



Motorola Needs To Be Quicker To Prevent The Big Squeeze

NEW YORK -(Dow Jones)- Apple's initial success with the iPhone increases the pressure on Motorola to move faster to launch exciting new products.

With the popularity of its RAZR phone line waning, now selling at a fraction of its original price, the Schaumburg, Ill., handset maker hasn't been able to follow up with another smash hit. Some wonder if the company can deliver in light of its recent layoffs and management turmoil.

Motorola risks getting squeezed by Apple for the high-end consumer and by Research In Motion's Blackberry for the corporate customer. Anxious investors - who have seen their holdings drop by a third since October - are looking for answers, which could start coming later this month when Motorola is expected to host an analyst meeting in Chicago.

"Motorola needs to get creative," said Michael Beck, a portfolio manager at Gerald L. Ray & Associates, which owns shares of Motorola. "The RAZR took the industry by storm, and the iPhone does that now. They need to shake things up and find a new design team that can come out with leading edge products in a shorter time than two years."

That could mean anything from touchscreen handsets to incorporating features of Apple's iPhone such as instant messaging. Either way, to improve margins and fend off the unwanted status of low-cost player, Motorola will have to innovate. While the company is launching unique products internationally, it has to move quicker to make them available in the U.S.

"Historically, Motorola has used the late July analyst meeting to unveil new products expected to be available for the holiday season," said Lawrence Harris, an analyst at Oppenheimer. "It is therefore possible that the company could show a version of the touchscreen MING or ROKR E6 intended for the U.S. market."

Harris, who said the analyst meeting is slated for July 23, thinks Motorola could unveil an improved Q9m smartphone and a replacement for the SLVR thin candy bar series of phones.

Motorola declined to comment on the timing of its analyst meeting or what, if anything, will be unveiled at the meeting.

When Motorola launched the RAZR phone in 2004, the handset received accolades and was hailed as a blockbuster hit. Since then, Motorola hasn't come out with any revolutionary handsets. Oppenheimer's Harris said AT&T was selling the RAZR V3xx in New York for \$25 in recent weeks, while Circuit City Stores is selling the RAZR V3m for \$20.

Motorola has a huge engineering culture, and that, said observers, could be the reason it's slow to come out with new phones that create a frenzy in the market. Research In Motion and Nokia have been fast with new products, which is resonating with buyers.

"Motorola's mindset has to change. They have to start thinking, 'We are a company in a faster design cycle environment,'" said Sushil Wagle, a senior vice president for J.& W. Seligman. "Its competitors have several great hits," while Motorola has one every few quarters.

Change may not be that easy to come by. The company recently announced it would eliminate 4,000 jobs on top of the 3,500 it's in the process of cutting, leading to fears Motorola won't be able to innovate because of a talent drain. Chief Executive Edward Zander has only a limited time to turn the handset business around and has vowed to make it profitable by the end of the year.

iPhone Effect

With Motorola commanding about one-third of the share in the U.S. consumer market, it gets hit the hardest from new products such as the iPhone. When the RAZR was released in 2004, the company sold 750,000 units in 90 days, according to Oppenheimer. Apple likely has sold more than that in a week of the iPhone.

That success puts more pressure on Motorola, at a time the company is in turnaround mode.

"Motorola doesn't have a product that is comparable to the iPhone or has all the bells and whistles," said Oppenheimer's Harris.

Even an acquisition may not help Motorola. While speculation had been rampant that Motorola would buy Palm Inc. (PALM), maker of the personal digital assistant, that dissipated with Palm taking an investment last month from Elevation Partners.

"(New products) really has to be internally generated," said Oppenheimer's Harris, noting Motorola is eager to introduce handsets with touchscreen capabilities in the U.S., as it already offers them in Asia. "Motorola basically invented the cellphone industry in the mid-80s. I would not underestimate Motorola's capability," the analyst said.

Indeed, Motorola's problems already seem to be baked in to the stock. Shares are down 32% from their October high but are off only 13% year to date. Analysts said shares haven't been beaten up more because the stock is at a price where it historically doesn't go any lower.

"Motorola's stock is trading at trough levels," said Mark McKechnie, an analyst for American Technology Research. "In the past, it hasn't gotten a lot cheaper than that."

Recently, Motorola was trading up 0.3%, or 6 cents, to \$17.90 on volume of 4.1 million shares. Average daily volume is 28 million shares.

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