



Take Stock – The BIG Difference Between BlackBerry Ltd and Apple Inc.

Description

Take Stock is the Motley Fool Canada's **free** investing newsletter and is distributed weekly. This edition was sent to our followers yesterday. To have future editions delivered directly to you, simply [click here now](#).

Dear Fellow Fools,

There was a time when a week like this would have been like two Canadian teams going head to head in the Stanley Cup Finals for the Canadian equity market.

Former market darling, Research in Motion, er, **BlackBerry** (TSX: BB, NASDAQ: BBRY) announced a brand new product yesterday and tomorrow, is set to reveal its second-quarter results for fiscal 2015. Five to ten years ago, events like these would have had investors salivating at the prospects of the riches that were about to be bestowed upon them.

Today, such things are essentially shrugged off by most outside of the Canadian market, and skepticism has handily taken over in place of the optimism that used to exist.

And after the past couple years, this skepticism is fully warranted. What a run BlackBerry has had! The company has seen senior management turnover, massive losses, layoffs by the thousand, and a cash drain that would have put a lot of companies out of business. Not to mention product flops, asset impairment (both tangible and intangible), a failed attempt to sell the company, and on and on the list goes.

Yet, here we are with BlackBerry back in the headlines, and by at least some accounts, bringing another very respectable product to market.

The company released its new device, the "Passport", yesterday and the reviews that I took a peek at make it sound pretty solid. I recall, however, there were a collection of very good reviews for the company's last new generation device, the BlackBerry 10, which has largely gone on to be a flop. And, who can forget the Playbook, BlackBerry's foray into the world of tablets. Yikes!

Perhaps the Passport is a great piece of technology, but time will tell whether or not the market latches on.

In the meantime, we're still looking at a very wounded company – yet, one that shows signs of at least having patched the wounds, largely by taking significant costs out of the business.

According to Capital IQ, for the second-quarter results that are set to be released tomorrow, analysts are expecting earnings per share to check in at a normalized loss of \$0.17 on revenues of \$948 million.

Aside from its product offering, what's perhaps most important to BlackBerry's business in the short- to medium-term is that it has time to continue to pick up the pieces and cobble them together into some sort of a viable entity. The only way that this will occur is if it keeps its financial risk in check. Cash flow numbers are potentially the most important to BlackBerry at this stage, and something that we all should have an eye on in tomorrow's release.

That company from Cupertino

BlackBerry's CEO, John Chen, has indicated that the company needs to sell 10 million smartphones annually to break-even on the company's device business. With just 1.6 million sold in the quarter ended May 31, it has got a long way to go on that front.

This is in stark contrast to **Apple** ([NASDAQ: AAPL](#)), which has also just launched a new product and happened to sell (put your pinky close to your mouth for the full effect)... *10 million* units in the first 3 days after its release.

There's another number to let sink. Equally astounding!

The story is well known, but to quickly rehash — BlackBerry used to own the market for “smartphones”. However, as has happened so many times in the world of technology, BlackBerry was overtaken by a superior product, the superior product captured the imagination of the masses, BlackBerry couldn't keep pace, and is now but a shadow of what it once was.

More to it than just products

From a product standpoint, BlackBerry has no doubt closed the gap. The list of features that are included in the new Passport — heck, any of the company's phones — is a mile long, and there is potentially a very reasonable sized amount of interest on the enterprise side of the industry. By all accounts, BlackBerry is still dominant when it comes to network security.

It's the consumer-oriented side of the business that's gone, probably for good.

Apple first began to dominate this portion of the industry thanks to its innovative product(s). Apple is likely to continue to dominate because of the strength of the business that the company has built to support its innovative products.

You see, Apple has something working for it on the consumer side that BlackBerry, or any of its competitors, have not been able to establish, at least to the same extent.

Sure, Apple keeps cranking out cool gadgets, but underpinning it all is a very powerful ecosystem. In business terminology, it's what is known as a "network effect".

Network effects exist when a good or service becomes more valuable as more people use or adopt it. This is exactly what has taken place with Apple's products. As more people have adopted them, the more services they've offered, and the more powerful the business has become. Consider the App Store, iTunes, iMessage, Facetime, and Game Center – all illustrate the power of a network effect.

There's also the network effect that takes hold once an individual buys a single Apple product. If that product is an iPhone, for instance, all of a sudden, when that person needs a tablet, an iPad begins to make a lot of sense, and a new computer – how about a Mac? Suddenly, your household is dominated by Apple products and it becomes very hard to break free.

This is why, while Apple's iPhone 6 captured the most attention, the Apple Pay service that was also announced a few weeks ago is potentially the more significant of the two. Once you begin paying with Apple Pay, will you ever want to stop? The company bets the answer is a resounding "NO!"

The Foolish bottom line

I certainly hope there's a light at the end of BlackBerry's tunnel. It's a Canadian legend and it'd be a shame if it were to disappear.

However, from a business perspective, without establishing some kind of competitive advantage (a category under which network effects fall) outside of superior network security, success is going to be difficult for BlackBerry. The past has demonstrated that network security alone is not enough. As it stands, Apple remains far superior when these two are stacked against each other and this is unlikely to change – not so much because of the products, but because of the difference in business models.

Though we have not recommended either of these companies in our members-only *Stock Advisor Canada* advisory service (which I run), we have recommended plenty of businesses that benefit from the same kind of network effect that has helped carry Apple to such dizzying heights. Such a quality is rare, but when you find it embedded within a company, it's a good idea to dig in extra hard as you may be looking at a real, long-term winner.

Foolishly yours,

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