

# The fading nokia

[Business](#), [Company](#)



Contents Contents Introduction 1. Glorious period 2. 1 Biggest market occupation 2. 2 Essential and successful merger and acquisition 2. 3. 1 Merger with Siemens 2. 3. 2 Acquisition to NAVTEQ 2. Sagging situation at present 3. 3 Severe competition in this area 3. 4. 3 Pressure from Apple and Samsung 3. 4. 4 No longer popularity of Symbian operational system 2. 2 Lack of cash flowing 3. Analyze the causes resulting in the depression of Nokia 3. 1 Failure investment 3. Losing the opportunity to achieve most value 4. Future and some suggestions 4. 1 Transformation to windows systems 4. 2 Get experience from other failed companies (Ericsson and Alcatel)

Conclusion References Bibliography Introduction Nokia, the most well-known brand and biggest mobile company, once occupying over 60 percent sales in the market, has now dropped to less than 30 percent share of this area.

What's more, 90 percent of share price has evaporated since Apple launched the first iPhone 5 years ago.

Nowadays, its 15 years dominant position is totally taken placed by Apple and Samsung, in other words, the IOS and Android system are preferable to be chosen by customers rather than the old and past Symbian. What is worse, the news coming from official Nokia on June 14th shows that there will be 10 thousand staff fired by the end of 2013, causing the mobile phone area norm these days. It is truly the hardest time for Nokia now. As a result, this essay is aimed to describe the fading process of Nokia and explore the severe condition of it.

In general, this project will be divided into 4 parts. Firstly, it will look at the glorious period of Nokia and give examples of some significant events, and the second part is going to analyze the sagging situation it is faced with,

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including the severe competition from Apple and Samsung, the falling trend in sales and the lack of cash flow. Thirdly it will explain the causes leading to the depression of Nokia, and I will give some constructive future suggestions towards the end of the subject. Glorious period 1. Biggest market occupation It is really surprising that Nokia was originally built as a paper factory in 1965, and 2 years later, it became a form technology company after a serious of merge operations . The year 1987 meant a significant turning point to Nokia, which launched the first mobile phone in the world, opening a new window to the phone's development. This invention, actually, laid the foundation to Nokia to jump to the biggest mobile phone producer and helped to construct the Nokia destiny in the following 20 years.

Until the year of 2007, Nokia still took the first place in market sale, stating officially that its profit surged 85 percent in the third quarter due to strong demand for low-cost phones in Africa, the Middle East and Asia, lifting its share of the global market to almost 40 percent. As Nokia profit soars near a half, while Samsung and Apple shared 13.5 percent and 6.5 percent occupations in the end of 2007. Figure 1 Worldwide converged smart mobile device market Market shares Q4 2007, Q4 2006 Source: Canalys estimates, © canalys.com Ltd. 2008.

From the figure above, it can be seen that Nokia was far away ahead of other rivals and it seems no one could construct potential threat to the 'mobile king' at that time. 1. 2 Essential and successful merger and acquisition All successful companies need creativity and business events to adjust it all the time, therefore there is no doubt that Nokia will also follow this rule, in order to expand its business scale as well as increase the avenue profit. In fact,

several mergers and acquisitions were done by Nokia in history, all bringing unexpected great results to this huge company. . 2. 1 Merger with Siemens

On June 2006, Nokia and Siemens were to merge their mobile and fixed-line phone network equipment businesses so as to create one of the world's biggest network firm. Although both companies contributed a 50% stake, it could not deny the prominent role of Nokia in the new infrastructure company. Additionally, Nokia and Siemens were even closer in 2008. A communication company based on them was proclaimed, achieving 4. 3 billion euros on net sales, which increased by 24% than last quarter. 1. 2. 2 Acquisition to NAVTEQ

In the same year as the communication company was established, a significant acquisition to NAVTEQ Company by Nokia was completed on July 10th. A wise leading strategy was so important to a company that this event directly resulted in 31. 2% business growth of NAVTEQ in the third quarter. According to the financial data in third quarter of Nokia, it remarked a decline trend in overall business profitability. The consensus could be mostly caused by huge market investments and fast rate to expand the trade chain. The table below presents the financial statements during 2007 and 2008.

Figure 2 The financial statements during 2007 and 2008 uro(million)| 2008| 2007| net sales| 50710| 51058| sales cost| -33337| -33781| gross profit| 17373| 17277| research and develop cost| -5968| -5636| cost of marketing| -4380| -4379| other income| 420| 2312| other cost| -1195| -424| profit| 4966| 7985| pretax profit| 4970| 8268| Source: Nokia's official avenue financial statements in 2007 and 2008. Based on the data provided, several figures were not as ideal as last year, as their profit decreasing was mainly due to

the big expense on the merger and acquisition related to Siemens(28600million euros) and NAVTEQ companies(5million euros).

However, no one accurately predicted that these huge costs generated to be the dominant reason to the present failure of Nokia, on the side of cost control, despite other potential threats to Nokia such as the cooperation with Android Company and the dramatic rise of Apple and Samsung. Sagging situation at present Once Nokia's slogan " Human Technology" is well-known in the world at the peaking time, who would care about that the weak company like MOTOLORA and Samsung even Apple which lost its operation officer Steve Jobs 5 years ago could be the rivals today?

However, just in that short period, Nokia dropped down so seriously that came out of our widest expectations. In a word, the competition from other companies as well as the shortage of cash flow and unsuccessful Lumia phones all contributed to the sagging condition of today's Nokia. 2. 1 Severe competition in this area In the first quarter of 2012, the position occupying the largest share in phones sales, which existed as long as 14years, was replaced by Samsung, At the same time, the shares fell to only 22. percent in total. 2. 1. 1 Pressure from Apple and Samsung When Nokia was still insisting on its original strategy to adjust appearance of phones rather than improve the hardware and operational details, Apple and Samsung silently changed the old style and headed to new target which were previous settled. It was a big well fare for normal people that Apple promoted the " customer experience" based on the touching screen and Samsung focused on the hardware modification.

Under this pressure, changing appearance of Nokia gradually lost the attractions to technological customers who always wanted something new, and the effect brought by the “ low function, high price” had totally departed from its objective to the middle and low market. For the general people who had spare money to buy phones, Samsung and Apple seemed to be their first choice. Figure 3 The shipped numbers of handsets and smartphones in 2012 1st quarter Source: Financial News, 27th April 2012

By the comparison in the bar chart above, it can be seen that Samsung had overtaken Nokia in phone handset shipments, when it came to the smart phones, the numbers of Nokia were far more behind the other two. Although Apple had the least figure in quantity, it still was the richest handsets company over the world since its high profit of every phone. Apparently, Nokia was facing the severest challenge from Samsung and Apple ever, and the sales gap was enlarging, due to the blank products in smartphones and the weak supports to application platform. 2. 1. 2 No longer popularity of Symbian operational system

In recent years, Apple and Google were vigorously promoting the application service platform, and IOS and Android were hard working at inventing and launching to the market, while Nokia, unfortunately, paid enormous 27 billion euros on dividends and stock buyback, and did nothing improvement on its OVI platform, which all pushed customers to prefer to try the new IOS and Android. As a result, there was no doubt that market share of Nokia smartphones experienced a sharp decline since Apple gave birth to the first iPhone and the quick spread of Android in 2007, dropping from more than half at peak to nowadays 8. percent. Therefore, Symbian system was no

longer popular and in fact, Nokia had announced to give up this system in the early year which meant the original customers could never enjoy update again. Below was the present condition of IOS, Android and Symbian share. Figure 4 Smart phones share ranking Source: Andrew Munchbach, May 19th. <http://www.bgr.com/2011/05/19/> A new report published by Millennial Media presented a picture of the global smartphone landscape in April of 2011. Obviously, Android continued its domination in pure market share, holding a 53% of impressions on the company's network.

Apple's IOS came in second with 28% and others including Symbian only had 4% of all. 2. 2 Lack of cash flowing As pointed out by Rich (2012), last three months (April-June) Nokia made losses of 1. 1billion pounds as networks saw no reason to push Lumia. What's more, sales in smartphones fell 34% to 1. 2billion pounds although the cash reversed to gain about 18% in the second quarter. Due to a number of investments reaching to 27billion euros on dividends and stock buyback, and also the research and invention at largely untried Microsoft Windows platform, the company is now facing with financial crisis.

What is worse, the sales downturn leads to little revenue to it. For example, the depressive phone-fancier saw sales fall by a fifth, with sales of Nokia Lumia Windows phones-latest smart phones by a third, rarely sold 4 million Windows phones in this second quarter, continued being less than one tenth of sales of Apple and Samsung. Just several days ago, according to the latest financial statement conducted by Nokia, the net income had 29 percent decline compared to last year, as the total operational loss became 1. 1euros that present CEO Stephen Elop had to announce that there would be 10

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thousand staff fired by the end of 2013, giving an unexpected shock to this area. Things were not going to improve in the following months, because Microsoft had made a decision to cut off current Lumia phones and remove the connections between Windows 8 system and previous Windows phones belonging to Nokia. That means the Windows phones cannot go far away without the back support of Microsoft update system and data.

Furthermore, Nokia has forecast a similar loss in the next three months-an outlook that was worse than economists had estimated, just as JP Morgan analyst Deshpande (2012) stated " The third quarter is going to be the most difficult quarter for Nokia". Analyze the causes resulting in the depression of Nokia 3. 1 Failure investment When the peak Nokia dropped down, it is necessary to analyze the potential reasons behind this phenomenon. Obviously, the dominant reason is the lack of cash flow, which is triggered by the following aspects: 1.

It frequently allocates the cash such as paying enormous 27billion euros on dividends and stock buyback, and paid nothing to its OVI platform. 2. Increasing cost leads to the emergency of cash flow. Nokia plans to cut off the mobile phone production business cost by the end of next year to 3 billion euros, however, great cutting itself needs a lot of money , which can reach to 0. 1 billion pounds, which still not contain the investments to construction transformation. Morgan Stanley analyst Francois (2012) pointed out that if they put these calculations above in all, before the end of 2012, Nokia needed 2. billion euro free cash flow to rescue. Therefore, Moody's and s&p and fitch ratings to Nokia credit fell to garbage level. If it has further deterioration, the situation of this company would be quite dangerous. It is



possible to see Nokia collapse by 2040. 3. 2 Losing the opportunity to achieve most value As Rich (2012) stated, " Samsung's ultimate victory shouldn't be very surprising; the company makes consumer electronics of all kinds, and as the mobile phone became a commodity product, the skills needed to make money out of manufacturing them have changed to the skills with which Samsung is well-equipped. It is why Samsung develops so fast these years, owing to the leap improvement in software and application platform, based on Android system. In 2010, after Elop taking charge of office, he sent to the company all a memorandum named " combustion platform" and felt sorry for the company had missed the construction software platform for the good chance. Elop (2012) mentioned: " our competition on hand is to use hardware to take our market shares, unlike them to use the software, with the new ecological system.

We should make a decision that whether we should establish, promote or join the system," as to Nokia expansion of egoism, it concluded " it is our own ruin ourselves, in this difficult time, we lack leadership and responsibility to unite the whole company, we have missed a lot of good opportunity, our innovation speed too slow and the internal cooperation mechanism is not perfect enough. " So in these 5 years, Nokia has already lost the opportunity to achieve most value. Future and some suggestions Nokia has recognized that they had a severe war to fight and to avoid themselves to be out of competition.

However, honestly, if they want to still successfully alive in the market, they truly need to make great effort for surviving. 4. 1 Transformation to windows system Nokia is now focusing on high-margin smartphones even if that

means being dependent on the success of Microsoft, so the change in ranking by volume in America these days isn't surprising, even if it is a little unsettling. So focusing more on windows phones is the only hope for Nokia to stand up again in the smart phones area, and we can see there is an ideal beginning for Lumia sales in USA, although the percent is so small compared with Samsung and Apple. . 2Get experience from other failed companies (Ericsson and Alcatel) As there are two failure examples of mobile producers Ericsson and Alcatel well known in the world, people are paying much attention to Nokia's fading. What if the windows phone fail in the future, how can Nokia survive? Does the transformation to top smart phones really work? Therefore the most urgent thing for Nokia is to make extra efficient plans in case of window phone lost advancing position in final and obtain the experience from failure companies in view of future development of itself.

In order to win the war, Nokia may need to: 1. Focus on clustered products such as launch more smart phone types which are little different from Lumia so that it will generate cluster effect. Just like Porter (1985) describes that clusters affect competition in three broad ways: first, by increasing productivities of the firm; second, by increasing their innovation capacities; and third, by stimulating new business information. 2. Sell patents. Nokia can depend on selling its 30000 patents to maintain the normal cash flow which can help for a while. 3. Concentrate on low-class products.

Till now, the majority of Nokia's income and profit come from its low-class products. However, the biggest problem is basic functional phones no longer popular among customers since the smart phones took the place. As a result, for Nokia, it is also important to remain the low-class market when they

decide to specialize it. Conclusion This paper has given an account for the fading process of Nokia, including its previous glorious history and on contrary the sagging situation at present, along with the severe competition from Samsung and Apple, showing a relatively complete timeline that it falls to decay to the readers.

What' more, causes lead to the fading are also examined. Finally, future prediction and contractive proposals to make Nokia's renaissance in handouts field are discussed. It is only 5 years that Nokia totally has fallen down from the peak. For Nokia, it is going through the hardest period, in which there are still a number of problems to tackle with, such as the lack of cash flow, the fierce competition from other rivals, the uncertainty of the future of the Windows Phones.

On the other hand, this difficulty may overweigh any scene of mergers and acquisitions, financing and listed in the past. However, actually, as Porter (1985) points out, strong competitors can bring about the strategic benefits to Nokia, for example, increasing competitive advantage, absorbing demand fluctuations and enhancing the ability to differentiate. Honestly, the prediction of development prospect for Nokia is not so optimistic that no one will know the outcome that whether it can go through the difficulty.

However, just because of this painful experientel believethat Nokia will carefully concern about and profoundly rethink its failing past. Is it the too fast expanding speed, bigotry to the old Symbian system or the despising attitude towards the small role of Android system resulting in today's fading? But the reason cannot be important anymore, since MOTOROLA, Ericsson

and Alcatel failed before, representing the clustered regularity of different events in the long river of history.

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Geographic Information Systems (GIS) data and is a major provider of base

electronic navigable maps. The company is a wholly owned subsidiary of

Nokia but operates independently.