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How Nokia Missed the Smartphone Revolution: A Case Study of Strategic Failure

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Abstract

Nokia is a Finnish company that conquered the mobile phone market for many years and was known for its traditional mobile phones. It became successful due to mobile phone features that made its mobile phones highly successful in emerging markets. This case examines the strategic failure of Nokia in 2007 when Apple first pitched the iPhone, a smartphone that revolutionized the mobile phone market, and Nokia began to lose market share. This case study examines the challenges that Nokia faced in deciding whether to enter the smartphone market or stick with traditional mobile phones.

Keywords

Strategic Management, Nokia, Sustainability, Smartphones, Traditional Phone, Competitive Advantage

1. Introduction

Nokia faced a dilemma as to whether to start developing smartphones or stay with its traditional mobile phones. Throughout its history, Nokia was well known for providing affordable mobile phones. However, with the debut of the smartphone era, traditional mobile phones started facing a decrease in demand. Despite increased awareness of the unusual competition in the smartphone market, Nokia made the decision not to expand into smartphones, and the debate is still ongoing as the advantages and disadvantages of the decision are measured.

2. Method

2.1 Business Model

Nokia's business model was centered on providing inexpensive mobile phones, and the company had earned a strong reputation for being reliable and supplying high-quality products in the market. Nokia adopted both backward (i.e., gaining control of the supply chain) and forward integration (i.e., distribution to the final customers) strategies.

2.2 Smartphone Market

Apple's introduction of the iPhone revolutionized the mobile phone industry and changed the status quo. To follow this wave, Nokia should have invested heavily in research and development. A new operating system for its smartphones could also have been developed to compete with Google's Android and Apple's iOS. Nokia also had to consider the cost of producing smartphones, as it would be higher than the cost of producing traditional mobile phones.

2.3 Traditional Market

Nokia was leading the traditional mobile phone market, as its products were affordable, reliable, and user-friendly, which increased their popularity. An important characteristic of Nokia phones was the long battery life, which was beneficial in emerging markets with a scarcity of electricity. Following the introduction of smartphones, tremendous efforts in research and development and marketing were needed by Nokia. To decide whether to develop smartphones or produce only traditional phones, Nokia performed market research to identify the demand for smartphones and traditional mobile phones in emerging markets.

The outcomes of the study highlighted the continuous need for traditional mobile phones in emerging markets. However, as the demand for smartphones was growing rapidly, Nokia risked losing market share if it did not enter the smartphone market.

3. Result

Nokia's dilemma was deciding between continuing the production of traditional mobile phones or entering the smartphone market. Nokia had a positive reputation as a provider of high-quality, inexpensive mobile phones. In 2007, Apple introduced the iPhone, revolutionizing the entire mobile industry and negatively influencing Nokia, which lost market share.

Nokia conducted market research to determine whether it should enter the smartphone market or continue to produce only traditional mobile phones. Because its research found that producing smartphones would cost more and that there was still a demand for traditional mobile phones, Nokia decided to continue producing only the latter.

The company did not take into consideration that the demand for smartphones would increase at a significantly higher rate than traditional mobile phones, resulting in Nokia losing market share.

Figure 1. Nokia Devices

Source: (Marin, 2022)

Table 1. Financial Statements for Nokia

For the year ended 31 December	2021	2020	2019
	(in EURm, except for percentage and personnel data)		
From the consolidated income statement			
Net sales	22 202	21 852	23 315
Operating profit	2 158	885	485
% of net sales	9.7%	4.0%	2.1%
Profit before tax	1 926	743	156
Profit/(loss) for the year from continuing operations	1 654	(2 513)	18
Loss for the year from discontinued operations	(9)	(3)	(7)
Profit/(loss) for the year	1 645	(2 516)	11
From the consolidated statement of financial position			
Non-current assets	20 452	17 976	22 320
Current assets	19 597	18 215	16 808
Total assets	40 049	36 191	39 128
Capital and reserves attributable to equity holders of the parent	17 360	12 465	15 325
Non-controlling interests	102	80	76
Total equity	17 462	12 545	15 401
Interest-bearing liabilities(1)	4 653	5 576	4 277
Lease liabilities(1)	1 009	910	1 030
Provisions(1)	1 569	1 532	1 209
Other liabilities(1)	15 356	15 628	17 211
Total shareholders' equity and liabilities	40 049	36 191	39 128
Other information			
Research and development expenses	(4 214)	(4 087)	(4 532)
% of net sales	(19.0)%	(18.7)%	(19.4)%
Capital expenditure	(560)	(479)	(690)
% of net sales	(2.5)%	(2.2)%	(3.0)%
Personnel expenses	(7 541)	(7 310)	(7 360)
Average number of employees	87 927	92 039	98 322
Order backlog, EUR billion	20.3	16.6	18.8
Key financial indicators and ratios			
Earnings per share attributable to equity holders of the parent			
Basic earnings per share, EUR			
Continuing operations	0.29	(0.45)	0.00
Profit/(loss) for the year	0.29	(0.45)	0.00
Diluted earnings per share, EUR			
Continuing operations	0.29	(0.45)	0.00
Profit/(loss) for the year	0.29	(0.45)	0.00
Proposed dividend per share, EUR(2)	0.08	–	–
Return on capital employed %	10.13%	4.60%	1.31%
Return on shareholders' equity %	10.88%	neg.	0.05%
Equity ratio %	43.60%	34.66%	39.36%
Net debt to equity (gearing) %	(26.43)%	(19.81)%	(11.23)%
Cash and cash equivalents	6 691	6 940	5 910
Total cash and current financial investments(3)	9 268	8 061	6 007
Net cash and current financial investments(4)	4 615	2 485	1 730
Net cash from operating activities	2 625	1 759	390
Free cash flow	2 368	1 356	(297)

(1) Includes both current and non-current liabilities in the consolidated statement of financial position.
(2) The Board of Directors proposes to the Annual General Meeting to be authorized to decide in its discretion on the distribution of an aggregate maximum of EUR 0.08 per share as dividend and/or equity repayment.
(3) Total cash and current financial investments consist of the following line items from our consolidated statement of financial position: cash and cash equivalents and current financial investments.
(4) Net cash and current financial investments equal total cash and current financial investments less long-term and short-term interest-bearing liabilities.

Source: (Nokia, 2022)

Table 2. Nokia Earnings

For the year ended 31 December 2021 compared to the year ended 31 December 2020

The following table sets forth the results of Nokia and the percentage of net sales for the years indicated.

	2021		2020		
For the year ended 31 December	EURm	% of net sales	EURm	% of net sales	Year-on-year change %
Net sales	**22 202**	**100.0**	**21 852**	**100.0**	**2**
Cost of sales	(13 368)	(60.2)	(13 659)	(62.5)	(2)
Gross profit	**8 834**	**39.8**	**8 193**	**37.5**	**8**
Research and development expenses	(4 214)	(19.0)	(4 087)	(18.7)	3
Selling, general and administrative expenses	(2 792)	(12.6)	(2 898)	(13.3)	(4)
Other operating income and expenses	330	1.5	(323)	(1.5)	–
Operating profit	**2 158**	**9.7**	**885**	**4.0**	**144**
Share of results of associated companies and joint ventures	9	–	22	0.1	(59)
Financial income and expenses	(241)	(1.1)	(164)	(0.8)	47
Profit before tax	**1 926**	**8.7**	**743**	**3.4**	**–**
Income tax expense	(272)	(1.2)	(3 256)	(14.9)	–
Profit/(loss) for the year	**1 654**	**7.4**	**(2 513)**	**(11.5)**	**–**
Attributable to:					
Equity holders of the parent	1 632	7.4	(2 520)	(11.5)	–
Non-controlling interests	22	0.1	7	–	214

Source: (Nokia, 2022)

4. Discussion

There is growing demand in the market for smartphones, especially in the digital age.

What lessons can other companies learn from Nokia's rise and fall in the mobile phone industry? What best practices should companies adopt to stay competitive in fast-changing markets?

Make innovation and transformation strategy recommendations to Nokia. Explain and support your answer.

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