Nokia: a lesson in how high-tech flyers can fall fast

HELSINKI, FINLAND: In just five years Nokia fell from dominating the mobile phone industry to abandoning the handset business, a swift fall from grace with lessons for market leaders.

Nokia's research centre in Helsinki. Constant research and product development are essential - but so is the need for optimal timing when developing and launching new products. And a lack of hubris won't go amiss. (Image: Russavia, via Wikimedia Commons)

The story of Nokia, now at the toughest stage of the restructuring cycle, is a particularly salutary business case about the fast-moving, high-risk, high-reward, tech sector for hip consumer goods.

The rapid decline, which is ending with the €5.44bn (US$7.5bn) sale of the mobile phone division to Microsoft, owed much to Nokia growing too big, too fast and its management getting drunk on their own success, analysts say.

Looking back after years of Apple iPhone dominance, some may have difficulty in recalling that Nokia, in its heyday in 2007 took more than 50% of the world market for early smartphones.

"They had become arrogant at Nokia and as a result they were too slow to react to changes in the world around them," Petri Rouvinen, a researcher at the economic think tank ETLA, told AFP.

The technology of the iPhone upended the mobile handset business. It also highlighted the critical importance in any business, but particularly in the high-tech sector, of getting the timing right.

Not only did the iPhone, with its touch screen, become a hot fashion item worldwide, but also the operating system with paid-for applications invented a new revenue stream for Apple.

Dominance lost

When Google's Android took off in 2009, it became clear that handset manufacturers had lost dominance to the operating systems which generated revenue from applications sold to users.

Commenting on the business lessons, Rouvinen said: "Since 2007 it's no longer possible to consider telecommunications, consumer electronics and computers as separate sectors. Now there's just one industry and it's digital."

That is where Apple had an all-important lead: it brought the right hardware and software together at just the right time.

"If Apple had shut down its heavily loss-making PC business in 2000, it would never have been able to launch iPod, iTunes, iPad etc," said Tero Kuittinen at Alekstra consultancy.

Nokia's management was aware that a digital revolution was underway but in a recent book its former chief executive Jorma Ollila said the company peaked too soon - investing heavily in smart phone technology before operators were ready to offer services.

Analysts said another lesson is to have the appropriate expertise on the board. They said that Nokia had suffered from a culture of sycophancy towards Ollila - at the helm for 14 years until 2006.

Experts can give you the edge

"During times of transition, the board must have real industry experts, not random executives," said Kuittinen. He held that Ollila had been surrounded by "sycophants who had no competence to address software challenges."

Nokia kept developing its Symbian operating system but was slow to introduce touchscreen capability.

In 2010 it made a partnership with Intel to develop a different operating system, but abandoned this after a year and turned to Microsoft's new mobile Windows platform.

Nokia is just one example of the high stakes in high-tech consumer goods.

Telecommunications equipment manufacturers Ericsson and Motorola suffered a similar fate and sold their handset businesses after being overtaken by innovation.

Canadian firm BlackBerry is the latest example of a market leader fallen by the wayside.

Sony, which picked up Ericsson's handset business, has also had difficulty making money out of mobile despite its consumer electronics pedigree.

Tough choices

Companies sometimes need to make tough, radical choices to refocus their business.

Analysts say that the response adopted by Nokia is to develop the profitable mobile network equipment segment with Nokia Solutions and Networks (NSN).

"Now Nokia can concentrate on its other business - NSN," said Rautanen, adding to speculation about what the company might do with the €5.44bn from Microsoft.

Credit rating agency Moody's said recently that Nokia had emerged a winner from the sale, gaining much needed revenue and off-loading a loss-making business.

But the agency added that it will not be easy to reposition the company as a credible actor in an industry with very short product life-spans and rapid changes.

Nokia was already a business case of how to engineer corporate transformation.

The company started as a wood pulp mill, then bought a rubber business making boots and tyres. A cable business led to Nokia venturing into electronics and then telecommunications.

When mobile telecommunications boomed in the early 1990s, Nokia sold the other business to focus on handsets and networks.

Rouvinen said the conditions which led to the downfall of Nokia and others are not likely to change soon.

"The fact that so much happened in only five years does not mean that the next five years will see the same turmoil," he said.

"But I predict that the turmoil will continue at the same or even at accelerated speed."

Source: AFP, via I-Net Bridge