

NOKIA

Company Synopsis

NOKIA
Connecting People



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INTRODUCTION

Nokia Corporation is a multinational communications corporation, focused on delivering products and services in the wired, wireless telecommunications, and information technology industries. Headquartered in Keilaniemi, Espoo, Finland, Nokia is one of the fastest growing companies in the world. Presently, they have more than 120,000 employees across the world with annual revenue of €50 billion as of 2008. Nokia currently produces a wide variety of mobile phones and smartphones in addition to a handful of accessories. In addition to concentrating on mobile telephones and IT devices, Nokia also offers digital map information, navigation services, and Internet services.

Nokia is the second largest mobile vendor by making 86.3 million shipments in 4Q 2012, after Samsung who made 106.5 million shipments. During that period, Nokia and Samsung dominated the industry market share which were 23% and 19%, respectively. Despite having a large improvement of net sales in the fourth quarter of 2012, Nokia experienced a net operating loss of approximately €3,106 million.

Brief History

In 1865, Fredrik Idestam, a mining engineer, opened his first wood pulp mill at the Tammerkoski Rapids in south-western Finland. Three years later, he opened a second mill by the Nokianvirta river which inspired him to name his company Nokia Ab. Throughout the 1970s, Nokia enhanced their involvement in the telecommunication industry by producing radio telephones for the Finnish army and emergency responders. By 1987, Nokia introduced one of the first handheld mobile phone, the Mobira Cityman 900, and offered their first handheld phone for GSM, which is the the European standard for digital mobile technology. Nokia successfully narrowed their focus to mobile phones and network infrastructure.

From 1998 to 2012, Nokia has grown to be the most prominent vendor in the mobile device market (Williamson, 2012). However, for the past few years, Nokia has been experiencing a steady decline in market share as Apple and Google's operating system dominates the smartphone market. As of

today (March 15, 2013), Nokia's share price sits at \$3.42 (MarketWatch, 2013), which is significantly lower than in 2008 where their ADR was \$25.

Symbian and Meego were Nokia's main smartphone operating system until 2011. On February 11, 2011, Nokia made an announcement that it would use Microsoft's Windows Phone OS as its primary smartphone platform and Symbian would be its franchise platform. This was a strategic decision by Nokia to adopt Microsoft's software as a differentiated and innovative smartphone feature to attract consumers in the Android and iPhone market.

Mission & Goals

“Connecting People. Our goal is to build great mobile products that enable billions of people worldwide to enjoy more of what life has to offer. Our challenge is to achieve this in an increasingly dynamic and competitive environment.”

According to Nokia's mission statement, they aim to enhance communication among mobile phone users globally. Nokia continues their mission to deliver high quality devices that provide access to a wide range of apps and social networks. Nokia does not only provide apps for its smartphone devices but also for its Internet enabled feature phones which offer the greatest overall experience and value proposition.

ENVIRONMENT

Competition

Nokia faces challenging competition within the mobile device industry. This is evident particularly in the smartphone sector with their top competitors being Apple, Samsung and Blackberry. While companies such as Apple and Samsung offer smart phones at a premium with higher quality, Nokia takes a more conservative approach. Although Nokia had previously established their position as the most prominent cellphone producer worldwide, Samsung has recently surpassed Nokia's production level (SiliconIndia, 2012). This demonstrates Nokia's declining position in the mobile phone industry among its competitors.

Opportunities

Consumers in the mobile and smartphone industry value a cellphone's ability to provide creative functions in addition to the standard cell phone capabilities. In the smartphone market, third-party apps are innovative features that are valued by consumers. Therefore, Nokia planned to move from their Symbian operating system, which was incompatible with third-party developers that created mobile apps, to the MeeGo-powered smartphones in 2011. Despite adopting a more compatible operating system, Nokia is still very behind in the smartphone market. By 2011, Android and iOS has been dominating the smartphone industry since two to three years ago. Therefore, Nokia has continued to be one step behind their top competitors.

Nokia has always been known for their ability to produce high quality hardware. However, their software capabilities are surpassed by its competitors and requires improvement. With Nokia's recent partnership with Microsoft, which allows accessibility to their Windows operating system (ex. Lumia 920), they are able to produce smartphones that offer both excellent hardware and software functions.

Threats

The early establishment of Android and iOS in the smartphone industry can potentially overshadow Nokia's Windows phone. Since consumers seem to be more familiar with iOS and Google's Android, there will be high switching costs for consumers when switching to a Nokia smartphone. Therefore, it will be in Nokia's best interest to distribute a portion of their resources towards increasing product awareness and value in order to overcome these barriers.

CURRENT SITUATION

Product Categories

Nokia aims to connect people across the world and enable the global transfer of information with easy-to-use and innovative products. Nokia's product line consists of mobile phones, devices and solutions for games, media, and businesses.

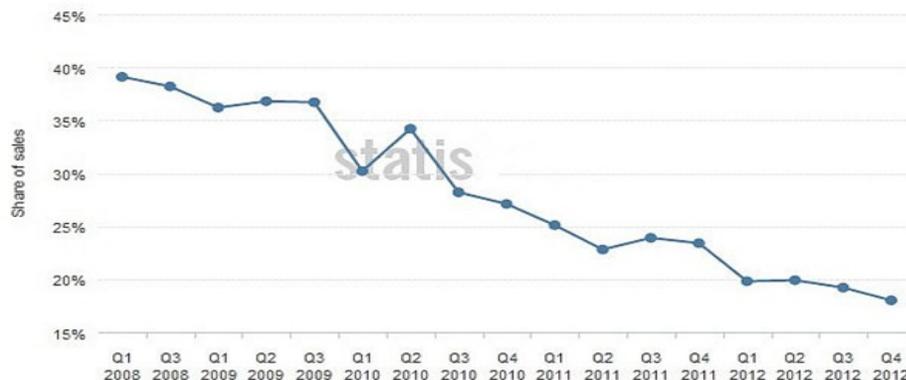
In 2011, Nokia and Microsoft entered strategic alliance to produce a Windows Phone, Nokia Lumia, to compete in the iPhone and Android market. In January 2013, Nokia unveiled Lumia 520 which targeted price sensitive consumers as they tried to regain their dominance in emerging markets such as China. The Lumia 520, which is €139 before tax, will be the cheapest handset in Nokia's current Lumia collection. Furthermore, Nokia's CEO, Stephen Elop, believes that the Lumia 520 will deliver the highest performance of any smartphone at this price point (Svensson, 2013).

In addition, Nokia produces mini laptops, internet tablets, GPS products and technological accessories such as headsets, memory cards and more. In 2009, Nokia re-entered the PC business with a high-end mini laptop called the Nokia Booklet 3G. They also produced Internet Tablets that were designed for portable and convenient access and offered users with wireless Internet browsing and email functions. Nokia also supplies technological services, solutions, and equipment for network operators and corporations globally.

Market Share

As is shown in Table 1, there has been a sharp decline in the proportion of global market share held by Nokia during the period from 2008 to 2012. Nokia sank to seventh place in the booming global smartphone market in the third quarter of 2012 (Sandstorm and Grundberg, 2012) while its competitors achieved high performance. Apple's (AAPL) iOS platform had a market share of 18.8%, therefore, they remained in second place behind Android which achieved a market share of 68.3% in 2012. Meanwhile, BlackBerry captured a 4.7% share of the market in 2012 (Graziano, 2013). Nokia achieved a market share of 18% in the fourth quarter of 2012. In order to increase their market share, Nokia plans to target emerging markets with affordable low and mid-range mobile and smart phones and introduce Windows Phone 8 handsets in developed markets (Epstein, 2012).

Table 1: Global market share held by Nokia in the mobile device market from 1st quarter 2008 to 4th quarter 2012



Source: (Gartner, 2013)

Financial Performance

By the end of 2012 (See Table 2), the company realized €30,176 million in revenue and -€3,106 (negative) million in net income. This represents a 28.9% decrease in revenue and a 267.9% decrease in net income, compared to 2010. This indicates that Nokia has a weak cash position and thus Nokia will experience expansion limitations.

Table 2: Nokia's Annual Income Statement

In Millions of EUR (except for per share items)	12 months ending 2012-12-31	12 months ending 2011-12-31	12 months ending 2010-12-31	12 months ending 2009-12-31
Revenue	30,176.00	38,659.00	42,446.00	40,984.00
Other Revenue, Total	-	-	-	-
Total Revenue	30,176.00	38,659.00	42,446.00	40,984.00
Cost of Revenue, Total	21,721.00	27,300.00	29,456.00	27,569.00
Gross Profit	8,455.00	11,359.00	12,990.00	13,415.00
Selling/General/Admin. Expenses, Total	3,850.00	4,431.00	4,496.00	4,562.00
Research & Development	4,404.00	4,498.00	4,382.00	4,970.00
Depreciation/Amortization	692.00	1,509.00	1,870.00	1,310.00
Interest Expense(Income) - Net Operating	-	-	-	-
Unusual Expense (Income)	-44.00	2,049.00	226.00	1,348.00
Other Operating Expenses, Total	1,856.00	-55.00	-44.00	28.00
Total Operating Expense	32,479.00	39,732.00	40,376.00	39,787.00
Operating Income	-2,303.00	-1,073.00	2,070.00	1,197.00
Interest Income(Expense), Net Non-Operating	-	-	-	-
Gain (Loss) on Sale of Assets	-	-	-	-
Other, Net	-	-	-	-
Income Before Tax	-2,644.00	-1,198.00	1,786.00	962.00
Income After Tax	-3,789.00	-1,488.00	1,343.00	260.00
Minority Interest	683.00	324.00	507.00	631.00
Equity in Affiliates	-	-	-	-
Net Income Before Extra. Items	-3,106.00	-1,164.00	1,850.00	891.00
Accounting Change	-	-	-	-
Discontinued Operations	-	-	-	-
Extraordinary Item	-	-	-	-
Net Income	-3,106.00	-1,164.00	1,850.00	891.00

Source: (Nokia, 2013)

CURRENT STRATEGY

Partnership with Microsoft

On February 11, 2011, Microsoft's CEO Steve Ballmer and Nokia's CEO Stephen Elop announced a partnership between their companies. Their partnership will enable Windows platform to become the primary smartphone operating-system for Nokia. With the release of the Lumia collection, Nokia shifts from their Symbian platform to the Windows software for their smartphones

Since the establishment of their partnership, Nokia and Microsoft has experienced significant progress in the development of their first Nokia smartphone incorporating Windows platform. Nokia has built innovation on top of the Windows Phone platform by contributing their expertise on hardware design and language support, and driving the development of the Windows Phone platform. Nokia's hardware quality combined with Microsoft's leading software experience enables Nokia's Lumia to deliver enhanced mapping, navigation, and location-based services to differentiate in the smartphone industry. Overall, their partnership offers opportunities for both parties to grow and compete in a highly competitive market.

Prior to their partnership with Microsoft, Nokia was also approached by Google to adopt the Android platform for their smartphones. However, Elop recognized that Microsoft dominates the American market and will provide Nokia with a greater opportunity to expand in North America. Also, by adopting the Windows platform instead of the Android OS, Nokia will be able to effectively differentiate their products (Dolcourt, 2011).

Integrated Cost Leadership and Differentiation

Nokia has adopted the integrated cost leadership and differentiation strategy in order to offer low priced smartphones in emerging markets and differentiated products in developed markets. Nokia achieves a competitive advantage by combining their low cost advantage with their mid-tier offering to attract Android and iPhone users. Also, Nokia has developed manufacturing bases across a wide range of countries, which enables Nokia to have a local presence necessary for collaborating with local operators

to reduce airtime rates for customers. In addition, Nokia has established a formidable distribution network to efficiently reach its dealers globally and cooperate to minimize cell phone ownership and usage costs.

Lumia smartphones, which use Windows software, are differentiated from Apple's iOS and Google's Android. Nokia has differentiated its portfolio of Lumia smartphones with location-based services including navigation and visual search applications, such as the Nokia City Lens (Munchbach, 2011). Nokia aims to increase their market share by supplying products that cater to a variety of the market segments. For instance, Nokia develop high-end smartphones while continuing to offer low cost and basic entry level phones without smartphone's advanced features in developing nations and for children, elders, and special need customers. As a result, Nokia offers devices that satisfy a wide range of demographic groups: low income to high income, professional to gaming, fancy to elegant, and premium luxury to necessity.

Aggressive Acquisition

Nokia has been expanding through aggressive acquisition of companies with new technologies and strong competencies. Since 1997, Nokia has acquired more than 40 companies from various industries. The prominent companies that are acquired by Nokia include Cellity, Sega, and Symbian OS, and Navteq for a price of \$8.1 billion. When Nokia was struggling due to their rapid expansion, acquisition of Sega in 2003 strengthened Nokia's game console and put Nokia back into competitive position. As a result of their acquisition of Navteq, the leading mapping data supplier, Nokia was able to deliver more relevant information based on a user's location. The active acquisition and integration enables Nokia to expand its current technology and capabilities. These acquisitions were targeted to enhance Nokia's ability to create innovative, effective, and differentiated products.

STRATEGIC CHALLENGE

Market Saturation

The mobile phone industry is highly competitive and Nokia will experience difficulty competing in the Asia, Europe, and North America markets due to saturation. Market saturation is a major threat for

Nokia's current strategies. For instance, in United States, over 91% of Americans are mobile phone users (Foresman, 2010) and smartphones are nearing saturation with a current 50% penetration rate and a predicted 80% penetration by August 2014 (Angelova, 2013). Market saturation is high across many of the countries that Nokia is currently competing in and will limit Nokia's growth within those countries. Therefore, it is crucial for Nokia to recognize new markets such as the Middle East, Africa, and South America, which are not saturated and have growth potential. Nokia will also need to identify and respond to new technology opportunities in the mobile phone industry to compete effectively in saturated markets.

Partnership with Microsoft

Nokia will need to manage their partnership with Microsoft to ensure decisions are aligned with their short-term and long-term objectives. This requires clear and consistent communication and effective conflict management between both parties. Nokia should also be aware of the potential threats that can be introduced by Microsoft. The contract conditions in their partnership allow Microsoft to collaborate with other hardware suppliers. Microsoft is capable of developing a Windows smartphone outside of their partnership, which will compete with Nokia's Lumia. Therefore, Nokia will need to sustain their competitive advantage in the smartphone industry without depending on Microsoft's software platform. In addition, Nokia will need to deliver innovative hardware functions and features to differentiate their products from their rivals' smartphones.

Innovation

Nokia will be required to engage in continuous technological innovation in order to compete effectively. Nokia targets markets in over 150 countries and operates in many technological industries such as mobile and smartphone, GPS, tablet, and more. Nokia will have difficulty responding to new opportunities and market demand due to the wide range of markets and industries that they operate in. It will be crucial for Nokia to predict and recognize the emerging demand in markets, consistently scan the environment to identify new technologies and innovations available, and deliver their innovation through unique product functions and features in a timely manner.

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