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How Palm's Treo Capitalized On BlackBerry's Patent Fracas

By Pui-Wing Tam

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(See Corrections & Amplifications item [below](#).)

Late last year, Joe Beery, chief information officer of US Airways Group Inc., began looking for a new wireless email device. While his company had deployed more than 300 BlackBerry gadgets to its top executives, Mr. Beery wanted to evaluate alternatives, particularly since BlackBerry maker Research In Motion Ltd. was embroiled in a nasty lawsuit that threatened to shut down its email service.

So Mr. Beery turned to Palm Inc.'s Treo smartphone, which combines a cellphone with wireless email capabilities and other applications such as word processing. Within a few weeks, Mr. Beery had given up his BlackBerry and switched over to the Palm device. And while he has no plans to eliminate the BlackBerry from US Airways, the CIO now counts the Treo as another option for the airline.

"I find the Treo is more usable than the BlackBerry," Mr. Beery says. "It's really the only other option we saw on the market."



Palm is heavily advertising its Treo smartphone.

Customers such as Mr. Beery are now helping Palm's Treo expand beyond its niche, making it a mainstream competitor in a growing wireless email market long dominated by the BlackBerry. Over the past six months, Palm has capitalized on customer interest by reaching out to software partners such as Good Technology Inc. to launch a free 45-day trial program of its Treo, and ramping up its marketing with a tactical advertising campaign.

While the BlackBerry lawsuit is settled, corporations say the episode made them realize they need a contingency plan in case the BlackBerry is ever shut down. Palm, of Sunnyvale, Calif., has tripled its corporate sales force over the past year to work with carriers and to talk to more corporations about the Treo.

The result: at least 1,500 new inquiries about the Treo in the past few months from corporate customers, resulting in 600 free trials, Palm says. In total, Palm says it has more than doubled its number of sales leads since October.

"The doors have been opening," says Ed Colligan, Palm's chief executive. At a November staff meeting, Mr. Colligan says he told his staff to "step things up. We have to go back and knock on doors and respond as fast as we can."

The Treo is catching up to the BlackBerry by some measures. BlackBerrys currently outsell Treos by two to one, but analysts say many BlackBerrys go to existing customers who are upgrading from old devices. Meanwhile, the Treo, which is still too new for many upgrades, is sold primarily to new customers.

In the quarter ended in late November, Palm sold 602,000 Treos, nearing the 645,000 new subscriber accounts that RIM signed on in the same period. And when Palm reports fiscal third-quarter earnings today, analysts project the company will easily double its Treo sales from 279,000 in the year-earlier quarter. Internally, Palm executives say they believe that the Treo will outsell BlackBerrys by the end of this year.

But Treos won't overtake the BlackBerry without a fight. Earlier this month, RIM settled its patent lawsuit with NTP Inc. Since the \$612.5 million settlement, RIM has gone on the offensive with full-page newspaper ads to reassure customers it hasn't faltered. Some analysts say there have been few, if any, customer defections because of the lawsuit, and they add that BlackBerry remains a popular and practical device. "RIM's incumbent position is defensible," Andrew Lee, an analyst at Toronto-based TD Securities, wrote in a report this week.



Ed Colligan

"BlackBerry is widely recognized as a full-blown, proven and unmatched wireless platform," says Jim Balsillie, co-CEO of RIM, in Waterloo, Ontario. "We won't rest on our laurels."

And Palm faces an increasingly crowded marketplace. Giant tech companies such as Nokia Corp., Hewlett-Packard Co. and Motorola Inc., with deep pockets and impressive marketing muscle, are unveiling their own smartphones. Indeed, Palm is a relative minnow, with annual revenue of less than \$1.5 billion. It had a 4% slice of the world-wide converged mobile-device market last year, lagging behind RIM's 7% share, according to research firm IDC.

Still, Palm is in a plum position. Many of the competing smartphones from Nokia, Motorola and others haven't yet hit the market or are just reaching store shelves now. But the Treo, launched by hand-held device maker Handspring Inc. in 2001, has a proven track record. Palm, which acquired Handspring in 2003, has in recent years enhanced the Treo with brighter screens and new software. In January, Palm introduced a Treo that runs Microsoft Corp. software; the device can even work with RIM's BlackBerry Connect software, through a deal between the companies last year.

"It's hard to find a BlackBerry alternative that is tried-and-true and tested," says Kevin Burden, an analyst at IDC. "But the Treo is known."

Another factor is that users have tended to favor the Treo more for both phone and email service than some bulkier models of the BlackBerry, though some of RIM's models also double as cellphones. "I now use my Treo as a cellphone and for email," says Mr. Beery of US Airways. "So I just carry the Treo today."

At Palm, the attack plan to exploit RIM's woes was formulated late last year. In August, Palm worked with software partner Good to set up a free 45-day trial of their products. Under the program, companies can test Treos along with Good's wireless email software as a free alternative to the BlackBerry without signing any complicated paperwork. As RIM's litigation troubles heated up, Palm and Good heavily publicized their free trials late last year in ads that asked if BlackBerry users were "Feeling Exposed?" and by setting up Internet seminars that corporations could log on to to see a product demonstration.

Palm also ramped up other marketing tactics. The company launched a program last year so consumers could trade in their old wireless email devices in return for credit toward buying a new Treo. In late January, Palm sent out 100,000 direct-mail fliers advertising 21 reasons to buy a Treo to top executives across the nation. Palm also stepped up its advertising -- while it usually takes out just a handful of full-page newspaper ads each quarter, the company ran dozens of ads over the past few months.

Eugene Stein, chief knowledge officer at New York law firm White & Case, is one corporate tech purchaser helping Palm take on RIM. While his firm has deployed more than 2,000 BlackBerrys over the years, Mr. Stein began evaluating the Treo last August.

Mr. Stein asked eight staffers to test the Treo. A few of those workers opted to keep the Treo, he says. Now some 85 White & Case personnel carry Treos and the device

has become the backup wireless email gadget for the law firm. "Now we have a lot more options, which is nice," Mr. Stein says.

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Corrections & Amplifications:

Under a deal that Palm Inc. and Research in Motion Ltd. signed last year, RIM's BlackBerry Connect software will work with Palm's Treo 650 smartphone when the software becomes available in the middle of this year. Users of the Treo 650 can download the software when it becomes available. This article on Palm incorrectly implied the RIM BlackBerry Connect software was already available for all of Palm's Treo devices.