

## The Sunday Brief: The Guard Changes

Greetings from Kansas City, where the snow doesn't seem to ever stop. However, rough sledding is not confined to the chilly Midwest – we have a bevy of changes occurring in Silicon Valley to deal with.



First, Steve Jobs announced Monday that he would be taking a medical leave of absence. While Apple has assembled a top notch team headed by Tim Cook, the loss of Steve Jobs cannot be ignored. They have an all star Board that has dealt with two previous medical leaves. They are riding the crest of successful iPhone, iPad, and Macintosh product lines. They are worth \$60 billion more than Microsoft, \$100 billion more than Google, have no debt, and amassed \$60 billion dollars in liquidity. The iTunes store just passed 10 billion downloads. They have no difficulty hiring the best talent, which perpetuates the success. While it's a sad situation, does it matter?

In a word, yes. Steve Jobs became the thought leader for Apple. He set the strategy. He saved the company. He was there in the beginning. Frankly, there is no one on this earth that can fill his shoes. He's a one of a kind.

How will Apple cope? They will continue doing what they do best – generate extremely well designed products and services. They will likely partner more, and make their core software an element of others' products. They will extend the frontier of the iPad as the category pioneer that it has become. And likely and a few more jabs on Google with former Board member Eric Schmidt's movement to the Executive Chairman suite.

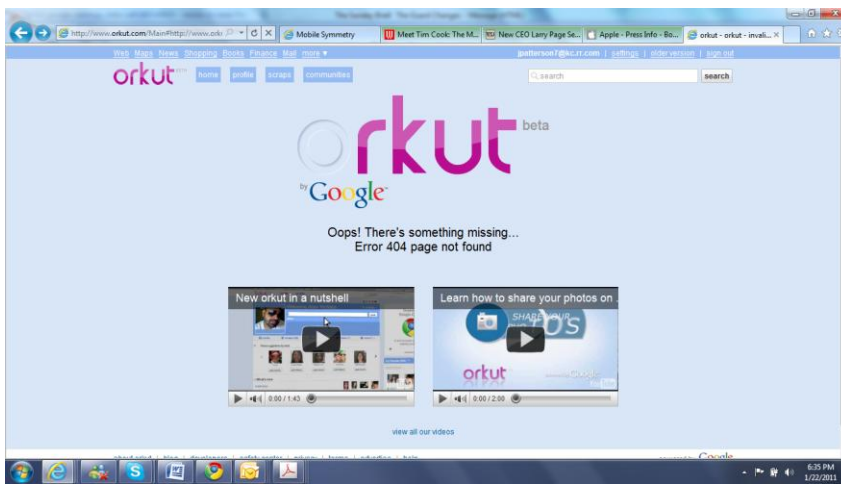
The question on everyone's mind is "Can Tim pull off his own "iPad" inception-to-launch product introduction?" No doubt he is a terrific operator, but can he establish and execute the vision necessary to grow the next \$100 billion of shareholder value?

I think he can and will do this, and precisely because he isn't Steve Jobs. Tim is a competitor like no other. He's a design freak, and he thinks about process efficiency, about the supply chain, about the retail stores. He hates to make them, but he learns from his mistakes. If the words "end to end" could describe an individual, it would be Tim Cook. Kind, but relentlessly impatient. A constructive change given the unfortunate circumstances.

Contrast this transition with the announcements at Google this week. Like Apple, Google had terrific earnings and cash flow. They grew their net cash to \$32 billion (compare to \$320 million at the end of 2003), spent over \$1 billion on R&D on 4Q 2010, and invested \$2.5 billion in capital in the quarter (more than Sprint's entire 2010 capital plan). They have an adjusted operating margin of 40.2%. Android is humming, the economy is recovering,

digital is the new platform, and Google is quickly emerging as a competitor to both Apple in mobile and Microsoft in enterprise software. Things could not be better – right?

Well, kind of. Based on the coverage of Google's changing of the guard, I think that they will have a tougher transition.



Unlike Apple, Google is heading back to the founders to solve their next generation of problems. The chatter of “more products, faster” is familiar to many in the software community and cited as one of the reasons why Larry Page is becoming CEO, but the vision must be tighter. Unlike Apple, Google listens to the chatter. The sequence of coveting thy neighbor’s Groupon franchise, trying to buy them, and after getting rebuffed introducing Google Offers is a classic example. So is Orkut, their failed social network experiment (I have posted a 404 page not found error so my team will know that even Google can have production errors).

Cash is actually a problem for Google. Because they have cash, they may make investments in failing projects until they win (brings back memories of Microsoft, AOL, Xerox, IBM, Digital Equipment Corporation, and even AT&T). They could easily blow \$10 billion over a few years trying to create a #2 to Facebook, when the garage innovator could create 80% of it for \$5 million.

Google has no debt. They have no difficulty hiring young, aspiring programmers, They were recently ranked #4 in the best companies to work for by Fortune magazine (Apple, HP, Oracle, Verizon, AT&T, Comcast and Sprint did not make the top 100). They invented a car that drives itself, for Pete’s sake!

Despite all of the success, the next decade is not the last one. The hunger of the start-up (as one of my VC friends puts it, the “boil in the belly”) cannot occur when the cash coffers are full (trust me on this one, and if you’ve been there, you know this feeling – Google projects are not feeling the boil). The transition required for Google is cultural – keep the excitement of curiosity, but focus on 3 to 4 items (Android needs to be one of them). Lose the covetousness; instead, enable the next 1,000 species of the Internet to grow and flourish. Be the global leader of the Internet, but don’t let the Internet be Google’s “walled garden.”

Apple’s and Google’s problems are significant, and they share one positive trait – very strong Boards. Hewlett Packard, in contrast, decided to replace four of their Board members this week with five. A new Board, CEO and Chairman in less than five months – the most for a company in recent memory that was not plagued by an accounting scandal. A quick chronology for those who have not been following:



**August 2010:** Mark Hurd resigns under scandal. HP raises full year guidance for the year.

**September 2010:** Mark Hurd is appointed as co-President and named to the Board of Oracle.

**September 2010:** Long-time SAP executive Leo Apotheker is named to replace Hurd. Former Oracle President Ray Lane is named as non-executive Chairman of the Board.

**November 2010:** Oracle wins a \$1.3 billion jury verdict against SAP for software piracy and conspiracy (this presumably was under Mr. Apotheker’s watch).

**December 2010:** SEC launches formal investigation into whether Mark Hurd shared sensitive information about HP’s potential acquisition of EDS while he was CEO/ Chairman.

**January 2011:** HP announces the departure of four Board members, replacing them with five.

A quick summary of who’s remaining, leaving and incoming:

**Remaining (8):** Raymond J. Lane (Kleiner Perkins), Marc L. Andreessen (Andreessen Horowitz), Léo Apotheker (HP), Lawrence T. Babbio, Jr. (Warburg Pincus and Verizon), Sari M. Baldauf (Nokia), Rajiv L. Gupta (Rohm and Haas), John H. Hammergren (McKesson), G. Kennedy Thompson (Wachovia).

**Departing (4):** Joel Hyatt (Hyatt legal services), John Joyce (Silver Lake Partners, IBM), Robert Ryan (Medtronic), and Lucille Salhany (JH Media)

**Arriving (5):** Shumeet Banerji (Booz & Co.), Gary Reiner (GE), Patricia Russo (Alcatel-Lucent), Dominique Senequier (AXA Private Equity), and Meg Whitman (EBay)

This Board will certainly be different, but will it be stronger? HP has a strong and extremely broad product line that is well positioned for an economic recovery. They have a decent balance sheet, have made several strategic acquisitions in 2010 (3PAR being the most prominent), and repurchased over \$11 billion in stock in the last fiscal year. They generated \$126 billion in 2010 revenues. This was the transition year.



HP is clearly positioning itself for growth; will it implode under its breadth? Can it be the GE of tech for the next decade? How quickly can the culture change to meet these new demands (and, more importantly, does it need to change)? Can the Board be the influencer?

I am cautiously optimistic for several reasons. First, HP continues to have a deep bench with a sales focus. Second, the Board now contains several global influencers who will help direct growth more broadly. This is an engaged Board. The last is the chart to the right. HP has nowhere to go but up from this point. The acquisitions that they made will have an impact on the bottom line faster than most expect. And HP's services arm can retool and attract talent that will reinforce their legacy of software delivery.

It's not a slam dunk, and expectations have been set low. Oracle and IBM are not experiencing the same turmoil and have a lot of talent. Microsoft is recommitting to business (again). A united and inspiring Board provides the engine.

Three different headlines drove technology this week – a founder departs with an orderly transition, another founder returns with an unpredictable transition, and at the last a transition of both executive and Board ranks with no founders to guide or disrupt. While none of these directly involve AT&T, Verizon, Sprint, Comcast, Time Warner Cable, or T-Mobile, the transitions directly affect their futures. The secondary effects of any Apple, Google, or HP/ Palm activities are significant to the communications industry.

Now for ~~Five~~ Six You May have Missed:

1. [Verizon sues the FCC over the new Net Neutrality rules](#). I predicted February, and Verizon beat me by a month. The summary in the link leads me to believe that they will win.

2. [Social media under attack](#). OK, it's kind of a fluff piece, but after the viral video of the [lady walking into the fountain while texting](#), it's a worthwhile read. BTW – the mall where this occurred (the Berkshire Mall) was one that I cruised as a teenager in Reading, PA. I've fallen into this fountain myself, but that was before texting, email, cell phones, You Tube and Big Brother's security cameras (thankfully!).
3. [The Comcast/ NBC Universal transaction was approved by the FCC this](#) week. Maybe the article called "The Decade of C" really stood for Comcast. Look for more on this after Comcast's earnings announcement.
4. Sprint announced that after January 31, all smartphone customers will be paying more for data. Here's [Wired's take](#) on the increase. Sprint also made some small [changes to their Premier handset program](#), which, even with the changes, is the best loyalty program in telecom.
5. [T-Mobile hosted an analyst day](#). Humm's plan: 1) Double down on Android (good move); 2) reduce churn while also reducing customer service costs (brings back the memories of when Sprint PCS tried to do that in 2004-2006); 3) More Wholesale/ MVNO; 4) More business-to-business distribution; 5) deploy an all IP network. Sounds a lot like the Hesse plan – maybe you ought to talk...
6. [Google Voice is actively getting in the number portability business](#). Look out landlines – here comes Google Voice.

And one: Yes, [I joined the Board of Sequans](#), the baseband chipset provider for the HTC EVO, HTC Shift and other devices. I am very excited to advise Georges Karam and his team as they prepare for their next round of growth.

Have a great week everyone! Keep those comments coming. More on Mobile Symmetry next week.

Jim

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