

Palm to Separate OS Platform Business

Ken Dulaney

Palm has made a positive, if incomplete, move to give greater independence to the group that licenses the Palm operating system (OS). The real change will happen when Palm completely separates the finances and facilities of the OS and hardware groups and makes independent stock offerings.

NEWS ANALYSIS

Event

On 27 July 2001, Palm announced that it will turn its Platform Solutions Group into a wholly owned subsidiary by year-end 2001. This subsidiary will continue to develop the Palm OS and license it to other hardware manufacturers. The subsidiary will continue to use Palm's infrastructure and staff.

Analysis

Gartner views this move as one more step in the direction that Palm needs to move to revitalize its leadership in personal digital assistants — separating into two independent units, focusing on the OS and the hardware. Gartner has advocated this approach as a way for Palm to allow both groups to maximize their effectiveness in the market (see *Gartner FirstTake* FT-13-3115 "Wireless Application Gateways Still Elude Palm's Grasp"). The hardware group needs more independence from the specific OS so that it can offer products with features and functions enterprises want to buy. Sometimes, the Palm OS platform does not have such features. Also, because the hardware segment commands more than 90 percent of Palm's revenue, that sometimes encumbers the Palm OS. The separation of hardware and software permits each group to begin to measure its goals and objectives in the way most appropriate for each type of product and to report financial performance in greater detail.

Nevertheless, simply by making it a subsidiary, Palm has not separated the OS platform group. It will continue to operate as part of the overall Palm organization. Moreover, as long as a single board manages the software and hardware, Gartner believes that the OS business will lack some viable options for growth. In Gartner's opinion, this situation makes a spin off of the software group a necessity. Palm's two groups need complete financial independence from each other to ensure that they can in fact act independently. Palm may still do this, but Gartner believes that enterprises will not see a dramatic change in the market dynamics of either group until it does.

Analytical Source: Ken Dulaney, Mobile Business Strategies

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