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The Rise and Fall of a Tech Leader

Nokia Source Texts

Analytical/Descriptive Report Module 1



Report Prompt:

Describe the situation and two reasons for the failure of Nokia.

Text 1: A Brief History of Nokia

Nokia Company's history started in 1865 when Fredrik Idestam, a mining engineer, established a wood pulp mill in the town of Tampere, Finland. In the beginning of the 1900's, the Nokia Company was almost bankrupt, and Finnish Rubber Works bought the company. Finnish Rubber Works was also owned by Finnish Cable Works, which produced telephone, telegraph and electrical cables at the time. These three companies - Nokia Company, Finnish Rubber Works, and Finnish Cable Works - were joined together as Nokia Corporation in 1967. This new company was involved in many industries and produced products such as paper, car tires, communications cables, electronics, and personal computers.

In the 1970s, Nokia became more involved in the telecommunications industry by developing a digital switch for telephone exchanges. In 1984, it launched one of the world's first portable phones. Three years later, Nokia introduced its first mobile phone, the Mobira Cityman 900. It weighed only 800g with the battery, and even though it was expensive at 6,308 USD, it was in high demand.



Nokia's Mobira Cityman 900

Nokia was a key developer of GSM (2G), the second-generation mobile technology that could carry data as well as voice traffic. It delivered its first GSM network in Finland in 1989. In 1992, the first GSM phone, the Nokia 1011, was launched. GSM's high-quality voice calls, international roaming, and support for new services like text messaging started a worldwide boom in mobile phone use. By the end of 2007, GSM had about three billion users across 218 countries and territories.

Source: Satpathy, S. (2014, April 26). A Brief History of Nokia. BGR. Retrieved from <http://www.bgr.in/news/a-brief-history-of-nokia-from-a-paper-mill-to-the-worlds-biggest-mobile-company-to-being-acquired-by-microsoft/>

Text 2: Nokia's Downfall

Nokia's management was not willing to make drastic changes when they were required the most. This was probably the biggest reason that brought the company down; it took too long to embrace the smartphone revolution. When it finally did, it made many errors in its strategy.

Apple launched its first-generation iPhone in 2007 when touch-screen phones were starting to become more popular. Nokia released its first touch-screen smartphone, the 5800 Xpress Music, a year later. In 2008, the same year that Nokia launched its first touch smartphone, its profits dropped 30% in the third quarter and sales decreased by 3.1% as shown in Figure 1 below. iPhone sales, however, skyrocketed by around 330% during the same period.

Nokia laid off 1,700 employees worldwide in 2009. Later in the year, the company admitted that it was slow to react to the change in the market, which was now being taken over by companies like Apple and BlackBerry. Throughout 2010 and 2011, job cuts at Nokia continued, and the company's situation continued to decline.

Global market share held by Nokia smartphones from 1st quarter 2007 to 2nd

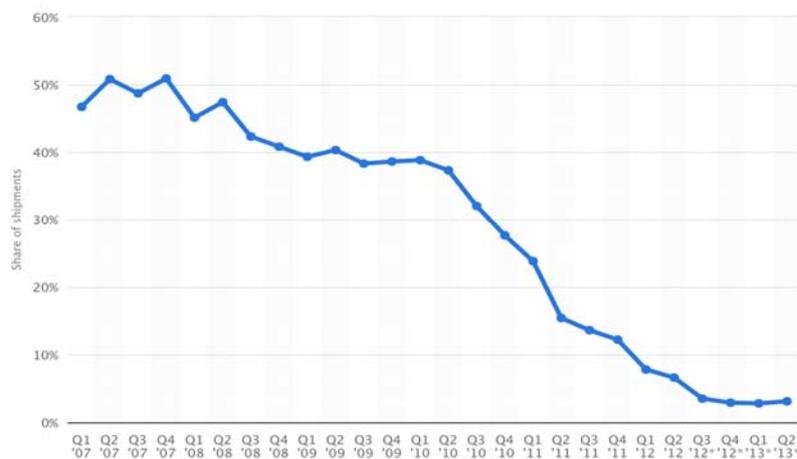


Figure 1 Key for quarter sales

Q = Quarter = 3 months (**Q1** = January, February, March)

'07 = 2007, **'08** = 2008. **'09** = 2009, etc.

Source: The Statistics Portal. (n.d.). *Global market share held by Nokia smartphones*. Retrieved from <https://www.statista.com/statistics/263438/market-share-held-by-nokia-smartphones-since-2007/>

Text 3: The Rise and Fall of Nokia

Nokia's Early Success

In 1992, Nokia decided to focus even more on its telecommunications unit and stop business in the rubber, cable, and consumer electronics divisions. This decision eventually led them to success. Nokia was one of the first companies to build phones that worked in many countries at once. It also realized the importance of marketing phones at different price ranges. In 1998, Nokia became the world's largest phone manufacturer. By 1999, it supplied approximately 25% of all phones in the market. Nokia had made text messaging, big displays, and mobile email popular.



(Nokia, n.d.)

Nokia had one of the most valuable brands in the world in 2008. However, it did not seem to realize that brands today are not as resilient as they once were. In today's high-tech era, people expect constant change and innovation. When companies fall behind, consumers lose interest.

Mistakes in Innovation

One of Nokia's biggest mistakes was made by their managers. The managers were slow to innovate. Specifically, the managers did not anticipate the impact that Apple would have on the smartphone market. Nokia was earning more than fifty per cent of all of the profits in the mobile-phone industry in 2007, and most of those profits were not coming from smartphones. Therefore, it decided that investing a lot of resources into the smartphone business would be too risky.

Nokia's managers believed that even if they waited to focus on developing its smartphones, Nokia would be able to catch up to Apple quickly. In fact, long after the iPhone's release, Nokia still believed that its superior hardware designs would win over users. However, by 2010, Nokia management approved the release of too many unoriginal phones that disappointed customers. This management error caused Nokia to lose a large amount of business to Apple as a result. In 2011, Nokia's chief executive Stephen Elop stated, "The first iPhone shipped in 2007, and we still don't have a product that is close to their experience." Nokia never managed to catch up to Apple.

Source: Surowieki, J. (2013, September 3). Where Nokia went wrong. *The New Yorker*. Retrieved from <http://www.newyorker.com>

Text 4: The Problem of Inferior Technology

Nokia's fall from the top of the mobile phone market was caused by many factors. However, many experts claim that one of the biggest causes was that Nokia was technically inferior to Apple. The operating system used on Nokia phones, *Symbian*, was not as user-friendly as the iPhone operating system; by comparison, it was slow, awkward, and more difficult to use. The iPhone made Nokia phones seem old and outdated. At Apple, software engineering was always the highest priority, so the operating systems of its phones were always the most advanced. On the other hand, at Nokia software engineering had a low priority, so technological advancement did not happen.

Nokia phones' touch-experience was inferior compared with the touch-screen phones being released by companies such as Apple and Blackberry. The Symbian operating system that Nokia was using was outdated and difficult to use compared to the operating systems on iPhone and Android. To try and improve its situation, Nokia made a partnership with Microsoft in 2011 to use Windows Phone as its primary operating system, releasing the Lumia smartphone series. From October 2011 to January 2012, over 1 million Lumia devices had been sold. However, this did not help Nokia; by 2012, the company's stock price fell below \$2 (from a high of nearly \$40 in 2007), and Nokia almost became bankrupt.



Nokia's Lumia 800

Another technological factor that hurt Nokia was its app store. There were 10,000 apps available for Nokia phones by the time the first iPhone was released in 2007, but Apple released its first 100,000 apps in the same year. Apple made it easier for consumers to buy apps in one location, but Nokia never managed to do this; the operating system it used had four different interfaces, which meant that four versions of the same app needed to be created to work on all Nokia phones. For this reason, it was expensive and very time consuming to create an app. It was not possible to pay for its apps in most countries, and the app store was difficult to use. Apple's app store changed all of that; its app store made it easy to purchase apps, and from anywhere around the world. This caused many consumers to make the change from Nokia to the iPhone.

Source: Rubino, D. (2012, July 7). Nokia drops below \$2 a share. *Windows Central*. Retrieved from www.windowscentral.com

Text 5: Nokia Works to Compete

Nokia released its first smartphone in 2002, and it became the leader in the mobile market for the next five years. However, when Apple released its iPhone in 2007, it changed people's idea of what a smartphone should be. This change in expectations made Nokia phones look more and more outdated next to the iPhone's more advanced and user-friendly operating system. Unfortunately Nokia managers did not realize this because there was a 'culture of fear' among Nokia employees. In other words, employees were afraid to present managers with new, innovative ideas because in the past, doing this resulted in threats of firing or demotions. As a result, Nokia managers did not receive information that would have helped them make critical changes. In 2011, Nokia had created a partnership with Microsoft to try and create a product that could compete with the iPhone. However, by that point, it was too late. Nokia had already lost too many customers and continued to decline.



(Chen, 2007)

Another problem for Nokia was that it misjudged the importance of software. Instead, it focused on its hardware designs. When the iPhone came out with its superior software, Nokia was using Symbian as its operating system. Symbian was slow, boring, and outdated compared to the iPhone's more sophisticated operating system. Nokia continued to focus on its hardware designs to try and compete instead of changing its software programs. However, customers had grown to value software more than Nokia had anticipated, and the Symbian operating system could no longer compete.

Source: O'Connor, T. (2017, March 1). Was fear the reason for Nokia's downfall? Retrieved from <https://www.intheblack.com/articles/2017/03/01/nokia-outsmarted-collective-fear>