The rise and fall of nokia essay sample

Case Overview

NOKIA was the most successful European company of the 1990s. The Finnish mobile-phone manufacturer captured the emerging market for mobile phones and built the industry's most powerful brand. Its handsets virtually defined the industry from the time it launched its first GSM phone, the 1011, in 1992. From 1996 to 2001 its revenues increased almost fivefold, and by 1998 it was the world's biggest mobile manufacturer. In 2005, it sold its billionth handset, an 1100 to a customer in Nigeria.

Despite being the market leader in the mobile phone market since 1998, the company saw a decline in its brand value since the early 2000. It was once a firm with turnover exceeding the tax revenue of the country it was based in. However, the company not only first lost its number one ranking, a position it had held for 14 years but reach to sell-off in less than 10 years. So the most valid question from all is what happened to Finland's most beloved company?

This case is all about analysis of NOKIA's strategies responsible for its market domination to sell-off .

Snapshot of NOKIA's History

To understand the Rise and Fall of NOKIA, it is important to track the history of NOKIA on a single canvas. The same is attempted through following short liners in this regard:

1865:

A wood pulp mill was set up by a mining engineer named Fredrik Idestam at the Tammerkoski Rapids in south-western Finland. 1871:

The name NOKIA was born based on the name of Nokianvirta river on the on the banks of which Idestam opens a second mill. 1898:

Eduard Polón founds Finnish Rubber Works, which later becomes NOKIA's rubber business, making everything from rubber boots to tyres. 1912:

Arvid Wickström sets up Finnish Cable Works, the foundation of NOKIA's cable and electronics business. 1967:

The official merger of NOKIA Ab, Finnish Cable Works and Finnish Rubber. 1979:

NOKIA creates radio telephone company Mobira Oy as a joint venture with leading Finnish TV maker Salora. 1981:

Launch of the Nordic Mobile Telephone service, the world's first international cellular network, and the first to allow international roaming. 1982: NOKIA introduces the first car phone – the Mobira Senator – to the network. That same year, the NOKIA DX200, the company's first digital telephone switch, goes into operation. 1984:

NOKIA launches the Mobira Talkman portable car phone – a chunky piece of kit but a start. 1987:

NOKIA introduces the Mobira Cityman, the first handheld mobile phone. It weighs in at 800g and comes with a price tag of 24, 000 Finnish Marks (about £3, 400). The Soviet leader, Mikhail Gorbachev, is pictured using one to make a call from Helsinki to his communications minister in Moscow. 1991:

The Finnish prime minister, Harri Holkeri, makes the world's first " global system for mobile communications" call, using NOKIA equipment. 1992:

NOKIA launches its first digital handheld GSM phone, the NOKIA 1011. The NOKIA president and chief executive, Jorma Ollila, decides to focus on mobile phones and telecommunications, and the process begins of selling off its rubber, cable and consumer electronics divisions. 1994:

NOKIA launches the 2100 series, the first phones to feature the NOKIA Tune ringtone. It goes on to sell 20m phones worldwide in the 2100 series. NOKIA's target had been 400, 000. 1998: NOKIA becomes the world leader in the mobile phones market.

1996-2001:

NOKIA's turnover increases almost fivefold from €6. 5bn to €31bn.

1999:

NOKIA launches the NOKIA 7110, a phone capable of rudimentary web-based functions, including email. It uses the Orange network to access the internet using Wireless Application Protocol (WAP). 2000:

NOKIA does a deal with music publisher EMI enabling users to choose their favourite tunes as their ringtones. 2001:

NOKIA launches its first phone with a built-in camera, the NOKIA 7650. But a profits warning, blamed on a slowdown in the mobile market, stuns investors. It announces plans to cut 1, 000 jobs, but things start to look up by the end of the year. 2002:

NOKIA launches its first video capture phone, the NOKIA 3650. It also launches its first 3G phone, the NOKIA 6650. With 3G technology, phones can now be used to browse the web, download music, watch TV on the move, and more. 2004:

NOKIA reveals that although it is still the market leader it is losing share to its rivals, with its 35% share comparing with a target of 40% as it falls behind with its new product range. 2005:

NOKIA sells its billionth phone – a NOKIA 1100 – in Nigeria, and global mobile phone subscriptions pass 2bn. 2007:

NOKIA is forced into one of the world's largest product recalls after it admits the batteries in 46m phones could be faulty. Meanwhile, a longer-term problem emerges: Apple launches the iPhone. 2008:

NOKIA reports a 30% fall in third-quarter profits. NOKIA smartphone sales fall by 3. 1% during the quarter, while sales of Apple iPhones grow by 327. 5%. 2009:

NOKIA announces plans to cut 1, 700 jobs worldwide as the recession hits mobile phone sales. NOKIA admits it was slow to react to the rise of new devices such as the iPhone and plans to fight back. But it is too late to avoid the first loss in more than a decade. 2010:

Competitors such as the iPhone and Android-based devices are posing a serious challenge to NOKIA's future. It appoints former Microsoft man Stephen Elop as president and chief executive. NOKIA cuts a further 1, 800 jobs despite a rise in profits. 2011:

CEO of NOKIA warns staff " we are standing on a burning platform", and announces a strategic partnership with Microsoft days later to compete with Apple and Google's Android platform. NOKIA cuts a further 4, 000 jobs worldwide from its 65, 000-strong workforce. Elop denies it is in talks about a takeover by Microsoft. NOKIA is overtaken by Samsung and Apple in the smartphone sector as profits and sales dwindle. NOKIA launches new smartphones. 2012:

NOKIA cuts 4, 000 jobs and moves smartphone manufacturing to Asia. Shares fall following a profits warning and it slumps to a €1. 3bn loss. Analysts foresee a possible takeover by Microsoft as it cuts 10, 000 more jobs and announces its last factory in Finland will close. 2013:

NOKIA returns to profit after an 18-month spell of losses. Microsoft buys NOKIA’s handset business for €5. 44bn (£4. 6bn).

NOKIA’s Business Approaches

Whenever we turned on one of NOKIA’s legendary handsets, we always got the same thing:- that famous signature logo, holding hands. And for more than one generation, it was hand-holding NOKIA did best – carrying people through, bit by bit, the mobile revolution. NOKIA were by no means the first company to release a commercially available mobile phone, but it was the first to do it really well, and with true mass appeal. Back in the 1990s there weren’t any other big brands parallel to NOKIA. NOKIA were so dominant that people didn’t talk about what brand? it was just about the number, 3210, or whatever you had. NOKIA took users on a journey. So far, so good – but then one presentation changed everything. Complacency had kicked in as they felt they could do no wrong. Then all of a sudden, in January 2007, Steve Jobs walked on to a stage and pulled an iPhone out of his pocket and changed the world forever. The fall was swift. According to figures from analyst firm Gartner, NOKIA’s smartphone market share in 2007 was a dominant 49. 4%. In subsequent years, it was 43. 7%, then 41. 1%, then 34. 2%. In the first half of year 2013, it had plummeted to just 3%. Many blame this decline, at least in the initial stages, on Symbian, the firm's mobile operating system. It was, to paraphrase a welter of expert opinion, simply not up to the job. They missed the importance of software, this was experts feeling.

NOKIA make great phones, they still do. They went through this incredible decade of innovation in hardware, but what Apple saw was that all you needed was a rectangle with a screen, and the rest was all about the software. It took just a few years for NOKIA phones to go from being the must-have handset in your pocket, to being the long-forgotten handset, nestled in that eternal graveyard of the mobile phone – the kitchen drawer. So why would Microsoft spend £4. 6bn on a business that looks like it's on the way out? To use a romantic analogy: they were the only two left at the party who hadn't paired up with anyone. They were left dancing together, and thought they might as well go home. This is the feeling of many of us following NOKIA. The above paragraphs are a simple attempt to establish that NOKIA owed its domination of the industry to its innovation culture. However, the complacency at NOKIA, wherein they focused too much about hanging onto its market share and leadership position de-railed them from their main strength of creating new products and adopting innovative technologies to excite customers, made them loose their competitive advantages.

Understanding Strategic Management

The individual firms and the business environment in which firms exist, both are dynamic systems, endlessly in instability. It is a big challenge to attain a fit between both the systems. On of the reason of unstability for a firm is the parallel existance and dynamics of its competitors specially those competitors which can provide exact substitutes. Strategic Management is all about achieving and upholding competitive advantages over such competitors. To understand the strategic management of NOKIA both during its periods of rise and fall, it would be prudent first to understand strategies specially market-led and resources based strategies.

The development of worldwide homogenized marketplaces have opened up the opportunities for multinational organizations to market their standardized products and services all over the world, with identical strategies, that leads to lower costs and higher margins. This has generated an important discussion on the effects of the globalization trends on company. Theodore Levitt (1983) followed the globalization of business and emphasizes the focuses on the technology as a driving force towards a converging commonality in proletarianized communication, transport and travel.

The competitive strategy

There are hardly any cellular devices that only enable a phone conversation. New cellular devices are launched into the market with capability to collaborate information, exchange text messages, connect to corporate information sources etc.. Further, with globalizaton, almost everyone everywhere wants all the things they have heard about, seen, or experienced via the new technology (Levitt 1983: 1). Thus, “ Globalization of markets” (Levitt 1983) is an expression which relates first to demand. Tastes, preferences and price are becoming increasingly universal in customer demands. Secondly, it relates to the supply side of the market. Products and services tend to become more standardized and competition within industries reaches a worldwide scale. Thirdly, it relates to the way organizations, mainly multinational companies, try to design their marketing policies and control systems. These efforts are done to retain its winner position in the global competition of global products, for global consumers.

Michael E. Porter (1979) focuses on a different approach towards a competitive or differential advantage, by identifying the different competitive forces that exist within a competitive market. Knowledge of the underlying forces can shift a corporate focus on their collective strengths and identify the collective weaknesses. Organizations must increase its effort on how to influence the different forces in a corporate favor. Porter also contributed with several books, which entitles organizations to develop an approach to gain strategic or differential advantages and identifying the organizations value chain.

Planned and emergent approaches to strategic management

It is a subject of argument that strategy is deliberate and should be deliberately planned and executed. Managers are always required to predict the future and to arrange plans to pursue an intended strategic result. In essence, this approach tends to emphasise long-term planning designed to achieve a ‘ fit’ between an organisation’s strategy, settings and its environment. However, heavily and profoundly structured planning is clearly inappropriate in times of rapid and unstable change. In addition, it is clearly evident that, in practice, many strategies simply emerge from a stream of decisions that are made, which is better suited to dynamic and hyper competitive environments. Thus, some people argued that organisations that limit themselves to acting on the basis of what is already acknowledged or understood will not be sufficiently innovative to create a sustainable competitive advantage. However, in practice, planning and emergent approaches are both useful, they should not be seen as independent or mutually exclusive. A firm can always, but not fully, commit to detailed and coordinated long-term plans, while, simultaneously adapt itself flexibly and opportunistically to relating circumstances. That is, both planned and emergent approaches are necessary, and if an organisation is to succeed, then it is really important for the managers to try and strike the best possible balance between the two.

In backdrop of above, it would be interesting to mention that NOKIA had planned to develop the high-end mobile phone and invested heavily on its advanced products; meanwhile, the company also, as was earlier planned underwent an internal reorganisation aiming for the future sustainable growth. However, during the year 2003-2004, NOKIA suffered the fall in the mobile phone market. Since the company then realised that the market was not yet ready for this new technology and operating system. The company emergently then adjusted its strategy again, and designed five new models of the mobile phones to meet the customer’s needs; meanwhile, the company followed the simply market trends and cut the price of phones.

Soon the company recaptured the loss in the market share. In addition, the company gradually changed its stand and started to cooperate with the mobile network operators. These emerging strategy changes showed that NOKIA no longer stuck to the strategies that were previously planned, while simultaneously adopted some emergent strategies in order to meet the customer needs and dynamic business environment.

The Core Competence

Part of NOKIA's core competence was the knowledge and experience in the wireless, cellular and network services industry. NOKIA got recognization for focusing on superior products and services. Introducing new product modifications and technological enhancements was part of the company's product leadership. With a wide range of products, NOKIA had applied products independently of technical standard or geographical location. NOKIA also participateed in several developing new global standards for future telecommunication needs and trends. With its leading position as mobile phone manufacturer and supplier of digital mobile networks, NOKIA's participation in development of future technologies enabled and helped them to deliver excellent products. The NOKIA products were mostly targeting to specific market segments. NOKIA was the first mobile phone manufacturer who adopted models for new ways of thinking into their marketing operations. The general management urged marketing managers to think of companies as repositories of skills, rather than the portfolios of products. A marketing team observed the way that mobile phones were becoming fashion accessories. This unusual approach resulted in a superior product design and control of consumer segment. NOKIA attached a unique value of trends, lifestyles,

freedom, power, and technology among others, into their products.

Market-led and Resource based approaches

Firms should try to adapt themselves to market developments and they should build on the strengths of their resource bases and activity systems. Some people argue that an organisation needs to adapt itself to its environment. Managers should take the environment as the starting point, then they should choose an advantageous market position and then gradually set up the resource base and activity system necessary to apply this choice. On the other hand, some argue that the organisation can adapt the environment to itself. Managers must take the organisation's resource base as the starting point and select an environment to fit with its internal strengths. According to the first view, successful companies are externally oriented and market-driven and this view is referred to as ' outside-in' because of its focus on the environment The companies with this view take the environment as the starting point, set on developments in the market-place and adapt themselves to the external opportunities and threats encountered. They make use of the signals from customers and competitors for deciding their game plan. The proponents of this market-driven approach tend to emphasize that an insight into markets and industries is essential. They argue that not only the general structure of markets and industries need to be analyzed, but also specific demands, strengths, positions and intentions of all main forces need to be determined.

As to Porter's view this approach has spawned five forces, generic strategy and value chain frameworks. Many market-driven advocators suggest firms to initially lead market and industry to change, therefore, they can get the benefit from the altered rules of the game. Smirchich & Stubbart agreed with this opinion, and pointed out that firms can, in part, create their environments through strategic alliances with stakeholders, investments in leading technologies, advertising and a variety of other activities. Lieberman and Montgomery argued that firms that are market-driven are always the first ones to recognize that new resources or activities need to be developed. So those firms are better positioned can benefit from the ' first mover advantage'. More significantly, Market positioning is vital for the company's success.

However, some argued that market positioning is vital, but it must take place within the boundaries set by the resource-driven strategy. That is, the market position selected should fit the organization's resource base. So for being successful, companies must firstly build up a strong internal resource base, and then on the basis of this they can access to unfolding market opportunities in the medium and short term. In essence, this ' inside-out' approach assumes that competitive advantage depends upon the behavior of the organisation, rather than its competitive environment. The proponents of this approach also stressed on the importance of a firm's competences over its tangible resources. Strategists have referred to the basis of this strategy as ' competence based' or ' capabilities –based. Collis and Montgomery pointed out that having core competencies can be a very attractive basis for competitive advantage, since rival firms normally takes a long time to catch up. Even if competitors are successful at identifying the competencies and imitating them, the company with an initial leading position can still upgrade its competencies and stay ahead. Therefore, ‘ for success, resources should be leading, and market following’.

In practice, it is found both positioning and resource deployment issues critical for creating a competitive advantage. They argued that competitive advantage stems from the ability to align positional advantages and resource-based elements of strategy. Some other experts further suggest that the two approaches should be viewed as complementary, since organisations need to develop both internal and external focus to develop knowledge-based core competences and market driven strategies sensitive to customer needs. Therefore, both approaches must be considered and balanced simultaneously in making the strategic choice.

Application of market-led and resources led strategies at NOKIA

NOKIA was able to achieve a great success in the mobile phone industry because it aligned both the strategies – market-driven strategy and resource based strategy during the process of its development. And once it failed to do so, the company immediately suffered the fall, lost market share and decreased sales revenue. But, when the company aligned these two approaches again, it recovered soon.

Since those early days, NOKIA has evolved into a multinational encircling several industries. With the collapse of the USSR in 1990, NOKIA suffered the high pressure to survive in so many different areas. Based on the new market opportunity the company predicted in mobile phone industry and its internal strengths-advanced technology on mobile phone sector. NOKIA finally decided to focus on mobile phone industry. Soon NOKIA achieved the success in the mobile phone industry and became the largest mobile phone company in the world. Without the external threats, the new market opportunities and its internal strengths on the mobile phone sector, NOKIA may have not entered into the mobile phone industry at all. Therefore, both internal and external factors influenced NOKIA's strategic choice simultaneously. The big success NOKIA quickly achieved in the mobile phone industry justified that the company's choice was right, but this choice was made on the integration of market opportunities and NOKIA's internal strengths. A successful firm can develop the required potential to adopt or to shape the external environment, such as a new product, technological and market change. Over time, NOKIA felt the cardinality of the design in mobile phones.

Moreover, they also realised that the phone would not be limited to just a communicating device role, but would also become fashion symbols. So further the company first broke explored the new ground and launched its fashionable and innovative handset -8210 instead of the previous bulky and brick sized device, the company transformed the customer needs and led the market change. For NOKIA, this strategy not only earned the ' first mover advantage and increased its market share, but also established a healthy brand name in the mobile phone industry and gained an extensive lead over competitors in this area. Furthermore, based on the different booming innovations from employees, such as text message, NOKIA's internal antennae design etc, NOKIA kept updating its capability and gradually became the market leaders. Obviously, this change required both overall capability to produce the custom products, which is differentiate with the competitor's, and an outside-in capability for understanding the evolving requirements of customers and energizing the organization to respond to them.

Meanwhile, it also implied that market-led strategy and resource-based strategy have a reciprocal relationship, indeed, they complement each other. Following these successes, NOKIA further solidified its market position based on its strong internal resource; meanwhile, company's ability of sensitive of market trends lead the company to update its competence in a race to stay ahead. In the early 2000s, NOKIA's strategy changes further justifies the importance of the integration of these two approaches. NOKIA just concentrated on launching the high-end mobile phones and the complicated software tending to supply the technologically advanced products and exceed the competitors, while paying less attention to other developments.

Actually, at that time, the market was not ready for such devices. Eventually, the slow growth of customers' demand for the advanced mobile phone caused NOKIA to wait for the market. Thus, the company's distinct competence on technologically advanced products did not improve its performance and bring the competitive advantage due to its failure to meet the customers' needs and its blunt market sense. Since NOKIA realised what mistakes it had made, it soon adjusted the strategy. Followed the market trends, NOKIA aggressively launched several new models of phones in June 2004 based on its strong resource capability, meanwhile, reduced the price of the phone. The company quickly recaptured its market share and increased revenue. The reason why the company recovered so soon was the ability that the company integrated again its inside-out capabilities and outside-in capabilities that matters. Based on the above analysis, marketing-led strategy and resource-based strategy both played key role in NOKIA’s process of success. Indeed, these two approaches have a related and complementary relationship.

The NOKIA in 2007, at time of launch of Iphone was an innovative brand. In 2007-08, in addition, based on NOKIA’s internal resources and external business environment, an assessments were made about NOKIA’s dominance in mobile phone industry through Porter’s five forces (Porter, 1985, 1998) and Barney’s framework (Barney, 1991) as follows.

Based on above, the following was envisaged:

a) Threat of entry

Since Microsoft Corp had announced its decision to enter the mobile phones market, it was apprehanded thta it could bring the big threat to NOKIA. There were many other companies entering into this market So, NOKIA was anticipated to meet more intensive competition than before.

b) Threat of the substitutes

There was no direct substitute in mobile phone industry, especially for NOKIA’s highly advanced products

c) Bargaining power of suppliers

Since NOKIA was the market leader in the mobile phone sector, NOKIA was in the strong position. So bargaining power of suppliers is less

d) Bargaining power of buyers

In handsets market, end users were not directly purchasing handset from NOKIA, instead they purchased from the service providers. Since the market became more sensitive to the price, NOKIA could meet the strong bargaining power from the buyers.

e) Rivalry among existing competitors

There was a very high competition in mobile phone industry. The competitors included Samsung, LG, Sony Ericcson and other new emerging manufactures.

NOKIA SWOT analysis (2007-08)

Internal analysis (Resource-based model)

Strengths – NOKIA had advanced technology over the competitors in the mobile phone industry – The market leadership in the mobile phone industry.

– Strong brand value and image in the global market

– Had its own manufacture and network.

– Product innovation and creation.

Weaknesses – Complications in technology

– Few customized, operator-specific handset with less

features

– Few alliances, company sticked to its standing in the market, did not want to cooperate with the operators.

Opportunities– The emerging market in developing countries, such as China, India

– The emerging market for high-end mobile phone such as business user phone.

Threats – Facing more new competitors, especially from Asia. – Stronger buyer power from the network operators. – Lost market share

– Strong competition in mobile industry – The market becomes saturated

NOKIA PEST analysis (2007-08)

Political factors were very importnat for NOKIA. Because NOKIA was selling its product globally. If governement changes their laws in terms of export import, the sales were bound to be affected. Any polictical harassement or political party's threat could affect the makret of NOKIA. Political riots are great problems for any comany and same for NOKIA. For example in Egypt and Libya, there were ongoing a political rifts and the situation NOKIA company was forced to decrease its market in these areas. The government bodies in the UK had introduced new laws into the business environment which could affect the business of NOKIA.

Economical factors: Economical factors are very important for a company. NOKIA's market existed all around the world. The economic recession all the world had decreased the market of NOKIA in a wide range, especially in Europe and USA, where NOKIA's revenue got a big jolt. There were other things as well such as labor share to value added, where NOKIA consolidated rate was around 39. 8% and with high rate of export duty.

Environmental and Social Factors: Some un-ethical practices were against the law and companies can not be involved in tehm but there are also some practices that aren't illegal by law but are consdiered highly un-ethical by the conuming public, companies who engage in these parctice's can lose a lot of market share. In this context, it would be mentioned that NOKIA loosed their market in ASIA becuase China and India were demanding and producing their own mobile hand sets which were cheaper. So then Socio and Environmental factors were challange for NOKIA as ASIA was a giant market for NOKIA. Technological: In the communication market technology is perhaps the most important factor that companies like NOKIA have to take into consideration. They had to keep up to date with all teh newest technological advances like, express music, smooth touch screen, unexpected memory and camera and motion capture phones, if they had to capture the biggest market share and stay ahead of their compatitors like Apple and HTC.

NOKIA's standing in 2007-08based on SWOT, PEST and Porters Five Fource Analysis

Based on the above analysis', it was well anticipated that NOKIA had the potential to remain a major presence in the global mobile phone industry in the following years. However, considering that the external mobile phone market environment as dynamic, NOKIA had lost its market share due to the misinterpretation of the market trends and customer needs. But the market also presented to bring the big potential opportunities to NOKIA, such as the market in developing countries, customized business user mobile phones and so on. Moreover, the most important of NOKIA's internal strengths, such as innovative products, economy of scale, could let it surpass the competitors and solidify its market leader position; Furthermore, NOKIA could benefit further from its strong brand name and company image. While the fall in 2004, to some degree, just reminded NOKIA of the need to overcome its complacency and arrogance and to be more sensitive to customer needs. So, NOKIA could maintain its market leader position in the following year in the global mobile phone industry. In fact, NOKIA’s market share in handset market had increased to 40% in 2008.

Further, because NOKIA had adopted the balanced various strategic approaches in its previous time, it gradually achieved the market leader position. Since NOKIA lost the control to make sense the market trends and concentrated on its planned strategy, the balance between the different approaches also lost. Thus the company’s market share fell immediately. As NOKIA adjusted its strategy, aligned its internal strengths and external opportunities and balanced the emergent and planned strategies, the company recaptured its market share again.

NOKIA’s approach for developing appropriate strategies for future (2008 ahead)

However, it was very clear from the above that NOKIA, to keep its leadership position in the industry need to address the follwoings:

Faced with the prospect of industry oversupply and increasing international competition in the mobile industry, it was sure that NOKIA will face more strategic choices. So, NOKIA needed more emergent and planned strategies to respond to this dynamic global market based on the different business environment and situation. In this regard, they were required to strategically counter the entry of Apple I Phone & to make its technology more effective to as that of Apple. The following exhibits show the change in NOKIA's share of market from 2008 to 2012 and year to year change in revenure of NOKIA from 2008 to 2009.