

An investigation into Nokia- Microsoft Strategic Alliance: Joining forces in the global Smartphone Industry.

Dulal Chandra Pattak
Assistant Manager
Prime Bank Limited, Bangladesh
Contract: duladu@gmail.com

Abstract— Smartphone industry is one of the rival industries in the world because the contemporary issues bear the testimony to this. The recent strategic alliance between two big giants Nokia and Microsoft proves that there is extremely high competition in the industry because Nokia being the market leader once has become bound to make this deal with Microsoft to sustain in the market. This study aims to critically analyze the strategic alliance of Nokia and Microsoft. So, a critical evaluation of the nature of competition facing Nokia from new operating systems entering the market has been analyzed. Besides, the impact of global Smartphone industry competition on Nokia's Smartphone market share and income has been discussed. Moreover, a critical assessment of strategic alliances and merger and acquisition in the context of Nokia and Microsoft to achieve sustainable competitive advantage has been carried out. It also aims to analyze how the strategic alliance helped Nokia to stop the decline of market share in the global market. In addition, this study covers how this deal can be beneficial to the employees. Side by side, the role of the CEO and senior management to make current and future strategic alliances to work more successfully has been evaluated. Different strategic model like SWOT, Five forces, PESTEL and other model have been used to critically analyze the issue. The study finds that Nokia basically faced severe competition after 2007 when Apple along with Samsung came with touch screen Smartphone. Nokia failed to read the emotion of consumers on Smartphone and was late to introduce this. It introduced Windows mobile and new OS to compete in the market. But this strategy did not work much better. Finally, some recommendations have been given so that they can do better taking lessons from this strategic alliances because the competition will be extremely high due to the frequent changes and innovation in the technology.

Index Terms— Strategic Alliance, Global Smartphone Industry, Competitive Advantage, Global Competitive Market, Role of CEO, NOKIA, Microsoft

1 INTRODUCTION

It goes without saying that strategic alliances have become essential building blocks for business organization to achieve sustainable competitive growth, development and market presence in modern times (Lynch, 2006). It has become more and more relevant as an effective technique for meeting the demands of customers and shareholders in this age of globalization. According to Barnes & Raynor, (2013), contemporary business environmental forces and changes make the business organization bound to create strategic alliance with a view to take better market position in the global competitive business world. Smartphone industry is one of the most competitive industries in the world where innovation and continuous innovation is the key to success. Nokia which was the dominant market leader started to face severe competition from 2007 when Apple came with its innovative and distinct touch screen mobile named iPhone (Karman, 2013). Nokia was too late to understand the demands of the customers and design and launch better quality Smartphone. Although Nokia came with good Smartphone with quality operating system at the end to sustain the market leadership, other companies also came to fight in the field. As a result; competition was fierce and Nokia tried to come up with Windows phone with a contract with Microsoft to make a strong positioning in the mar-

ket but it did not fulfill the target of Nokia. Finally, it aimed to make a strategic alliance with Microsoft so that they together can fight in the market with other giants like Apple and Samsung (Darren Murph, 2011). That's why; it can be argued that strategic alliance can be an effective tool to establish a bold presence in the market.

2. OBJECTIVE OF THE STUDY

- To evaluate critically the nature of the industry and competition facing Nokia from new operating systems entering in the market.
- To discuss the impact of the global Smartphone industry competing on the market share and income of Nokia.
- To carry out a critical assessment of the terms strategic alliance and merger and acquisition in the context of Nokia's ambition to sustain its competitive advantage in the global Smartphone market.
- To discuss how Nokia's alliance with Microsoft helped in stopping the decline in Nokia's market share of the global Smartphone market.
- To critically evaluate whether the Shake up at Nokia is beneficial to the employees of the company or not.

- To evaluate critically the role of CEO and senior management of Nokia to make current and future strategic alliance and work more successfully.

3. OVERVIEW OF THE ORGANIZATION: NOKIA AND MICROSOFT

Nokia:

Nokia is one of the most popular multinational communication corporations in the whole world that focuses on supplying products and services in wireless telecommunications, wired and information technology industries. It is one of the fastest growing companies in the world. It was established by a mining engineer called Fredrik Idestam in 1871. Its market share in the mobile market was highest at point but it started to decline during the period 2008-2012.

Microsoft:

Microsoft was established by Bill Gates and his bosom friend Paul Allen in 1975. Although it started developing a program language called Altair BASIC at earlier period, it has become the leading software providing company for computers and other electronics machines.

4. ANALYSIS OF GLOBAL SMARTPHONE INDUSTRY:

Nokia is the pioneer in the mobile industry of the world. It dominated this industry in the whole world. But there becomes huge competition in this industry as innovation becomes a key issue to sustain in this market.

Table: Analysis of PESTEL on Smartphone industry

Name of the factor	Influence of these factors
Political	Political influence on business is very high if there is instability and strike. Besides, government issues, currency and taxation policies influence the business operation. 3G and 4G license issue of Nokia also influence the business.
Economic	Economic situation also impacts severely on the business. For example; the global financial crisis during in 2008 ruthlessly exaggerated the sales of Nokia because the purchasing power of the people was reduced.
Social	Social and demographic changes like changes in population, demand, age, profession, taste, culture highly affect the purchasing behavior of the customers. For example; the Smartphone or Android phone of China reduced the sales of Nokia in the Asian Countries.
Technological	The influence of technology on mobile phone the highest because what is new today is old tomorrow. There is fierce competition in the market and the competitors are innovating new technol-

	ogy, apps and function daily. So, one product is coming before the maturity of another product.
Environmental	Eco concerns are on high importance to the business organization because the organization which is polluting the environment is in the threat because government and environmentalist may boycott the organization. That's why; eco friendly materials and resources are used by the organizations.
Legal	Legal environment also influence the organization. For example; privacy concern may affect the telecommunication while legal barrier like laws, tax and license can influence this organization.
Source: Compiled by author, 2014	

Objective One: To evaluate critically the nature of the industry and competition facing Nokia from new operating systems entering in the market.

There is severe competition globally in the Smartphone industry at present undoubtedly. The recent strategic alliance with Microsoft bears the testimony to this severe competition in the market. The operating system of Apple is much better than that of any mobile phone companies in the world and Nokia alone simply cannot compete with Apple because of its inferior research and development division. So, Nokia merged with Microsoft which is the leading software providing organization in the whole world to make strong presence in the market. Its excellent effort to make windows mobile did not get much success till now. But it is argued that it will come back soon as Microsoft has taken over the cost duty of bringing innovation.

Basically, Nokia dominated the market because of its standard features phone, internet enabled and multimedia phone. But the Symbian OS did not get much popularity among the consumers (Rao and Purkayastha, 2012). These consumers started to migrate to Android and Apple phones. So, the analysts argued that Nokia lacks continuous innovation and latest OS. Finally, Nokia got three choices.

- Developing its own OS Symbian and MeeGo. This was rejected because much time is needed to do it.
- Android was dropped off because there were many difficulties in differentiating in that ecosystem.
- Finally, merging with Microsoft and it accepted by Nokia.

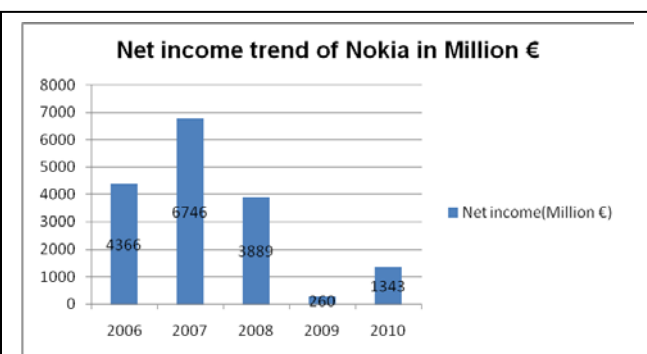
Five Forces Model

Five forces	Scale	Justification
Bargaining power of the buyer	High	Bargaining power of the buyers in mobile industry is too high because they have a lot of options to switch for any price differentials. Since the competition is high, they always try to reduce the price by their bargaining power to sustain in the

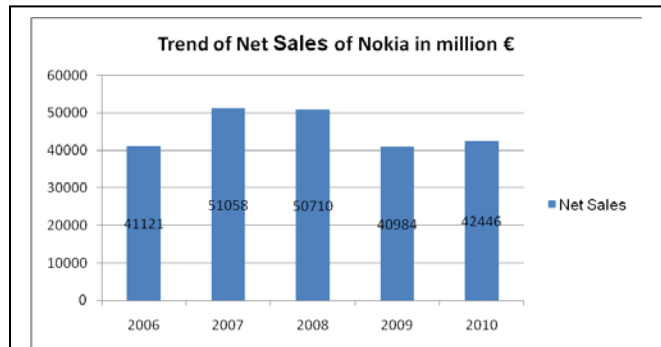
		industry.
Bargaining power of the supplier	Low to Medium	The suppliers are huge in this market and they do not want to lose any corporate buyer for silly price differences. So, they cannot bargain with the buyers. Besides, the evolution of china accessories and mobile has also reduced their power.
Barriers to new entries	Low	Smartphone is a perfect competition market and there are no high barriers to enter in this market. Anybody can enter and switch in this market. Besides, it does not require extremely high capital to invest.
Threat of substitute products	Medium	There is threat of substitute products because new products are coming every now and then. Tab and other electronic devices are reducing the sale of mobile phones. But this threat is not high as there will always be demands for mobile phone.
Competitive rivalry	High	Competitive rivalry in the Smartphone industry is extremely high. Nokia is the burning example in this case because it was bound to make strategic alliance with Microsoft to sustain in the market being the pioneer and market leader once.
Source: Compiled by author, 2016		

Objective two: To discuss the impact of the global Smartphone industry competing on the market share and income of Nokia.

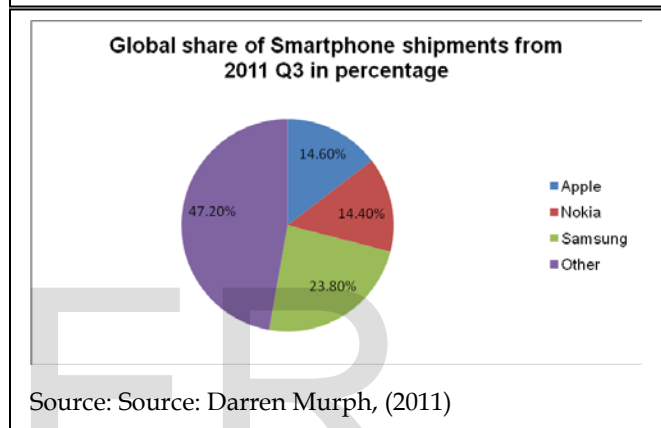
Nokia was the leading mobile phone in the whole world before 2007 from the perspective of sales volume and market share. But the sales and growth started to fall because a new company Apple came with its attractive touch screen iPhone with huge handy apps. Nokia could not understand the market and the emotions of the consumer and failed to introduce touch screen phone immediately. On the other hand, the global financial crisis also reduced its sales as the consumer lost their purchasing power. As a result the net income was reduced from €4366 million in 2006 to €260 in 2009.



Source: Nokia, (2000)



Source: Nokia, (2000)



Source: Source: Darren Murph, (2011)

The above three graph shows that there is continuously declining performance of Nokia in the global Smartphone industry because of the following reasons.

- Entrance of new Smartphone Apple which launched differentiated products.
- Nokia fail to understand that touch screen mobile is the demand of the consumers.
- Nokia was late in the Smartphone launching.
- Nokia lacks sufficient apps in its Smartphone.
- The operating system of Apple was much better than that of Nokia.
- The evolution of China Smartphone at cheaper price reduced the sales of Nokia in the global market.
- Samsung came with attractive product design, apps and operating design in the Smartphone industry.
- Research and development of Nokia is very slow and marketing strategy became poor at that time.

So, Nokia started to decline and loss the market share. Although it wanted to come back in the market by launching windows and Lumia, it ultimately did not see the light of success. As a result; it decided to merge with Microsoft to do well in the competitive market.

SWOT analysis on NOKIA and Microsoft

Table: Shows the SWOT analysis of Microsoft

Location of factor	Type of Factor	
Internal	Favorable	Unfavorable
	Strength: Market leadership Strong brand value and reputation Highly innovative High market share Strong financial strength Strong R & D teams Leadership in both software and PC hardware Good distribution network	Weakness: Weak Windows mobile Bureaucracy in the organization Frequent job rotation reduces the dedication and long term commitment Long time to market Not efficient in mobile market
External	Opportunities:	Threats:
	Cloud based solutions Can focus on service based business model in lieu of license based business model. It can leverage traditional strength Increasing sales in Asian Market	High competition can reduce revenue Threat of new or growing entity Competitiveness can reduce the bargaining power. Demographic changes Lack of demand

Source: Compiled by author, 2014

Table: Shows the SWOT analysis of Nokia

Location of factor	Type of Factor	
Internal	Favorable	Unfavorable
	Strength: High market share Huge existing customer High brand value Quality core products Customer loyalty Good sales network Moderate R&D Good financial base	Weakness: Short sighted vision Product development cycle is slow Weak R&D
External	Opportunities:	Threats:
	Retaining the cus-	Fierce competition

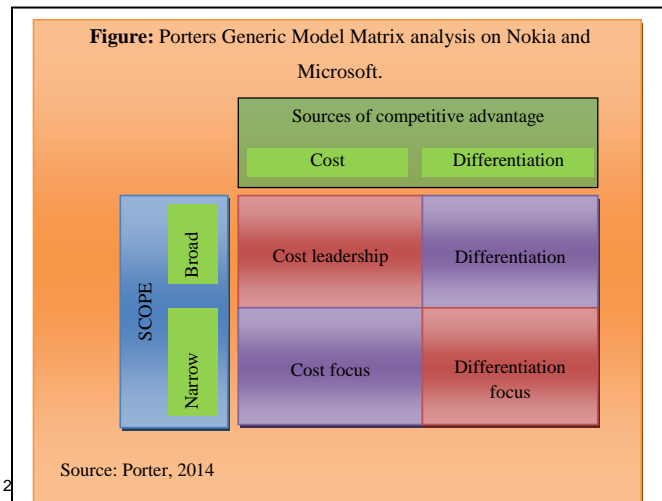
tomer by providing innovative products Branding where iPhone and Android have less market share Opportunities in Asian and developing countries.	Cheap Chinese mobile Might unable to meet customer's expectation Threat of new entrants
Source: Compiled by author, 2016	

Objective three: To carry out a critical assessment of the terms strategic alliance and merger and acquisition in the context of Nokia's ambition to sustain its competitive advantage in the global Smartphone market.

Strategic alliance is the process of making business relationship by two or more business concern to achieve certain strategic objectives depending on the market and industry condition and competition (Schreiner et al. 2009). That means; they work for common goals and objectives which will beneficial for both. Merger and acquisition is the most popular ways of making strategic alliance (Parkhe, 1993)). The strategic alliance of Nokia and Microsoft will enable them to set strategic priorities to achieve strategic objectives and goals common to them. Their objectives are to build a new global mobile ecosystem for Smartphone by means of Windows phone platform;

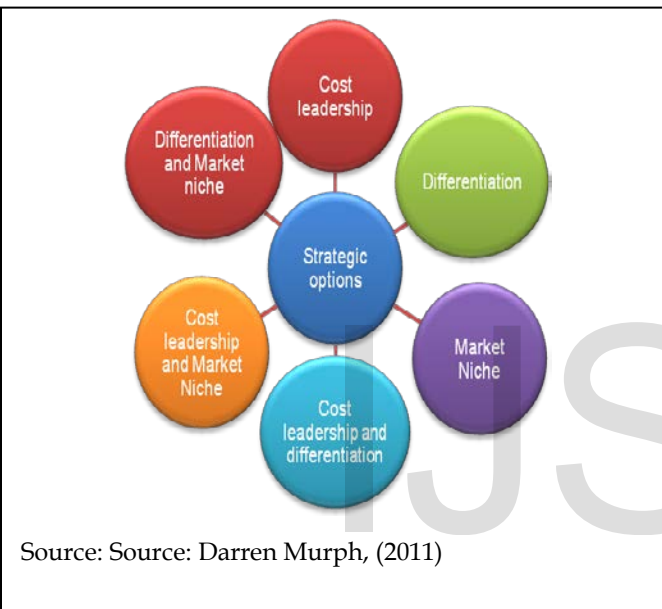
- By enhancing manufacturing capacity of windows mobile phone.
- By fulfilling the global customer demand of windows mobile which will offer a wide variety of products and services in a wider geographic areas.
- Making unique mobile products by blending the strength of Nokia and of Microsoft.

But if it can be thought critically, it can be said that the ultimate objective is to achieve sustainable competitive advantage from the market competitors and to ensure a balanced growth and development. According to Porter (2004), sustainable competitive advantage can be achieved either from cost leadership or differentiation. The following graph shows the Porter's generic model analysis on Nokia and Microsoft to achieve comparative advantage.



Source: Porter, 2016

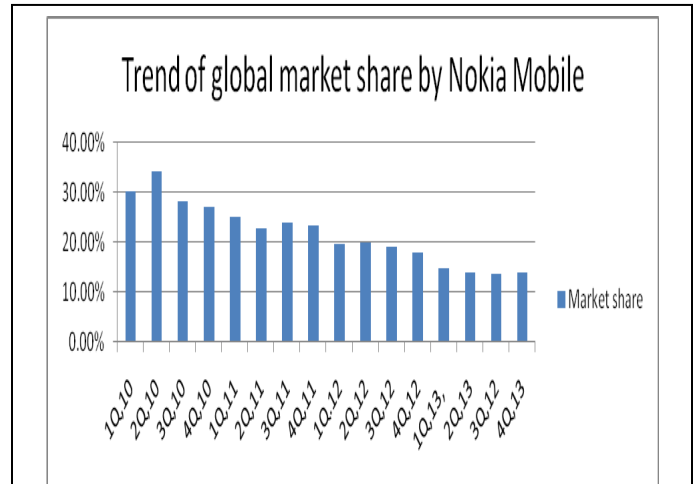
Porter (2004) concluded that cost leadership is a very good strategy for the consumer with low income while differentiation can attract all types of consumer. Although many scholars and researchers argued that hybrid strategy can also be a source of competitive strategy. Microsoft and Nokia together have lot of options and strategies to achieve competitive advantage from this global competitive market.



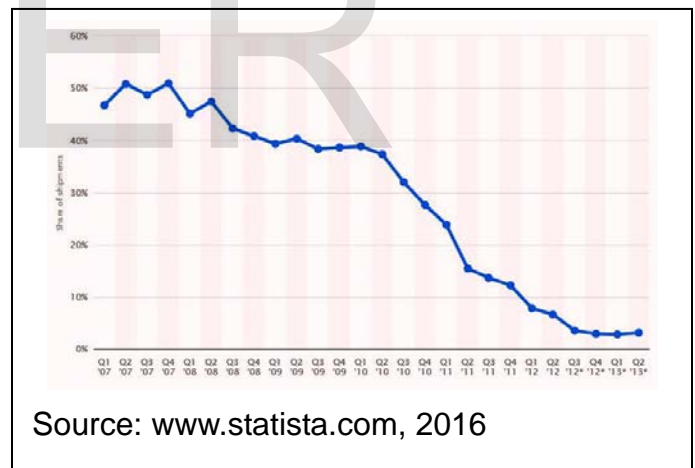
So, it can be argued that it is easily possible them to achieve sustainable competitive advantage from this market because they are the market leaders in two similar industry (Bowonder et al. 2010). They have resources, capacities and network. Besides, they have many existing customers. That's why; they can follow the hybrid strategy which is a combination of both cost leadership and differentiation focusing on the type of market and customer targeted. Some researchers (Johnson et al. 2005) argue that when a company goes for hybrid strategy, they can stick in the middle. But it depends on the type and size of company that is going to handle. But the biggest retail shop Wal-Mart follows this strategy and it is successful because it can handle it. Nokia and Microsoft have the capacity and management expertise to follow this strategy. Otherwise, it will be very difficult for them to compete in the market with Apple and Samsung and other companies. As a result; the ultimate objective of their strategy alliance will be a history of failure.

Objective four: To discuss how Nokia's alliance with Microsoft helped in stopping the decline in Nokia's market share of the global Smartphone market.

Nokia dominated the whole mobile market by its basic, standard and multimedia phones because it provided the best quality in it compared to other companies in case of quality and longevity. But its market share started to fall with the innovation of android and touch screen phone by other companies.



Source: www.statista.com, 2014



Source: www.statista.com, 2016

Microsoft is the market leader of software and accessories for PCs and Mobiles. It can be argued that Nokia stumbled in the way because of lack of innovations in OS and product design. So, the investors and users of Nokia assumed that this deal is going to regain the position of Nokia in the market because Microsoft as the giant software providing organization will be able to handle the issues that Nokia cannot do now.

Objective five: To critically evaluate whether the Shake up at Nokia is beneficial to the employees of the company or not.

The impacts of strategic alliance on employees of the organiza-

tion are mixed because it depends how well the management is going to overlook and manage the issues and interests of the employees. It can be very good for the employees if the organization can fulfill their objectives of alliance because success of the organization ultimately goes to the employees in the form of financial and non financial benefits. But if the objectives are not fulfilled, it can be very bad for the employees because organization goes for sack of non or average performers.

Nokia and Microsoft have just started its journey towards achieving the common strategic goals and objectives. So, it is not high time to go for a concrete decision on the good or bad effects of this merger on employees. But commonly it can be said that there are many ways the employees can be affected or benefitted from the strategic alliance. It will be beneficial to the employees for the following reasons.

- Nokia might lose its sustainability and the employees might be laid off. But they are safe now as two big organizations merged.
- Their compensation packages will be restructured and revised.
- They will be able to enjoy a new culture and it will make them more diversified.
- Their career progression will be enhanced.
- They will be given training and their career will be developed.
- Some of them can take their desired posting as their job scope and geographic capacity has increased.
- The organization will achieve sustainable competitive advantage and success and the success ultimate goes to the employees in the form of benefits.
- Better team can be formed with expert people
- Better employee union
- Bargaining power of the employees increases.

Bad effects of strategic alliance on Employees:

- Employees moral: The effects of strategic alliance on the employees can be very strong and significant if the organization fails to manage and handle it. According to Kauser & Shaw, (2004), employees are coming from a completely separate culture and style and learning a new culture can be difficult and challenging when they face some uncertainty.
- Layoffs: Sometimes the employees are laid offs depending on the situation. But they should be informed and given some financial benefits and done it in an amicable manner.
- Shifting of roles and responsibilities: The roles and responsibilities of the employees can be shifted because of the reorganization of the two companies. Many problems may arise during this time if it is not properly managed.
- Transfer and posting: The employees may have to go to a new place for working and that may be difficult for many people and it ultimately creates dissatisfaction.
- Changes in the compensation packages: The compensation packages can be changed and it can go in favor and disfavor of some employees.

Objective six: To evaluate critically the role of CEO and senior management of Nokia to make current and future strategic alliance and work more successfully.

The role of CEO and senior management of Nokia during the crisis period was positive and strategic because there was no much option to regain the market position of Nokia without this kind of deal. And it can be argued that Nokia has made deal with the right organization undoubtedly. Before making the deal, the senior management of Nokia wanted to solve the issue by itself by launching Lumia, Windows and other OS but this did not go in favor of Nokia. For this reason, it can be argued that the decision and role of CEO and senior management of Nokia is deliberate and well assessed. Now, the key persons from both Nokia and Microsoft will be able to make elite strategy for Nokia assessing all issues.

The issue of Nokia's fall in the market will make the CEO and senior management more careful about setting strategy and goals for the organization. CEO and senior management is the driver of the organization and they should select the right direction for the destination. They could not identify the problem of Nokia at earlier period that they were going to face such problems very soon. But this alliance has made the mixture of some good leaders who will continue making this kind of successful strategic alliances when necessary to attain sustainable competitive advantage, growth and development.

5. FINDINGS AND RECOMMENDATION

The above discussion and analysis reveals one thing that the market share of Nokia was continuously going down after the invention of Smartphone because Nokia could not cope with the competition and innovation pressure from the market being the market leader once. This alliance should be the guide for Nokia and Microsoft to run for the future because only lack of innovation threw them from the race. It has enough scope to come back in the market with innovative products with attractive design because Nokia had strong customer base in the whole world and it can retain the once again. Innovation and customer demand survey should be the prime focus of Nokia and Microsoft (Dodgson et al.2008). Side by side, they should focus on the competitor's strategy, products and pricing to make better products and services for the customers. The management should also focus on the employee satisfaction because two different cultures have been mixed up and the employees should be given sufficient freedom and opportunity so that they can give their full dedication and effort. And finally, the resources of both companies should be used very intelligently to minimize the cost, input and maximize the input (Das &Teng, 1998). Costing or pricing will be one of the driving forces in future and they should be well aware of.

6. CONCLUSION:

It can be concluded from the above discussion and analysis that innovation is the only tool that helps to survive in the hypercompetitive industry like Smartphone and this alliance between Nokia and Microsoft bears the testimony to this be-

cause Nokia has come to this situation because it could not innovate the products and operating system like Apple and Samsung. But it is hoped that the deal between Nokia and Microsoft is going to change the position of Nokia once again in the global market although it will not be so easy. Since Nokia had no better option to regain the market share, it can be argued that the decision made by the high officials of Nokia is right as Microsoft is strong enough to provide innovative products and services to the customer.

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