later killed off virtually all phones being developed for other operating systems, including Microsoft's Windows.

Jha pushed the software developers hard. He had Osterloh and his team redesign the phone's e-mail program several times because he told them it wasn't good enough. Jha had them tweak and retweak the keypad and find a way to increase the lines of visible text on the screen from 4 to 10, minimizing the need for scrolling. As people increasingly juggle work tasks during personal time, Jha wants to make e-mail as much a priority as social networking. "I wanted to be able to have broad appeal in the marketplace," he says.

After most of the software development was done, Osterloh and his team went to work lining up a wireless

operator to carry the phone. In late January they pitched to T-Mobile at its Bellevue (Wash.) headquarters. The company's brass quickly agreed with Osterloh's vision that mobile messaging had to be simple and unified across online services. T-Mobile signed on to be the first carrier to offer the Cliq. "It sets a new benchmark for how people can stay connected to online communities," says Cole Brodman, T-Mobile's chief technology officer.

Motorola is betting the combination of Blur and Android will make social networking so much better for mobile users that its phones will stand out. Executives at MySpace have been impressed. Virtually every application on the phone links to MySpace features, such as Friend Status, where users update friends on their whereabouts. "Motorola was not confined to the existing rules on a platform," says John Faith, head of MySpace Mobile.

Blur may be a breakthrough for Motorola, given the company's historic lack of success in software. But it will still be a challenge to stand out against rivals such as Apple and RIM that have much more expertise in software. Jha says he recognizes the difficulty of the task. "We have to ask ourselves what problem do consumers want to be solved," he says. "We have to have a Neanderthal's focus on that."

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Android Rising

Mobile phones that use Google's Android operating system haven't received the recognition of flashier smartphones, such as the BlackBerry or Apple iPhone. But a flurry of Android phones will hit the market in the next few months. Besides Motorola, Samsung, LG, HTC, and Acer plan to debut devices, according to trade publication *eWeek*.

For the full story, go to <http://bx.businessweek.com/google-android>