The Nokia File

Introduction

The few pages below give a glimpse of an unfolding story in the boardroom of Nokia. We will be using the case study as part of our investigation of

a) The nature & purpose of marketing
b) The effects of good and bad marketing strategies

The Nokia case is not examined or assessed in any way; we use it purely as a background to allow us to test theories and accepted 'beliefs' in the real world.

Before the session, you might like to conduct some individual research on the internet and investigate what happened since the date of the case. There will be plenty of comments from the press and other 'experts', look at some of these and come to your own opinion of what brought Nokia (and Apple & RIM) to this position and what the different firms should do next.

I look forward to meeting you soon

Paul Fifield

Can Microsoft's Stephen Elop save Nokia from oblivion?

Nokia has brought in Microsoft business head Stephen Elop as its new chief executive, but can he make a difference as the company struggles to compete in the smartphone market?

Guardian.co.uk, Friday 10 September 2010 13.36 BST

Nokia board chairman Jorma Ollila, right, introduces new chief executive Stephen Elop at a press conference in Helsinki. Photograph: Mauri Ratilainen/EPA

Appearing on CNBC in July, Olli-Pekka Kallasvuo was in combative mood. The Wall Street Journal had quoted anonymous sources suggesting he would be sacked from his position as chief executive of the Finnish handset maker Nokia by August.

"Obviously there has been a lot of speculation on my position... This speculation is detrimental," Kallasvuo said. "It's not good for Nokia and I feel it needs to be brought to an end one way or the other."

This morning, it ended. Kallasvuo, appointed in 2006, is out, to be replaced from 21 September by Stephen Elop, one of Microsoft's five division chiefs, in charge of its business division.

Nokia's decision to replace its chief executive with a non-Finn – and a Microsoft executive at that – is a make-or-break decision for the company's future in the fast-growing smartphone market. After years of untroubled growth in which it has dominated handset sales and made handsome profits, the wheels abruptly came off when first Apple with its [iPhone](#) and Research in Motion (RIM) with its BlackBerry, and latterly a slew of manufacturers offering touchscreen handsets using Google's Android software, have skimmed the profits off the top of the smartphone market – leaving Nokia fighting for the commodity end with Asian handset makers.

Asymco, a Scandinavian consultancy run by Horace Dedlu, who examines the mobile market, thinks that Nokia has become the prisoner of what was until three years ago a hugely effective business model. Nokia isn't in trouble, it argues. But nor will it be able to turn around quickly.

"The reason Nokia can still coast with poor products is that they have a vast distribution network," Dedlu noted this week. "I don't know the exact distribution, but let's assume that half their phones go through carriers and half through distributors who resell unlocked phones world-wide. Carriers will continue to carry the phones because they slot into well-established portfolio slots, and distributors will continue to distribute because the product is competitive in markets where there are no other unlocked smartphones at the same price."

The effect of that inertia took a little while to show on Nokia's finances – but when it did, it was dramatic. For 2007, Nokia's revenues were €51bn (£42bn) and its profits €7bn. In 2008 revenue stayed static at €50.7bn, but profits halved to €3.7bn. Then in 2009 they collapsed: revenues fell to €40.9bn and profits collapsed to €260m, including a €913m loss in the third quarter – the first time in more than a decade that the company had recorded a quarterly loss. Nokia was not mortally wounded; it was suffering a thousand tiny cuts which were bleeding it dry.

The rumours of restiveness among the executives had been swirling since April, but the abrupt nature of the decision, just days before the Nokia World exhibition in London at which the company and its partners will show off their wares, shows that Nokia's board thinks there is no time to lose to refocus the company.

The question is whether Elop, 46, is the "Steve Jobs-like" figure that the research group Gartner suggested in the summer Nokia needs.

Yet many companies would love to have Nokia's problems. It sells more mobile phones, and more smartphones, than any other company in the world; it has pulled ahead of its former rival Ericsson (whose handset efforts have slumped into a joint venture with Sony which barely makes money and has seen shrinking sales). Until 2007 it seemed to have the smartphone market sewn up. Motorola, which had had a runaway hit with its Razr phone, had disappeared from view as it struggled to produce a new design that users would buy.

Then Apple upset the mobile handcart. The iPhone was not really a phone in the way that Nokia thought of it; it was a pocket-sized portable computer with a permanent mobile internet connection. Crucially, Apple made no concessions to mobile carriers; it simply refused to let them dictate what software was installed on the phone, or set data usage limitations. It began selling in huge numbers – and sucking the profits, as well as the cool factor, out of Nokia.

The problem got worse as RIM benefited from an iPhone "halo" which boosted its sales (you could type more easily on its physical keyboards). Then Google's Android joined the race with its open-source software, which any handset maker could tailor as they wished – and, crucially, could also tailor to mobile networks' wishes.

That meant that the profits from the model Nokia had established, of building one group of phones which carriers could tailor and sell, and another that shops could sell direct to customers, were under attack. It didn't have an iPhone; and Android meant a lot of me-too iPhones, shutting Nokia out of that market.

Analysis of the mobile phone market shows that since Apple's entry into the smartphone market, it and RIM have swallowed up 65% of the available profit in the sector – compared to RIM's 7% before 2007. In that sense, the biggest beneficiary besides Apple of the iPhone is RIM. The biggest losers, by contrast, have been Nokia and Microsoft (which is simply abandoning its decade-old Windows Mobile operating system for a new one, Windows Phone 7, due for launch imminently).

Nokia's – and Elop's – problem now is to determine how it can attract customers with compelling new handsets, while keeping its existing buyers among the carriers happy, while fighting off the triple threat from Apple, RIM and Android, which have prevented it breaking into the US smartphone market in particular. It is possible that Elop will conclude that the only way forward is a radical shift – such as adopting Android in order to gain its benefits while hanging on to carriers. Alternatively, he may think that Microsoft's Windows Phone 7 offers the best solution. And it may be significant that in Microsoft chief executive Steve Ballmer's signoff email on Elop's departure he said that he will "look forward to continuing to work with him in his new role at Nokia".

One thing is certain though: if Nokia continues as it is, it will be reduced to a commodity also-ran within years.

Leaked memo from CEO: 'Our platform is burning'

What Nokia boss Stephen Elop told his staff

Feb 11, 2011 1:41 AM | By Times LIVES

There is a story about a man who was working on an oil platform in the North Sea. He woke up one night from a loud explosion, which suddenly set his entire oil platform on fire.

BOLD STEP: Nokia CEO Stephen Elop

Hello,

He barely made his way out of the chaos to the platform's edge. When he looked down over the edge, all he could see were the dark, cold, foreboding Atlantic waters.

The man had mere seconds to react. He could be consumed by the flames. Or, he could plunge 30m in to the freezing waters.

He decided to jump. After he was rescued, he noted that a "burning platform" caused a radical change in his behaviour.

We too, are standing on a "burning platform", and we must decide how we are going to change our behaviour.

And, we have more than one explosion - we have multiple points of scorching heat that are fuelling a blazing fire around us.

For example, there is intense heat coming from our competitors, more rapidly than we ever expected. Apple disrupted the market by redefining the smartphone and attracting developers to a closed, but very powerful ecosystem.

In 2008, Apple's market share in the $300+ price range was 25%; by 2010 it escalated to 61%. It is enjoying a tremendous growth trajectory with a 78% earnings growth year over year in Q4 2010. Apple demonstrated that if designed well, consumers would buy a high-priced phone with a great experience and developers would build applications. They changed the game, and today, Apple owns the high-end range.

And then, there is Android. In about two years, Android created a platform that attracts application developers, service providers and hardware manufacturers. Android came in at the high-end, it is now winning the mid-range, and quickly it is going downstream to phones under à100. Google has become a gravitational force, drawing much of the industry's innovation to its core.

Let's not forget about the low-end price range. In 2008, MediaTek supplied complete reference designs for phone chipsets, which enabled manufacturers in China to produce phones at an unbelievable pace. By some accounts, this ecosystem now produces more than one-third of phones sold globally - taking share from Nokia in emerging markets.

While competitors poured flames on our market share, what happened at Nokia? We fell behind, we missed big trends, and we lost time. We thought we were making the right decisions; but we now find ourselves years behind.

The first iPhone shipped in 2007, and we still don't have a product that is close to their experience. Android came on the scene just over two years ago, and this week it took our leadership position in smartphone volumes. Unbelievable.

We have some brilliant sources of innovation in Nokia, but we are not bringing it to market fast enough. We thought MeeGo would be a platform for winning high-end smartphones. However, at this rate, by the end of 2011, we might have only one MeeGo product in the market.

At the midrange, we have Symbian. It has proven to be non-competitive in leading markets like North America. Additionally, Symbian is proving to be an increasingly difficult environment in which to develop to meet the continuously expanding consumer requirements, leading to slowness in product development and also creating a disadvantage when we seek to take advantage of new hardware platforms. If we continue like before, we will fall even further behind.

At the lower-end price range, Chinese OEMs are cranking out a device much faster than, as one Nokia employee said only partially in jest, "the time that it takes us to polish a PowerPoint presentation". They are fast, they are cheap, and they are challenging us.

And the truly perplexing aspect is that we're not even fighting with the right weapons. We are still too often trying to approach each price range on a device-to-device basis.

The battle of devices has now become a war of ecosystems, where ecosystems include not only the hardware and software of the device, but developers, applications, ecommerce, advertising, search, social applications, location-based services, unified communications and many other things. Our competitors aren't taking our market share with devices; they are taking our market share with an entire ecosystem. We're going to have to decide how we either build, catalyse or join an ecosystem.

This is one of the decisions we need to make. In the meantime, we've lost market share, we've lost mind share and we've lost time.

On Tuesday, Standard & Poor's informed that they will put our A long-term and A-1 short-term ratings on negative credit watch. This is a similar action to the one that Moody's took last week. During the next few weeks they will make an analysis of Nokia, and decide on a possible credit rating downgrade. Why? Because they are concerned about our competitiveness.

Consumer preference for Nokia declined worldwide. In the UK, our brand preference has slipped to 20%, which is 8% lower than last year. That means only one in five people in the UK prefer Nokia to other brands. It's also down in traditional strongholds: Russia, Germany, Indonesia, UAE

How did we get to this point?

At least some of it has been due to our attitude inside Nokia. We poured gasoline on our burning platform. We have lacked accountability and leadership to align and direct the company through these disruptive times. We had a series of misses. We haven't been delivering innovation fast enough. We're not collaborating internally.

Nokia, our platform is burning.

We are working on a path forward - a path to rebuild our market leadership. When we share the new strategy today, it will be a huge effort to transform our company.

The burning platform caused the man to shift his behaviour, and take a bold and brave step into an uncertain future. He was able to tell his story. Now, we have a great opportunity to do the same. - Stephen

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Nokia warns of losses in first and second quarters

Nokia said it was increasing its investment in its Lumia

Shares in Nokia plunged 17% after the mobile phone giant surprised investors by saying it expected to make losses in the first half of 2012.

The Finnish company said competition in the industry had led to lower sales particularly in India, the Middle East, Africa and China.

Nokia had previously expected to break even in the first quarter.

It said it would continue to increase its focus on accelerating sales of its Lumia smartphones and cutting costs.

'Disaster'

The statement, issued in the middle of the day, surprised the markets and prompted an immediate sell-off of Nokia shares, pushing their value down to their lowest level since the late 1990s.

"It's a disaster," said Thomas Langer, an analyst at West LB.

"During the first quarter [of] 2012, multiple factors negatively affected Nokia's Devices & Services business to a greater extent than previously expected."

As a result it now expects operating margin in the first quarter 2012 of "approximately negative 3%", compared with the previously expected range of "around breakeven, ranging either above or below by approximately 2 percentage points".

It expects operating margin in the second quarter "to be similar to or below the first quarter 2012 level".

Last year, Nokia announced a strategic partnership with Microsoft that would see it move away from its Symbian operating system on its smartphones in favour of the Windows operating system.

"Shipments of Symbian devices are declining faster than we anticipated," Mr Langer added.

"I think that was maybe the single most important risk with regard to the Nokia model: that the ramp up of Lumia devices is not fast enough to compensate for the shortfall in Symbian shipments."

Nokia chief executive Stephen Elop said the business was in transition after a difficult first quarter.

Its Lumia 900 smartphone, which uses the Windows software, went on sale in the US on Sunday.

"We have established early momentum with Lumia, and we are increasing our investments in Lumia to achieve market success," Mr Elop said.

Also on Wednesday, Nokia revealed a new version of the Lumia 610 with near field communication (NFC) technology, which allows users with similar technology to exchange data on their handsets and make payments.

'Rampant competition'

Ben Wood from CCS Insight said the first half of the year was always going to be challenging for the company.

"Nokia's challenges have been exacerbated by rampant competition - notably from Apple and Samsung who are extracting a disproportionate amount of margin from the industry at present," he said.

In February, Nokia announced the details of 4,000 job cuts, two weeks after posting a 1.08bn euro ($1.4bn; £905m) loss for the three months to the end of December 2011.

The company announced earlier that a software bug in the latest Nokia smartphone had caused some handsets in the US to occasionally lose their data connection.

The Finnish manufacturer offered customers $100 (£63) in call credits and said a fix for the Lumia 900's "memory management issue" would be issued on 16 April.

Apple design chief Jonathan Ive is knighted

Jonathan Ive - the British designer responsible for Apple's iMac, iPod, iPhone and iPad - has been knighted at Buckingham Palace.

The 45-year-old said the investiture in front of the Princess Royal was "really thrilling and particularly humbling".

Now based in the US, Apple's senior vice-president of industrial design flew in to the UK with his wife and eight-year-old twin sons for the event.

He was born in Chingford, east London, and studied at Newcastle Polytechnic.

Sir Jonathan had a brief chat with Princess Anne and later revealed they had talked about how often he comes back to the UK while she spoke of her iPad.

He was made a Knight Commander of the Order of the British Empire (KBE) in the New Year Honours list for services to design and enterprise.

After graduating from Newcastle Polytechnic - now Northumbria University - Sir Jonathan began working as a commercial designer before founding design agency Tangerine with three friends.

The "Bondi blue" iMac G3 was launched in 1998

One of the agency's clients, Apple, was so impressed with his work it took him on as a full-time employee in 1992.

Sir Jonathan, who now lives in San Francisco, has led the Apple design team since 1996.

He was described by Steve Jobs as his "spiritual partner", according to the late Apple co-founder's biographer Walter Isaacson.

His eye for design, combined with Mr Jobs' attention to detail, has helped to turn Apple into one of the biggest technology companies in the world.

Over the past 15 years, the company has created a series of products which are all considered to be design classics.

They include the iMac G3 - the "Bondi blue" computer launched in 1998 - and the iPod, released in 2001, which helped to revolutionise the music industry.

Earlier, in a rare interview, Sir Jonathan told the Daily Telegraph he was "the product of a very British design education".

Sir Jonathan has led Apple's design team since 1996

He said that, "even in high school, I was keenly aware of this remarkable tradition that the UK had of designing and making".

"It's important to remember that Britain was the first country to industrialize, so I think there's a strong argument to say this is where my profession was founded."

"We try to develop products that seem somehow inevitable, that leave you with the sense that that's the only possible solution that makes sense," Sir Jonathan told the Telegraph.

Sir Jonathan said Apple products were tools "and we don't want design to get in the way".

He was made a Commander of Order of the British Empire (CBE) in 2005.

Blackberry-maker RIM plans new focus amid $125m loss

RIM's Playbook has suffered from poor sales

Blackberry-maker Research in Motion (RIM) has said it plans to refocus its business back onto corporate customers.

The announcement came as RIM reported a quarterly loss, as revenues fell due to sharply lower smartphone sales.

The Canadian company made a net loss for the three months to 3 March of $125m (£78m), compared with a profit of $934m a year earlier.

It has lost ground as its traditional business clients have switched staff to iPhones or Android smartphones.

RIM also announced the resignation of former co-chief executive Jim Balsillie.

Chief technology officer David Yacht will also be standing down.

Shipments of Blackberry smartphones in the quarter fell to 11.1 million, down 21% from the previous three-month period.

It's been a disastrous couple of years for Research in Motion, the Canadian firm whose Blackberry device became the must-have gadget for ambitious professionals.

The arrival of Apple's iPhone and then Android phones using Google software left the Blackberry looking old-fashioned - profits suffered and the men at the top resigned.

Now, after unveiling another big loss, the new chief executive Thorsten Heins, has announced that the firm return to a focus on business customers.

The free BBM messenger service has made the Blackberry popular with teenagers - it was even blamed by some for helping co-ordinate riots in London last year.

But Thorsten Heins said the firm could not succeed if it tried to be everybody's darling, and would now return to its roots.

Shipments of the company's Playbook tablet hit 500,000, largely due to substantial discounting.

For the full financial year, the RIM made a net profit of $1.2bn, down from $3.4bn in the previous year.

The results were worse than analysts had expected and shares in the company fell as much as 9% in after-hours trading in New York. They have fallen by 80% over the past year.

Corporate focus

Once heralded as one of the fastest-growing companies in the world, RIM has struggled to keep up with rivals in the smartphone market, such as Apple's iPhone and handsets running on Google's Android operating system.

It has also struggled to gain a foothold in the tablet market.

"RIM has only sold 5% of the smartphones sold in the US in the past three months, Apple have 43%" said CNET analyst Larry Magid. "

"They may be doing well in some of the developing countries but clearly in the developed world they are not doing well, both Apple and Google are doing much better," he told BBC News.

Just three months after his appointment, chief executive Thorsten Heins said the company would now focus on its traditional core market of corporate customers rather than on individual consumers as part of a strategy to turn the business around.

"We plan to refocus on the enterprise business and capitalise on our leading position in this segment," he said.

"We believe that Blackberry cannot succeed if we tried to be everybody's darling and all things to all people. Therefore, we plan to build on our strength."

'Bread and butter'

Blackberry is popular amongst young people in the UK for its Messenger service and because it is cheaper than many of its smartphone rivals, which means they don't bring in serious revenue.

"Teenagers are not their main market. They don't want to spend money catering to that business.

"Their bread and butter is the big corporations, big government agencies who buy them by the thousands," Mr Magid said, explaining the reason behind the shift in focus.

RIM was keen to stress that it was not withdrawing from the individual consumer market entirely.

Blackberry will focus on the cheaper end of the consumer market, rather than trying to provide the kind of services offered by Apple's iPhone, the BBC's technology correspondent Rory Cellan-Jones says.

As well as increasing subscriber numbers, the company said it is also keen to increase the amount existing customers spend.

"We have new BlackBerry 7 devices scheduled to come out in the next few months to reinvigorate our position in the key entry-level smartphone segment, to support our efforts to continue growing our subscriber base by upgrading feature phone customers to smartphones," the company said in a statement.

The launch of Blackberry 10, expected later this year, and a much-delayed new operating system, are expected to be crucial to its turnaround plan.

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Apple's market value hits $600bn

Technology giant Apple has surpassed $600bn (£379bn) in value for the first time, affirming its position as the world's most valuable firm.

Apple shares reached a high of $644 on Tuesday, having only just crossed the $500 threshold back in February.

Apple's stock is up almost 60% since the start of the year.

It is another milestone for the iPhone maker, whose shares were worth as little as $3.19 in 1997 when it faced the possibility of bankruptcy.

Rival Microsoft is worth $260bn and in 1999, at the peak of the dotcom boom, reached $619bn in market capitalisation.

There has been some talk that there is another tech boom - and potential bust - under way.

On Monday, Facebook said it will pay $1bn to buy Instagram, the popular photo-sharing smartphone app, which has only 13 employees and was launched in October 2010.

Apple's resurgence

Apple's revival under Steve Jobs, who died last year, came about first in computers and then the iPod music player, which was followed by the iPhone and iPad.

Jobs co-founded Apple in Silicon Valley in the 1970s, but was fired in 1985.

He was asked to rejoin in 1997 and changed the company's product lines, culminating in the success of the iPhone and its tablet spin-off, the iPad.

In January, Apple reported record-breaking net profits for the last three months of 2011. At the end of last year, it revealed it had $97.6bn in cash.

In March, the tech giant under current chief executive Tim Cook said it will use its cash to start paying a dividend to shareholders and to buy back some of its shares.

It expects to use $45bn over the next three years.

Nokia sees growth in sales of Lumia smartphones in India

Press Trust of India | Updated On: May 12, 2013 16:14 (IST)

Finnish handset maker Nokia, which has been losing market share to Apple and Samsung, is seeing growth in sales of its Windows platform based Lumia smartphones in India and has attributed the pick-up in volumes to rising wealth in the country.

"In terms of what is happening in Lumia for us in India, the volumes are picking up quite nicely. We got a broader portfolio in the Indian market from (Lumia) 920 to 620 and 520 and so forth. We are very pleased with the pickup we are seeing with those products in India," Stephen Elop, chief executive officer of Nokia, said here.

The company's net sales globally of smart devices almost halved in first quarter ended March 31, 2013 at 6.1 million units compared to 11.9 million units its sold in same quarter a year ago. It saw decline of 8 per cent in volumes on quarterly basis.

However, sales of Lumia smartphone rose by 27 per cent during the Q1, 2013 to 5.6 million units.

Nokia's Lumia phones, based on Windows platform, are available in India in the price range of Rs. 9,800-36,000. Nokia CEO said India is a good example for the company where the company has to focus on strategy for both high-end and entry-level mobile phones.

"India sets that aspiration... we also recognised very large number of people who are more constrained in their ability to spend. I think India is a good example where we have to do both. There are countries around the world where only high end plays, United States is an example," Mr Elop said.

The company in US sells its phone through telecom operators where its "highest priced devices are subsidised so that the actual cost appears to be low to the consumers" because of "operators subsidies".

Mr Elop said, "because of growing wealth, the growing middle and upper classes (in India) we have a great opportunity with Lumia and we are beginning to capture that. The Lumia numbers are very encouraging."

Nokia CEO, however, said challenge for his company remains to push sales at retail stores when people ask for its smartphones. "In some stores, its just iPhone and Android. That's our challenge to increase the willingness of sales people to recommend and at the same time create enough awareness around Lumia smartphone experience," Mr Elop said.

He said that company entered in to Indian market with high-priced smartphones around a year back and will need to work a lot to build space for it here.

According to data released by research firm Gartner in November 2012, Samsung and Apple dominated smartphone market.

In the third quarter, Samsung became the largest mobile handset market with 22.9 per cent of the overall market share.

Nokia had slipped to No 2 slot with only 19.2 per cent global share, down from 23.9 per cent a year ago, Gartner said. Apple was third place with 5.5 per cent, up from 3.9 per cent a year ago, it had added.

"In absolute terms, we are at lower levels (compared to iPhone and Android based phones). We are starting from zero in those price bands in India as we started just over a year ago. We have to build that. Samsung and Apple have been building up for longer period of time in the Indian market and we have to do that," Mr Elop said.

Nokia CEO said that he has got feedback that Lumia product built on Windows 8 is appealing to the Indian consumer in the higher price band.

"It will take time but we will be able to build that (good market share)," he said.

The company on May 9 chose India to launch its next generation of low-priced Asha 501 phones at around Rs. 5,300 ($99) excluding taxes. It will be manufactured in India and it will be available in market from June.

Suggested Questions to guide your research:

1. **Critically analyse the reasons and rationale behind the decisions announced on February 11, 2011.**
2. **What do you believe will be the eventual outcome for Nokia, of the proposals presented by Elop?**
3. **Outline <u>alternative strategies</u> to those proposed by Elop that you would personally recommend to the Board of Directors giving detailed reasons for you recommendations.**
4. **How might the death of Steve Jobs affect the future competitive environment**
5. **How should Nokia respond to the re-positioning of RIM?**
6. **How long can Apple's growth be maintained?**