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## Tough Call

9 October 2008 [Ed Colligan](#)

With the fast-selling Centro and upcoming Nova II operating system, Palm's president and CEO Ed Colligan is hoping to turn around the struggling handset maker. Barry Mansfield meets the man ringing the changes.

Palm veteran Ed Colligan is no stranger to the choppy waters of the handheld device market. Just a year ago the Nasdaq-traded mobile pioneer seemed a world away from reclaiming the glory of its 1990s heyday; after struggling through a number of setbacks, including buggy software, retail store closures and product delays, and amid speculation of a tie-up with Motorola before the US giant itself hit hard times, the company's future looked bleak, with Colligan's job thought to be at risk.

However, this was all before the release of the Centro – Palm's \$99 cut-price rival to the iPhone and Blackberry. At the close of July 2008, Palm celebrated the two-millionth Centro sale, hitting that landmark in half the time it took to shift the first million. Colligan calls that "momentum". In addition, the company shipped a record 738,000 Treos smartphones in the quarter ending March, representing a 30% increase from the previous year, and a 20% jump from the previous quarter.

Now Colligan is planning for the forthcoming all-new Palm OS, codenamed Nova, rumoured to be built around Linux. Colligan prefers the working name of "Palm OS" or "Palm 2.0" and describes it as a "next-generation operating system with enhanced capabilities, driven around the internet and web-based applications". Industry observers expect a modern take on the original OS, as well as a revisiting of the strategy that saw Palm create everything from the OS to the handhelds. It worked to superb effect for Palm in its early incarnation, and it's a formula that works efficiently for Apple today.

Palm underwent a transformation during 2007 with new faces on the board, Roger McNamee and Fred Anderson, plotting its course. June saw Irish rock star Bono's private equity firm, Elevation Partners, pledge \$325m in capital for a 25% stake in the firm, determined that the embattled handheld pioneer should successfully complete its transition from the PDA days to a smartphone-centric future.

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"The Centro, to a large extent, is a marketing exercise," admits Colligan. "There's not a lot of new technology in it. But we did a good job of packaging it, positioning it at the right price point to the right customer set, to make it successful. Those are actions you have to take when you're in the middle of reinventing the technology side of your business."

Colligan says Palm is still in a time of transition, and the company's figures reflect that; in June this year it posted Q4 earnings – revenue fell 26% to \$296.2m from \$401.3m on weak smartphone sales. Palm is in good company, though – even super-profitable Nokia has been feeling the pinch in some markets, falling short of targets for the first quarter and seeing its shares fall more than 10%.

Despite total sales being up 28% to €12.6bn in the first quarter ended March, and net profit growing 25% to €1.2bn, Nokia's US sales suffered far worse – falling 45.8% year-on-year, from 4.8 million handsets in Q1 2007 to 2.6 million in Q1 of 2008.

Tim Beyers at The Motley Fool money website describes Colligan as "a long-termer who appears to be genuinely passionate about the business, but has a poor track record for encouraging innovation." According to Beyers, the numbers suggest he'll need "at least a Treo-sized home run to turn the company around. Centro, good though it may be, at \$99 doesn't have the pricing power to fill Palm's coffers."

However, the innovation issue is precisely why Palm has added fresh blood in recent years; executive chairman Jon Rubinstein and senior vice-president of product design Mike Bell both joined from Apple. Colligan himself seems to be aware of the Centro's stop-gap role. He has acknowledged that the average selling prices of smartphones have declined, which he says the company had anticipated, and expects to continue.

#### Back on track

Colligan's career path has taken many unexpected turns so far. He was one of the three co-founders of Palm Computing in 1992, quickly developing a reputation for his strategic marketing savvy and bolstered by the business brains of Donna Dubinsky and the inventiveness of designer Jeff Hawkins, a cooperation that saw the birth of the iconic Pilot and PalmPilot PDAs.

In 1998, the trio parted company from Palm to form Handspring, which conceived the modern smartphone in the shape of the Treo, before that company was itself acquired by Palm in 2003 – just as the handheld market began to slow.

Confusingly, at around the same time Palm renamed itself PalmOne and spun off its software division. At PalmOne, Colligan found himself at a familiar, but new company. Given the task of heading up the mobile unit, Colligan picked up where Handspring left off – developing the Treo device and signing deals with key operators. In 2004, he was appointed as president.

Against the rise of RIM's Blackberry and the huge popularity of Nokia's N and E Series business phone range, Palm has been tainted by a perception that it has lost its way. In September 2007 it ditched the Foleo, a Linux-based device with its own development platform, with the cancellation shaving "less than \$10m" from its earnings. But despite constant scrutiny, Colligan insists he doesn't feel the pressure from Wall Street. "I think the quarterly cadence of Wall Street is important. It keeps you on task. You should be delivering against that," he says. "At Elevation, McNamee terms it "midlife venture capital". They're not looking for a small return. They want to turn things around and they knew they had to be a long-term shareholder to make that happen. The macro picture of this market is huge."

Colligan admits that his vision for Palm is of a company that offers an integrated package, closely echoing the Palm OS and the original Palm Pilots. That means taking ownership of the operating system, the hardware, synchronisation and desktop tie-in. "We believe it'll be a breakthrough in its execution, and we're working on some very exciting new devices to go with it".

While Palm works out its place in the smartphone market, this older OS will continue to be offered in low-end devices typified by the Centro. The 'next generation' Palm OS will slot in between the Centro and Treo lines under a new 'prosumer' brand that's yet to be decided, Colligan explains.

In 2009, Palm will have to hold its own against Google's open source platform, Android, and improved products from Apple and Blackberry. However, given the firm's rich history – with 15 million customers and 50 million devices around the world today – it is difficult to write off Colligan's chances of achieving the comeback he is striving so hard for."



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