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PalmPilot Has Cult Following

Janet Rae-Dupree

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Nov. 10--It was an inauspicious beginning. Struggling for survival, the heads of a Silicon Valley start-up decided to bet the company on an unassuming six-ounce device they first modeled from a block of wood.

Today, 20 months after its initial sale, the PalmPilot has single-handedly energized the market in hand-held computers -- a concept thought to have been dead on arrival.

This dinky electronic organizer with the 2 1/2-inch green screen was born of one man's hubris that he understood the hand-held device market better than the corporate giants that had tried in vain to crack it.

But that hubris evidently was warranted. Well over a million PalmPilots have been sold since the spring of 1996. They make up an estimated two-thirds of the hand-held electronic organizers in use in the United States today.

The Pilot has also attracted a cult following not seen since the early days of Apple's Macintosh. And industry experts, many of whom had written off hand-held computing, now believe personal digital assistants could well become mandatory for mobile workers -- an appliance as ubiquitous as pagers and cell phones with the potential to replace both of them.

"It has almost this Zen-like, utterly simplistic feel," said Mike McGuire, Dataquest's senior industry analyst for mobile computing. "It has very focused functionality at a very reasonable cost. It's a magic balance point that they've achieved."

That achievement makes the story of the PalmPilot a classic tale of Silicon Valley entrepreneurship. In the face of consumer indifference, market naysayers and financial trouble, its inventors pushed their creation through a single-minded focus on what it should -- and should not -- be.

It was no easy job. Palm Computing Inc. founder Jeff Hawkins and Chief Executive Officer Donna Dubinsky had to turn their 28-person company on its ear to make the PalmPilot a reality.

In spring 1994, Los Altos-based Palm was just two years old. Originally created to provide software for what Hawkins believed would be a tidal wave of handheld computers, Palm's fortunes had faltered -- along with the industry's reputation -- as device after device stumbled shortly after coming to market.

Apple Computer's Newton, introduced amid much fanfare in early 1993, was among the first to arrive, and quickly fall. Its poor handwriting recognition quickly made it the butt of jokes, including more than a week's worth of derisive Doonesbury comic strips.

Next to arrive was the Zoomer -- developed by a six-company corporate committee consisting of Palm, Casio, Tandy, operating system software company Geoworks, financial software company Intuit and America Online. Despite making it to market in October -- plenty of time for Christmas 1993 sales -- the clunky, expensive Zoomer sold only 10,000 units by the end of January 1994.

Palm contributed software for a spate of other products from Sharp, Hewlett-Packard and others, but none fared much better than the Newton or Zoomer had. By some estimates, the industry had lost almost \$1 billion

developing various failed handheld computers by the end of 1994.

Hawkins had intended Palm Computing to be a supporting player in the hand-held market, but he began to bemoan the ability of device makers to produce a winning product.

"We couldn't get anyone to build the hardware we thought was required," he said. "We had thought it would be like the PC model -- hardware vendors over there doing their thing, software vendors over here doing what we do. But we concluded that we would go out of business if we relied on that model."

Hawkins had been arguing for years with hardware companies that they were making complicated devices with too many fancy features. But the common wisdom of the time won out: Hand-held devices wouldn't succeed, he was told, if they couldn't tap into networks. No one wanted a hand-held device without an infrared connection, he was told. Industry "experts" told him time and again that no one wanted such a device without a keyboard attached, or without the ability to use add-on memory or device cards.

By spring 1994, Palm had \$3 million in the bank -- some from software sales, much from start-up capital -- and no clear strategy for survival. Hawkins and Dubinsky met with Palm board member Bruce Dunlevie, whose venture capital firm Merrill, Pickard, Anderson and Eyre had contributed much of Palm's early funding.

What could they do, they moaned to Dunlevie, if the hardware companies wouldn't make a marketable device?

"Bruce said: 'Stop complaining about it. Do you know how to do it right?'" Hawkins remembers. "I said, 'Yeah, I do.' He told us to go back to the drawing board and do it ourselves."

Of the 28 employees at Palm at the time, only one -- Hawkins -- was a hardware engineer. And he had never undertaken anything of this magnitude before.

He started by measuring a few of his own shirt pockets and carving a small wooden block that would fit comfortably inside them. That block was amazingly close to the dimensions of the final product: 3.1 inches wide by 4.6 inches high by 0.6 inches thick.

Employees reported seeing him wandering down hallways, penciling letters on the wooden block's face, puzzling out how the "graffiti" data entry system he had developed years before might best function.

The rest of the board of directors "was incredulous," Hawkins said. "They thought the whole idea was crazy. Here's a little software company saying they're going to build the hardware and an operating system and the entire package all by themselves."

Dunlevie won his board colleagues' forbearance, telling them: "We could hang out and bleed to death, or we could bet the company on a riskier strategy."

Neither Dubinsky nor Hawkins wanted to hire any new employees to participate in such a gamble. So Palm contracted out the mechanical engineering, industrial design and some early parts of the software for the device. Dubinsky had code-named Touchdown.

Hawkins instituted four goals from which he would not waver:

-The device had to be tiny and "thoughtlessly" portable, hence the shirt-pocket size for which Hawkins aimed;

-- It had to communicate seamlessly with a personal computer, behaving more like an accessory to a PC than an independent computing device;

-It had to be fast and simple, Hawkins said, because its primary competition would be pen-and-paper organizers, not computers;

-And it had to sell for \$299 -- or less.

That last goal was a serious sticking point.

"Everyone wanted to put something else into it," he said. "Some people thought we were crazy for not having a (device cards) slot. Lots of people argued for infrared, but what would it be for? You could use it to transmit to a printer, but you don't print from a PalmPilot. You use your desktop computer for that."

He was fighting what McGuire calls "the kitchen sink syndrome" --the tendency in technological circles to add a feature simply because it's possible, not because a consumer won't buy the product without it. By the fall of 1994, Hawkins had clear specifications ready and a mock-up to shop around. Dubinsky set out to find a corporate partner and raise the \$5 million she believed would be needed to launch and properly market the device.

Radio Shack, still bruised by Tandy's failed attempts with the Zoomer, turned her down. Dubinsky eliminated any company with a competing product, ruling out Casio, Sharp and Hewlett-Packard. Lengthy -- and, for a time, promising -- negotiations with first a telecommunications company and then a personal computer company broke down over disagreements about who would control the final technology.

By August 1995, Hawkins was becoming anxious. Palm still hoped to introduce its new device in January 1996, but no agreements existed to finance the campaign.

Dubinsky asked U.S. Robotics whether the modem maker would invest \$5 million in Palm. Enthusiastic from the start, U.S. Robotics executives quickly turned the question around: Would Palm be willing to sell itself for roughly \$45 million in U.S. Robotics stock?

Ultimately, Dubinsky and Hawkins said, they made the decision that was best for the product -- even if it wasn't the best way to hang on to the future financial benefits of a winning device. Without the capital and distribution and manufacturing capabilities of a major partner like US Robotics, the PalmPilot would not have had a chance, they said.

"Regrets? Sure. Who wouldn't have some?" Dubinsky said. "But if you gave me those same circumstances and the same options again, I'd do it exactly the same way."

Industry analysts and the media saw the PalmPilot on schedule in January 1996. The devices shipped to stores three months later.

"The first few months were sort of flat," Dubinsky said. "I realize now that we were holding our breaths, waiting to see how the early adopters would vote. Those first buyers are almost always men between the ages of 35 and 45 making over \$100,000 a year who rate themselves as technologically savvy. If they buy it and don't like it, they toss it away and you're gone."

Evidently, the early adopters not only used the devices, but told a few friends. Holiday season sales soared; more than 350,000 PalmPilots were sold by the end of 1996.

A cult had been born.

"The minute I read about it, I knew I had to have one of those things," said Eric Martin, manager of network services for Harley-Davidson Motor Company. "By Day Four, my PalmPilot and I were attached at the hip. I was actively soliciting people to buy these things."

Users behave as if their PalmPilots are pets. They talk almost competitively about how much of the memory they've managed to fill with addresses and appointments, while sharing stories about new ways to use them, such as using the device's alarm in conjunction with the appointment calendar to remind themselves of upcoming birthdays and anniversaries.

At Shoreline Amphitheatre, where Silicon Valley audiences have demanded encores by flicking lighters on in the darkness, PalmPilot users with the backlit-screen model have waved their glowing devices in the air in lieu of a lighter.

"Just listen to the language people use to describe it. Susan's clutching hers and yours is nestled in your purse. People get emotionally attached to them," said Malcolm Colton, vice president of marketing for Oakland-based Cloudscape Inc., which is writing a database management system for the PalmPilot. "The user interface and the fact that you're handwriting into it, that creates an intimacy."

And that intimacy has created tremendous interest in the developer community. An informal count at the first PalmPilot developer's conference last month in San Francisco indicated that well over 200 companies are writing add-on software or creating special hardware to enhance the device. Dozens of products are already on the market.

Palm is welcoming such efforts enthusiastically.

"We're not trying to do this on our own. We don't think we can," Hawkins told developers at the conference. "That's why we're glad you're here."

Ironically, 3Com Corp. -- which bought U.S. Robotics in February -- wasn't certain that it wanted Palm to be part of the deal. Widespread rumors that 3Com was looking for a buyer for Palm last spring have died as both it and the entire computing industry stand back in awe to watch the PalmPilot's growth.

There are no guarantees.

Hand-held devices running the second version of Microsoft's Windows CE operating system will be coming to market in the next few weeks. Starfish Software and Franklin Electronic Publishers last month released a minuscule device called the Rex that carries thousands of addresses and schedule items in a package the size of a credit card at half the price of a high-end PalmPilot.

"I think the second- or third-generation Rex could probably give Pilot a run for its money, depending on whether Palm makes the Pilot any smaller," said Randy Giusto, director of mobile technologies for International Data Corp. "I've been carrying both a Rex and a Pilot for awhile now and they're both pretty useful."

Hawkins believes the PalmPilot must continue to expand the market to stay ahead of its competition. First up: The corporate market. 3Com licensed the PalmPilot to IBM, which now sells the devices to corporate clients as the IBM Workpad, an add-on accessory to IBM's popular desktop and laptop computers.

Next comes the so-called "vertical" market: Industries that use small electronic devices for everything from inventory and field dispatch services to parcel delivery and health care charts. 3Com last month teamed with Symbol Technologies Inc., an expert in handheld wireless communications, scanning, imaging and rugged computer designs. Symbol has promised to use the PalmPilot's technology to create smaller, lighter, simpler handheld computers such as inventory scanners and rental-car field return devices.

And just last week, PageMart and Motorola announced a new memory card for the PalmPilot that adds paging functions to the device. The pager card allows transmission of both numeric and text messages; any page that requires a schedule change transmits the new information automatically into the PalmPilot's calendar.

Palm won't discuss planned features for future models of the PalmPilot, but both Hawkins and Dubinsky are vowing to stay true to the original idea: Small, cheap, easy-to-use and possible to upgrade.

"We'll put more into the existing (product) over time and we'll look at reducing the (size)," Dubinsky said. "We know we have to stay true to the product, but make sure the product always evolves."

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