

Swot and pestel analysis of nokia



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Introduction:

Nokia is the one of the big giant in the world. It is leading the market 1992. In very beginning Nokia century start with Fredrik Idestam's paper mill on the banks of the Nokianvirta River. From 1865 to 1967, the company would become a major industrial power; but it merge with a cable company and a rubber firm to start the new Nokia Corporation to path of electronics. The newly establish Nokia Corporation was ideally placed for a leading role in the early development of mobile communications. As European telecommunications markets were easy to access and mobile networks became universal, Nokia lead the way with some legend products. In 1992, Nokia determined to go ahead with telecommunications business. This was possibly the most vital strategic decision in its history. As acceptance of the GSM pattern grew, new CEO Jorma Ollila makes Nokia the leader of the mobile telephone industry worldwide. Nokia's keep continues involvement with 3G, mobile multiplayer gaming, multimedia devices and also look ahead for the future. Nokia sells its billionth mobile phone as the third generation of mobile technology emerges. Even the though Nokia main business is producing and sell mobile phone. In addition, it got Navteq section, which produce sat nav . it also sell networking technology, call Nokia Simence network. Nokia sell their networking technology to countries. However, Nokia is not only player in the market, there are many companies, particularly the main competitors are Apple , Blackberry, Samsung, Motorola, HTC etc. in the these competitor Apple is the main rival . This report is on the base of UK mobile market. Here we are going to illustrate about Nokia and its closest competitor Apple.

SWOT and PESTEL analysis

SWOT stand for strength, weakness, opportunity and threat. (See appendices 2) Here strength and weakness is measured as internal factors. Opportunity and threat is external factors. The work of Kenneth Andrews (1971, p47) [i]has been especially influential in popularizing the idea that good strategy means ensuring a fit between the external situations a firm faces

(Threats and opportunities) and its own internal qualities or characteristics (strengths and weaknesses). Manufacturing strategy can be seen as reflecting this idea of fit in functional terms. Those two factors can come from any environment elements which include PESTEL. PESTEL indicate macro environment or external factors. PESTEL means political, economical, societal, technological, ecological and legal. PESTEL analysis briefly describe about external factor. In this section the SWOT and PSTEL analysis will done to show Nokia's competitive position against Apple. First of all Nokia has a strong brand name all over UK, which giving them the dominating power over other brand. Secondly it got wide range of product to target loots of segments in the market. However Apple got strong image in people mind and replacing the Nokia eventually. But it got a weakness of having only one model for serve all type of customer. Nokia phone is very user friendly then other phone. On the other hand Apple phone is pretty much technical oriented, which find bit complicated. In terms of distribution channel Nokia got an extended distribution channel than any other brand, where Apple got less distribution channel compare to Nokia. After sell service is superior in Apple then Nokia. In terms of product Apple product are more robust then Nokia. Nokia got strong financial background which help to do innovation and

change the model very frequent. There is lots discussion going on about green house effect. Nokia has responded to this situation positively. Nokia is now continuously developing their product, which is environment friendly. The devices shown here introduce eco innovations, and solutions for a greener lifestyle, this practice is will implement more widely in future. They using energy efficient technology in the device and production, they using 100% recyclable bag and device recycle option. Very remarkable change is elimination of user manual and providing that in the device. According to the corresponded of Nokia corporation Petteri Alinikula, Nokia has reduce its power consuming by 65%, which is about one third of the total use, by using recyclable materials and new efficient way of production. And Nokia has become eco friendly company.

Nokia phone price is higher than other which is one of their weaknesses. It's got long time waiting in service, which make longer downtime. In contrast Apple got very low service time which gives them some differentiation over their competitor, to compete with other rival brand. Nokia got some highly technical model, which come out with slower performance and not user friendly.

Nokia still got very wide market and it market all over the world, which gives them more scope to target more segments then their competitor. Because they got bigger market share they easily reduce price and get competitive advantage. At the same time Apple got little market in worldwide, but it has the opportunity to have big global market, which able to get more economy of scale and also more profitability. telecommunication market is growing rapidly global , which one the door of huge opportunity of future profitability,

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through excessive communication and aggressive advertising Nokia can still get the highest position in the market. For Apple it is a great threat as it does not doing aggressive marketing.

The emerging threat for Nokia is fast growing mobile companies in all over the world , it also a big threat for all other competitor like Apple , Samsung , Blackberry etc. there is a sharp trend of technological development , which bring a big challenge for these two competitors , one example is that Nokia and Apple is doing very good on 3G network, but the world going so first and now dealing with 4G technology like wimax. Instead of Apple and Nokia all other company like Motorola, Samsung and Dell are already start making 4G compatible phone. This could affect on current market share. At the moment Nokia do not face any political issue in UK. In addition their mother company is from Europe, they should have some advantage in terms of business and tax. But they might face political complication as they out sources their production . Government may force Nokia stop doing of shoring, which will increase the cost and reduce profitability. Nonetheless they also can face obligation form other countries, where they outsources from. Nokia need to react on situation change and have some contingency plan. In addition Mobile phone increases crime. Due to mobile phone they crime is easier to occur. The country like UK has facing crime like mobile scam and fraud. To face these problem Nokia making the devices more secure, by providing GPS. Nokia has also come along with fare trade production, as they introduce scheme to save wild life, called SOS (Save Our Species). They also providing in education by mobile devices . they also providing education in

undeveloped countries in coordination with UNESCO. In the project call Education for all goals.

Economy is changing so rapidly, it is because of high tech, globalization. Which influence people buying power. All the companies need to reduce their price and promotion and also need to re -segment to cope with the change. Especially in UK market has currency fluctuation rate is very high then other European market. There is big issue in pricing; moreover due to recent recession in UK people buyer has reduced. Which was hamper the total sells of mobile industry?

However, as the world economy is moving towards virtual economy, like ecommerce, E-business, take marketing, distance learning, tele medicine and e-governance that open a wide path for the whole mobile industry in the world. These increase scope of new market and revenue.

Legal is quite hard to face mobile company. But still phone companies are penalize due to legal issue. For instance Nokia has accused Apple for violating copy right law. Which influence the bad publicity and also need to compensate a huge amount of money.

Marketing strategy

Marketing strategy deal with the issue like what should happen, how to should happened and when and who will responsible for that.[ii]Marketing strategy is mainly combined 4ps, product price and places. It mainly start with the product . product is the core element of any product. “ Business organizations have increasingly recognized the value of placing a broad definition on their products, one that emphasizes the basic customer need

(s) being served”. PHILIP KOTLER (1969, p. 13).[iii]So the product is what people aspect from any product. For mobile, the need is the communication. However, According to Kotler (1969) Diagram (see appendices 3) there are three level of product. The core of the product is the benefit which is the communication. Actual product is brand name with Nokia future is SMS, MMS, and WAP. Style is unique model and attractive packaging and the quality is the less downtime then others substitute product. Augmented product is warranty, customer service, distribution channel (Orange, Voda phone, O2 in UK). By this illustration we see that mobile phone is not only physical product it's a product service bundle.

Figure 1

Service

We can see it more clearly in figure 1. as our product is a combination of product and service. The physical product is visible and the service, which is not visible. As service include the customer service, warranty, call quality. So To insure customer satisfaction Nokia not only need to confirm is product quality in durability. But also it's before and after sell service. This will also add value to their customer. Then the product enforces the pricing strategy.

The pricing strategy depend on two different factors external and internal . In the case of Nokia the external factor is the competitor cost, price and offer and internal factors are mainly on marketing objective like Nokia believe in mass customization. To satisfy all segment needs it got premium pricing product (smart phone , multimedia phone) to low price phone (basic use phone). Their price all so very in depend on model association and colour, they charge more for the best selling colour then other colour. For example <https://assignbuster.com/swot-and-pestel-analysis-of-nokia/>

Nokia charge high price for Nokia N95 black model then other colour. This indicate the do consider market demand and price elasticity. It is also clear the Nokia is concern about market penetration, which helps to have gained their corporate strategy.

However Apple is a premium brands their attempted not to become cost leader, they like to take skimming pricing and premium price strategy. They are trend to start with high price and eventually they reduce the price. Apple use price elasticity to maintain the price to match the demand . They also reduces the price of slow moving product. Moreover Apple product shows prestige of the users, so people is buys not only product, but also prestige. So it is clear that Apple is the differentiator.

As differentiator Apple should have unique selling proposition, which will influence customer to switch the brand. This reinforcing customer image towards the brand and give them fell that they are getting more for their money

By having short time low price Apple stimulating short time volume, when the market demand is less. On the other hand having low price help Apple to compete with their competitor and replacing customer brand loyalty.

However Nokia got the different price strategy and different product rage. Nokia products are divided in three section devices manufacturing and networking.

In device section Nokia mainly do mobile phone but they also do notebook pc, tablet and mobile accessories. Navteq is another section of product,

where they sell sat nav and Nokia Semence network, which they joint venture with Siemens and establish network for mobile operator. However, their main competitor Apple doses more products beside mobile phone. It has portable computer, server, accessories, Wi-Fi base station, mp3 player, online TV, peripheral products like video camera, printer. After the price the place need to select.

Nokia has it market all over the world. Their main region is Europe, Asia pacific, Middle East, Africa, America, Hongkong, China, and Taiwan. Among those countries Nokia got strong base in European and Asia pacific market. In America they are dominated by Apple, as Apple is an American company. Apple's headquarter located in California. Moreover Apple got retail store in three major counties, it got 200 stores in US, UK, and Canada. Apple recently moves to China. By moving to china they got two benefits, low cost out sourcing and huge local market. After the place nest thing come is the people involved in the business.

If want to say about people, we need to say about the customer service, which they got all over the Europe and US. Nokia got service centres in every city to stay close to their customer. It has international warranty for its all types of phone no matter where it was bought form. Even thought they got long repair time, but they provide free device repair and certain level of free parts if necessary.

Apple got highly trained professional to provide better service. And from front desk to highly technical professional Apple put the right people to right place. Apple is very popular for providing better after sell service. Apple

customer service is accessible for all customers near and far, as they provide service in so many ways, phone, video conferencing and web support. In some area where the repair takes long time, Apple provides direct replacement . which give more value to their service.

After the service next thing come out is physical existence. Nokia got customise website for all different region. In their websites they provide device information, price and also the technological solution. In addition they got call centre support in local area wise. Nokia got showroom in every cities.

However, Apple web site is [www. apple. com](http://www.apple.com). Which allow people to navigate to more customise websites, base on their location. Apple logo, the half eaten rainbow apple represent the Sir Isaac Newton memorable apple, which let people remember their brand easily. Apple got showroom in every big city, which verdict their existence. In addition Apple use different relationship event like Mac World Expo, advertising through different channel to communicate to different customer type. And they convert new customer to loyal customer by providing high quality customer service. Apple also increasing their distribution channel by adding Wall Mart in US and add mobile operator Orange, Tesco, Voda phone as new distribution channel in UK. On the other hand Nokia got distinctive quality then Apple product, Nokia phone are compatible for any network. It has user friendly operating system. It is famous for uses and its model is quite durable in the market. To see this we can analysis product life cycle of Nokia.

Product life cycle

Product life cycle is the graph, shows product from introductory to decline stage of product and also explain the measure to control that situation. (See appendices 4) To analysis of product cycle, we use Nokia N95 model and US as a place. We chose US because in the introductory stage Nokia struggle to introduce their third generation phone in US . First N95 was introduce in March 2007, on the time it was on introductory level it got very low sell, so that they start selling it in discounted price in America in Sep 2007. Then it develops the hardware and start selling it in Europe and Asia, which was version N95-2. Later on when they upgrade to version 3, they start selling it in US through AT&T. Then they enjoy the steady selling in US market until the new competitor Apple come with new generation Iphone. On their decline stage Nokia increase their promotion and then decided to give free internet with their smart phone including their N95 to compete with Iphone. But still the sell was going down. After that they decide to completely change the model and introduce N96. This helps them to keep their market share. However, to find out how good market base they got, we can look in to market share analysis

Market share analysis

Market share is percentage of selling unit of total unit sell in whole industry by all companies. To analysis the market share we are looking at the smart phones market share worldwide in 2009. Recent research (GSM Dome, Feb2010) shows that Apple's iPhone doubled its global smart phone market share to 14. 4%, increase 6. 2% from 2008, while Nokia's Symbian phone keeps their first place in this section. Nokia's market share reduce by 5. 5

point, while RIM and its Blackberries come second, with a 3.3 point increase in market share, getting a 19.9% share. In the States, BlackBerry and Apple have dominated market share than Symbian and as far as mobile use for communication, Apple and Android got the segment, with 81% market share.

In addition, Android phone sales enlarged by 3.4 points, up to 3.9%, but still Android following Windows Mobile and Linux. The first platform had its market share drop 3.1 points, while Linux saw a cut of 2.9%. Palm's WebOS have market share of 0.7%.

The same research shows that 172 million smart phones were sold in 2009, 24% more than 2008. The iPhone stood for 2% of all mobile phone sales last year.”[iv](See appendices 5). In addition, according to Timo Ihamuotila, chief financial officer of Nokia Oyj (2010), their market share in 2010 will decrease by 3%,(see table 1). At the same time their profitability has increased. Now Nokia is more concerned for their product price, as their ASP (average selling price) is going up. They also develop the experience of better and unique operating system for all their devices. This will make them differentiators. So finally Nokia is moving from mass customising to differentiator.[v]After looking at the worldwide market share, let's see how Nokia is positioned in the UK market.

Positioning

Positioning is depending on customer view toward to the product and the price. In this comparison we choose smart phone of different companies. We compare them by price and quality (measured by ranking 1-5) to show how different brands give the best value for their customers. To draw the

positioning map we collect the the data from three different web site Nokia, Apple and carephone wearhouse web site. (See appendices 6)

Positioning map

By compering these we can see that Apple got hihgst quality in the market and Motorola got the lowest. If we see Nokia it is just after Apple and before Blackberry. Which show a nagivite impact on Nokia but if we see the prise, Nokia is giving the best value of price compare to their competitors. So there is a high possibility for Nokia to oprovide high quality in smart price, which will give them another competitive edge.

Boston consulting

The acronym of BCG is Boston Consulting Group, which general management is consulting from, famous business strategy consulting. From late 1970s BCG Growth-Share Matrix widely accepted and start taught in educational institutions. (See appendices 7)

“ The choice of the product life cycle and market share as the two contingent variables has an added attraction. When combined, they form the framework for the BCG’s product portfolio matrix (Henderson, 1979, p513).”[vi]This administration tool has four different segments, including Stars, Cash Cows, Question Marks and Dogs. According to BCG growth share matrix Nokia is in cash cow position. Nokia has the profitability. They are the market leader, with a low growth market share. As cash cow Nokia should fund for their own growths. They pay the corporate dividends. They pay the corporate overhead. Nokia had exactly same position until the new player Apple Marge in the market. This new competitor could Nokia to lose their profitability and <https://assignbuster.com/swot-and-pestel-analysis-of-nokia/>

slower their market acquisition . which will eventually repeals Nokia from their position. As a consequence Nokia share price is going down. See

However apple is in stars position. They are the market leader in high growth markets. They tend to generate higher amount of revinue, but have to utilize certain amount of cash due to growth of market conditions. For example, Apple is reducing their Iphone price in UK to quickly penetrate the market.

Ansoff matrix

The Ansoff matrix presents the product and market choices available to an organisation. Where it indicate to penetrate new market, product development, move to new market and product diversification. (See appendices 8)

According to Ansoff Matrix (Ansoff, 1957) Market penetration starts, when any organization tries to penetrate existing market with current product.

Companies use this strategy to increase the sell without changing product-market strategy. If we discuss about Nokia N95, It was first intro introduce in US in April 2007, Nokia N95 was sold in flagship store in discounted price. Then august 2007 Nokia N95 version 2 come out and start selling it in normal price in America. This is clearly defining that Nokia use the Ansoff matrix to penetrate the US market.

Another strategy is product development . which means new innovation or new product design. Normally it uses to utilize the spare capacity, make harder environment for competitor, reputation of R&D and acquiring new technology. For example N8 is a new innovation of Nokia, which let them to

have their market, keeping the brand image and also keep them competitive against their competitor.

Financial analysis

Gross margin, gross profit margin or gross profit rate is the amount of sells revenue after production cost. It is excluding overhead, payroll, taxation, and interest payments. It expresses the relationship between gross profit and sales revenue. It is a measure of how well each dollar of a company's revenue is utilized to cover the costs of goods sold.[vii] In the financial analysis part we are going to analyse the EUROPE base, as there is no individual financial data on UK. In appendices 9 one we can see the gross profit margin has been reduce 1. 474% in year 2009 compare to year 2007, which should affect the profitibility. Profit margin, net margin, net profit margin or net profit ratio all refer to a measure of profitability. It is calculated by finding the net profit as a percentage of the revenue.[viii]

Profit margin is an indicator of a company's pricing strategies and how well it controls costs. Differences in competitive strategy and product mix cause the profit margin to vary among different companies.[ix]

But if few see the net profit margin in appendices 10, it seems that the net profit margin has gone down more compare to gross profit. The amount reduces to 12. 578%, which is a huge loose in Nokia's profitability. This could be due to the fluctuation of currency and recession.

The current ratio is a financial ratio that measures the company capacity to pay its liability over the next year. It compares a firm's current assets with its current liabilities. The current ratio is an indicator of company capability

to meet creditor's demand. If company's current ratio is in their acceptable range, then it is generally considered to have positive short-term financial strength. Nokia got current ratio 1.55 (see appendices 11) which is not so much appreciated, still it is not bad as it got long term future plan. Those will increase the ratio. For example in Nokia Siemens network need a high investment and it takes long time to get the profit. This could be the reason of having less assets than the liability.

The acid-test ratio is far clearer than the operational capital ratio, mainly because the operational capital ratio allows for the inclusion of inventory assets.

Companies having ratios of less than 1 cannot afford their current liabilities and should be looked at with extreme concern. Furthermore, if the acid-test ratio is much lower than the operational capital ratio, it means current assets are highly dependent on stock. Retail stores are examples of this type of business. In the case of Nokia, it has a ratio which has less than 1 (see appendices 12); it means that Nokia do not have enough cash to meet its current short time liability.

Return on invested capital (ROIC) is a financial measurement which indicates that efficiency a company maintains cash flow relative to the capital it has invested in its business.

When the return on capital is greater than the cost of capital (usually measured as the weighted average cost of capital), the company is creating value; when it is less than the cost of capital, and value is destroyed.

According to appendices 13, in 2007 Nokia got return of investment of 42.

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87%, which was very good to for any company. However 2008 it was reduced to 25. 828% in the next year which was still good but not favourable as before. Finally in 2009 it reduces to 5. 825%, which create very complicated situation. This is affecting company share holder income, which led to reduce the share price.

Recommendation

As Nokia got very tight competition, Nokia need to be very careful for choosing any strategy. Nokia is responding with the environment, which is appreciable. But Nokia still need to quicker in responding technological change, as technology is changing more rapidly than anything else. Again Nokia has increase ASP (average selling price), which will increase the profitability unite wise but might not going to much effective. Because if the total selling amount get decline , only having extra revenue gathered by ASP will not able to make up the total profit. We believe that Nokia might need to rethink about their marketing mix. Consumer is very careful what are they getting. So Nokia need to very much careful about the performance of their product. Especially, their operating system needs to speed up. Nokia also need to speed up their after sell service. Those all Nokia can do to reinforce their market . However, if look at the financial analysis. We can see a huge change in their profitably. There is a sharp decline in Nokia profit margin, more than 12% in last three years. This indicates step reduction of the sell. This will affect the share price and de motivate stake holder to invest in Nokia. Then analysis the current ratio Acid test ratio, we see that Nokia do not have enough assets to pay its liability. As it is less than one. But still there is hope as Nokia is investing in Nokia Simence network, which need

high investment in initial time and it takes time to get the profit. Finally comparing both the opportunity and current wealth of Nokia we suggest Nokia to diversify from to mobile business, as it in high risk of having less market share then before and high price device. This will reduce potential buyer for higher price. In the same time by looking the opportunity of new extension of Navteq and Nokia Siemens network, the reason for referring these two sections is, they got high level of possibility. If we see current market they are only few competitors in sat nav industry. There are is very high prospective market base in UK and Europe. Another plus point for Nokia is they know these markets very well and they already got existing distribution channel. So they is high possible of new market . moreover they can continue built network for different operator. As they are joint venture with Siemens, which give the both company more financial and technological strength. So we suggest continuing investment in these two sections and eliminating the mobile section to stop draining the capital.