

The rise and fall of iridium essay sample



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Questions

1. Who was to blame for Iridium's failure? Why? At what point could you have known Iridium would fail?

2. What is your evaluation of Iridium's system design? What impact did the choices that were made have on subsequent evolution of the venture?

3. What is your evaluation of Iridium's organizational design? What changes could you have made to increase the probability of Iridium's success?

Q1. In the case of Iridium several parties are to blame for the failure. They are:

Dr. Edward Staiano the former CEO of Iridium was responsible for Iridium's development in a significant way. When he came from Motorola, the company offered him stock options besides his fixed salary to create a financial incentive. With the stock options he could only have made money personally if the project succeeded so he seemed to be blind for any negative development concerning the result of the project. The fact that he was a very overambitious character and personally connected to the project in public, he stuck to the untenable business plan. Parallel to this he made the mistake to underestimate the development of the cellular telephone market and overestimated the market for satellite phones(He predicted 500.000 subscriber at the end of 1999). In spite of supply problems and a lack of testing he launched the project, so even if some of the few customers were willing to pay 3000\$ for a handset, they couldn't get one or service didn't work properly. All these factors indicate so called "escalating commitment".

Motorola Executives Robert Galvin, chairman of Motorola at the time was the one who initially supported the project. Due to recent losses he, together with his son Christopher, saw Iridium as a potential symbol of Motorola's technological prowess for the entire world to see, and a good investment opportunity without considering the high risks. Motorola's history is full of very prestigious and innovative projects so it was very important for the company to lead the project to a successful ending. They believed the high technological standard of the system would ultimately attract subscribers although their handsets for example were more expensive and bigger than phones of competitors (see Q2).

Business Partners Another important party which is to blame for Iridium's failure are their business partners. They controlled marketing, pricing and distribution, also did they fail to set up sales teams, marketing plans and distribution channels and didn't realize they were behind schedule.

Manufacturers like Kyocera were unable to supply the few subscribers with enough handsets, which ended in a great loss of reputation. Furthermore the pricing was too high to convince more than half a million people to buy it.

Board of directors The members of the executive board were almost all part of the Iridium team so they didn't have an outside view to analyze the situation rationally (see Q3).

There were 2 stages in the project. The first stage started in 1987 with the development of the technology for the satellite system by Motorola and ended in the year 1996. After the first stage which screened 200,000 people, interviewed 23,000 people in 42 countries, no additional market

research was done. The second market research would have shown the enormous growth of the cellular market in the 1990's[2][4] and a fast decreasing market for themselves. So the second stage wouldn't have been started and a huge sum of money for building and launching the satellites could have been saved.

This is the time you could have known that this project would fail.

Q2. The technology behind the Iridium system was breathtaking. It was one of the biggest challenges of the time but ended in one of the 20 largest bankruptcies in U. S. history. Decisions made on technological issues surely were factors that influenced this devolvement.

Satellites The Iridium system consisted of satellites traveling the earth in low orbits [1] and providing worldwide coverage [3]. Because of the low height of the satellites(400 to 450 miles above earthsurface) they could only cover small cells, which made it nessasary to have 66 satellites surrounding the earth. This lead to significantly increasing costs (about 5 \$ billion). Because Iridium needed such a great number of satellites they developed assembly lines that allowed them to produce satellites at one tenth of the original production costs and made it possible to finish a new satellite every four and a half days.

Handsets The Iridium phones didn't need to be as big as they would have been with GEO satellite but still had an enormous size [5], which made it really hard to market them. Furthermore the long antenna had to be pointed directly and in an open-sight way at the satellites and according to that the phones didn't work in closed buildings, moving cars or undergrounds. These

facts didn't exactly provide the kind of flexibility that was needed by the potential target group, traveling business people. The handsets were planned to cost 3000 \$ with a 2-8 \$ per minute calling fee , this was a lot more expensive than cellular telephones.

Competing technologies With the rapid and unexpected development of the cellular network, the Iridium technology became obsolete in areas covered by terrestrial mobile telephony. Although Iridium offered a GSM service for roaming into cellular networks, it was still more expensive than the regular cellular charge, so the target group shrank to people who were in the few regions not covered by cellular network and needed a communication device. Of course this target group was just a small part of the original target group predicted by the Iridium CEO.

The time needed for the development of the new technology was too long. By the time Iridium was launched cellular phones were available at low cost, and cellular coverage was sufficient.

Q3. One of the biggest problems in the organization of Iridium was that from the 28 directors of the board 27 were either Iridium employees or from partner companies. This lack in corporate governance resulted in a missing an objective view on the company and its strategy.

To finance the project Iridium started a partnership with 18 companies. These companies invested 3.7 \$ billion and got equity and seats in the board. Because of the size of the board of directors key decisions were hard to make and processes to lead the company slowed down.

If a supervisory board with representatives from science and politics for example would have existed, changes like those in the target market could have been detected earlier. Another result of this structure is the fact that it was hard for Iridium to apply pressure on business partners if they had representatives in the board. Pressure on the other hand was probably sometimes needed, for example when partners were slow to set up the required infrastructure.

Appendix:

[1]

The 66 satellites in 11 orbits

[2]

Development of cellular telephony in the U. S.

[3]

An iridium satellite covering several cells

[4]

Worldwide devolvement of cellular telephony

[5]

Iridium satellite phones and pagers

Sources of information:

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<http://mba.tuck.dartmouth.edu/pages/faculty/syd.finkelstein/articles/Iridium.pdf>

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