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The Morning Download: Fast Food Chains Stumble With Mobile

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Editor

The Morning Download comes from the editors of CIO Journal and cues up the most important news in business technology every weekday morning. [Send us your tips, compliments and complaints.](#) You can get The Morning Download emailed to you each weekday morning by [clicking here.](#)

Good morning. The initial forays into mobile apps by **Wendy's International LLC** and **Burger King Worldwide Inc.**, respectively, illustrate the difficulty of adopting business models to a more digital age. Fast food chains are trying to follow in the footsteps of **Starbucks Corp.**, which in 2011 introduced an app allowing customers to pay with their smartphones. Along the way, however, they've added complexity to a process that's supposed to be cooler, not clunkier.

Wendy's and Burger King require customers to provide cashiers with a numeric code generated by their apps — adding a cumbersome step in the purchasing process. The numeric codes are required to support a legacy process — drive-through window sales, which represent 65% to 70% of the respective companies' revenues. [Brandon Rhoten, Wendy's vice president of digital marketing, tells CIO Journal](#) the company doesn't want customers to hold their smartphones out their car windows to be scanned.

Technology can help companies function at a higher level. Boston Consulting Group partners Yves Morieux and Peter Tollman argue in their new book, *Six Simple Rules*, that technology can help alleviate the conflict, stress and dysfunction of contemporary corporate life. "Technology is on balance neither good nor bad, in itself. It depends upon how we put it to work," Dr. Morieux [told CIO Journal](#). The book was published at a time of growing frustration with technology. Limiting the use of technology isn't the answer, according to Dr. Morieux, because the underlying work doesn't go away. "We need to put IT in the center of business decisions," Dr. Morieux said in an interview. "IT is too often seen as a specialization, as opposed to the normal mode of modern management."

Verizon: third parties help identify breaches. Attackers are getting better and

Why Wendy's, Burger King Mobile Apps Aren't a Full Meal

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faster at what they do at a higher rate than defenders are at erecting new defenses, according to a new cybersecurity report from Verizon. What's more, third parties like law enforcement and threat researchers are still some of the most common ways firms learn about breaches, [CIO Journal's Steven Norton reports](#). "Third-party notification is more of a good Samaritan than a good security practice," said Jay Jacobs, a senior analyst for risk and intelligence at Verizon Enterprise Solutions and a co-author of the report.

TECHNOLOGY NEWS

Pure Storage investment would value the company at \$3 billion. Corporate-data storage firm **Pure Storage Inc.** is wrapping up negotiations for an investment that would make it among the most richly valued startups in the world, [the WSJ reports](#). The company aims to exploit flash memory technology in the realm of corporate data, which is more expensive than other storage methods but boasts faster data retrieval, through the use of software that compresses and eliminates duplicated data. The deal points to continued investor appetite for firms that seek to replace or supplement existing gear and software. As CIO Journal reported earlier this year, Pure is taking on giants such as **EMC Corp.** "There is a sea-change coming to the storage market. Flash is so much more powerful than disc, in terms of performance, energy conservation, space, reliability and simplicity," Pure CEO Scott Dietzen told CIO Journal. "We shrink the amount of data we need to store, compared to the disc array, by about six-fold. That allows us to close the cost gap. You can argue that flash is four times as expensive, but with six times more capacity, we are actually cheaper." The company [raised \\$150 million](#) last August.

Einhorn: yes, it's definitely another tech bubble. David Einhorn's hedge-fund firm **Greenlight Capital Inc.** told clients in a quarterly letter "There is a clear consensus that we are witnessing our second tech bubble in 15 years," [Bloomberg reports](#). The firm did not identify individual companies, but said that it is betting some may fall by at least 90% "if and when the market reapplies traditional valuations."

Low interest rates, slow economy may be inflating a tech bubble. Pension funds and rich individuals are struggling to find a place to park all the money they've been accumulating in recent years while the economy still moves ahead in low gear, and that may be the reason that market watchers are pointing to a new tech bubble inflating in Silicon Valley, [writes Annie Lowrey](#) in the New York Times. Still, it's different this time. Fewer tech firms have gone public during the current boom than the one at the end of the 90s, and investors are more wary, having been burned before. But sky-high valuations are having one clear effect: the price of entry is going up. Startup incubator Y Combinator is listing its entry-level investment from \$97,000 to \$120,000 for a 7% stake, citing the high cost of living in Silicon Valley, [Zoran Basich reports](#) for Digits.

Huawei: NSA spying won't hurt growth. China's second-largest telecommunications equipment maker said allegations that the U.S. National Security Agency had accessed its servers won't have a big impact on its prospects, [Reuters reports](#). Revelations about U.S. surveillance programs harmed some U.S.-based multinationals' business in China. **International Business Machines Corp.**, for instance, reported a 20% drop in earnings in China for the first quarter. But Huawei executive vice president Eric Xu told analysts "it does not have a big impact on business growth."

Chip designer sees smartphone recovery this year. **ARM Holdings PLC**, the maker of the 64-bit chip in **Apple Inc.**'s iPhone 5s, said smartphone demand would increase in the second half of 2014 as it reported smaller first-quarter profit growth, [Reuters reports](#). The end of 2013 was disappointing for smartphones sales, but ARM CFO Tim Score said demand increases were afoot.

Apple patches "triple handshake" crypto bug. Apple released patches for its iOS

mobile operating system and OS X desktop systems to repair a bug that made it possible to bypass HTTPS encryption and thereby allow “man-in-the-middle” attackers to exploit the “triple handshake” carried out when secure connections are made, [Dan Goodin reports](#) for Ars Technica. Just three months ago, a separate bug called “goto fail” also put iOS and OS X users in jeopardy.

Supreme Court appears uneasy with Aereo. Supreme Court justices on Tuesday expressed unease with online-video startup **Aereo Inc.**, but they also voiced concerns about the consequences of ruling for the broadcasters that are challenging the legality of the service, [the WSJ's Brent Kendall reported](#). After an hour-long oral argument, the outcome of the case appeared too close to call. Aereo is aiming to become a larger player in the market for Internet-based alternatives to cable television. The company's service allows its subscribers to stream their local over-the-air broadcasts to an array of electronic devices, and to record shows and watch them later. Chief Justice John Roberts voiced skepticism, saying it was built in a way specifically designed to get around restrictions in U.S. copyright law. He also said that one could view Aereo as fairly similar to an equipment provider that sells a consumer an antenna and a digital video recorder to make legal personal copies of programming.

AT&T, Chernin invest \$500 million in Netflix-style video streaming. **AT&T Corp.**, the nation's second-largest broadband provider and wireless company, is getting into the streaming business with a \$500 million joint venture created to acquire, invest in and launch a Netflix-style video streaming service, [Gigaom reports](#). As the television distribution model that's been in place for decades collapses, this deal marks the first time a big U.S. ISP has decided to go over the top with a TV service, according to Gigaom. AT&T is launching the venture with media and entertainment company the **Chernin Group**, and together they have planned to invest \$500 million.

Another sign of streaming's growth. **Vevo**, the online music video hub that is a joint venture of two of the world's biggest music labels, has seen a nearly 50 percent increase in the number of music videos streamed each month from its platform, [Reuters reports](#). The company, controlled by **Universal Music Group** and **Sony Music Entertainment**, hit a monthly average of nearly 6 billion views in December, a 46% rise from a year earlier, according to CEO Rio Carraeff. Vevo said about 65% of the videos are being watched on mobile phones.

Taxes depress Amazon sales. In one of the first efforts to quantify the impact of states accruing more tax revenue from Web purchases, researchers at Ohio State University published a paper this month that found sales dropped for **Amazon.com Inc.** when the online charge was introduced, [Bloomberg reports](#). In states that have the tax, households reduced their spending on Amazon by about 10% compared to those in states that don't have the taxes, and for online purchases of more than \$300, sales fell by 24%, Bloomberg said.

The Amazon phone: It tilts! More details of the Amazon's upcoming smartphone have been published, [according to the Verge](#). “After leaking the first photos of a prototype, [BGR is back today](#) claiming to have more details about Amazon's upcoming smartphone. That includes a deeper look at the unique gestures and tilt-based user interface made possible by the four infrared cameras on the front of the device,” the Verge says. Amazon's proprietary cameras and head-tracking system will work alongside various sensors to create a 3D effect as the device is shifted, according to the report.

Google ads will soon link inside mobile apps. **Google Inc.** said Tuesday said it will allow advertisers to [direct smartphone users directly to apps](#) installed on their devices, the WSJ's Rolfe Winkler [reports on the Digits blog](#). The move is an effort by Google to keep up with users migrating to mobile devices, where they spend most of their time inside apps, rather than surfing the Web. That shift is a threat to Google's cash-cow advertising business built on links pointing between web pages. The new ads are based on “deep-linking” technology that points to content inside an app, rather than a

Web page. Google has been experimenting with [deep links in its organic search results](#).

Tencent completes \$2.5 billion bond sale. Chinese Internet firm Tencent Holdings Ltd. sold \$2.5 billion in bonds Tuesday, its largest debt deal on record, [the WSJ reports](#). Investor demand was high, with \$12.5 billion in orders. The sale comes as Chinese firms increasingly look overseas for funding. Tencent has gone on an acquisition binge to help it compete with Alibaba Group Holdings Ltd.

Hortonworks Inc., a closely held big-data services company based in Palo Alto, Calif., named [Scott Davidson](#) as its first CFO. Mr. Davidson was previously CFO at Quest Software, which Dell [acquired](#) in 2012. Quest estimated the value of Mr. Davidson's golden parachute related to that merger would be \$2.3 million in a 2012 [proxy filing](#). The companies did not disclose 2013 compensation information for Mr. Davidson.

Review: Chromebooks mature into viable laptop alternative. Google's all-browser laptops may not have seemed worthy of consideration when first introduced five years ago, but the [WSJ's Joanna Sterns writes](#) that they've evolved into valuable machines. The screens are larger, their processors are more powerful, and the Web itself has advanced – and prices below \$400 are themselves tempting. A growing list of third-party apps even function when the uniquely all-cloud machine is offline.

EVERYTHING ELSE YOU NEED TO KNOW

China anticorruption campaign expands. China's Communist Party ousted Song Lin as chairman of state-run China Resources, after the party's Central Commission for Discipline Inspection said Saturday that it "suspected serious violations of discipline and law," [the WSJ reports](#). Mr. Song was accused of abusing his power in corporate dealings, including personally benefiting from a coal-mine acquisition, by a Xinhua reporter. But some analysts doubt professional misdeeds explain his firing. "This is not only about anticorruption, but also involves power struggle," said Zhao Xiao, an economics professor at Beijing University of Science and Technology.

Fed likely to cut bond buys and maintain rate flexibility. Federal Reserve officials are likely to adhere to their plan to reduce monthly bond buying to \$45 billion at their policy meeting next week, and also to keep their options open regarding future interest rates, the [WSJ's Jon Hilsenrath reports](#). Fed Chairwoman Janet Yellen said in New York last week that "the path of the economy is uncertain, and effective policy must respond to significant unexpected twists and turns the economy may take."

China manufacturing gauge remains weak. Stimulus efforts in China have yet to boost its economy, as the preliminary Purchasing Managers' Index registered 48.3 in April, up slightly from March but still signifying contraction, [Bloomberg reports](#). The yen weakened further against the U.S. dollar. Continued economic weakness would pressure Chinese leadership to go beyond the stimulus measures it has undertaken so far.

Steven Rosenbush contributed to this article.

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