CASE STUDY

The Nokia-Microsoft Alliance in the Global Smartphone Industry (circa 2011)

The Nokia-Microsoft strategic alliance was announced in early 2011 to cooperate in the development of smartphones. *The Wall Street Journal* wrote: "*Nokia calls Microsoft for help.*"[1] The *Financial Times* observed: "*Elop jumps into the arms of former boss.*"[2] The alliance was specifically initiated by Stephen Elop, an ex-Microsoft executive who had worked with Steve Ballmer, CEO of Microsoft. No wonder Nokia hired Elop to become its CEO in 2010. This was a calculated move by Nokia to grow in an industry that carried good prospects for the future. In addition, Elop's expertise was in the software sector, where Nokia wanted to venture into the future. Both companies needed a partner to expand in an industry that was in a growth mode. Besides this, Nokia was particularly vulnerable because of its losing market share and because Apple's iPhone was growing in the U.S. and global markets. Microsoft was interested in Nokia because of its long-term interest regarding introducing Windows phone technology/software. Since Nokia continued to be a global player in the cell phone industry, it made sense to create a corporate tie-up that aimed at global expansion for both companies. Success of Apple's iPhone was another factor in seeking a long-term alliance in a market that has grown multifold in the global mobile phone market.

In 2012, Nokia was the largest manufacturer of mobile phones and other telecom gear in the world with revenues of $55 billion and a market capitalization of $19 billion. Microsoft, on the other hand, was the largest software maker in the world and generated revenues of $69 billion. The company carried a healthy market capitalization in 2011 that stood at $266 billion.[3] By being a cash-rich company, Microsoft was able to inject a sizable amount of money in the alliance. As of February 2012, a closer look at the alliance reveals that both companies' plans worked well. Nokia has released a new series of mobile devices, called Lumina, with Microsoft's Windows technology. At the same time, Nokia continues to lose market share in the global mobile industry because of its aging technology ("Symbian"). Google's Android is a clear winner because of high demand, followed by Apple's iPhone. Google has done well since its acquisition of Motorola's Mobility.[4] Value Line in 2012 wrote: "*Nokia's operating results continue to deteriorate; the transition of the smartphone is under way; over time, Windows Phone will be the software driving Nokia's upscale handsets.*"[5] Although Nokia was always the market leader in mobile technology, its anemic strategies in the global market indicate that the company is losing steam in the mobile phone industry. The situation is the same with Research in Motion's Blackberry, which continues to lose market share in global markets. Just a few years ago, Blackberry was the main player in the global mobile industry with its well know technology and brand name.[6]

Regarding the issues of technology diffusion and changing consumer trends, the smartphone industry has gone through major structural changes that demand large-scale investment, new technologies, and resources. Companies such as Apple and Google that invested billions in the industry with competitive technologies are the main winners. No wonder Apple's market capitalization in early 2012 surpassed $490 billion. Value Line commented: "*The remarkable growth story at Apple appears far from over; the company maintains a deep talent pool. . . . But we still expect the company to reach further heights as it leverages its hardware and software platforms. . . .*"[7] The situation is the same with Google, which maintained a market value of $200 billion during the same period. By 2014, global mobile subscribers are expected to grow beyond nine billion, with the industry's expenditures surpassing $1.7 trillion. This clearly shows the level of competition and capital investment needed in the industry.[8] In many regions of the world, there is a strong demand for mobile technologies, where product life cycles are becoming shorter.[9]

The above discussion about the changing mobile phone industry reveals the following issues in global business: (1) Technologies do not remain static and are always on the move because of changing demand and consumer needs; (2) Product life cycles are always short because of competition and new entrants; and (3) To survive in the market, companies need to seek alliances and collaborations regarding sharing technologies and markets.

Regarding the Nokia-Microsoft alliance, the initiative makes sense in global markets because of the companies' organic growth and expansion. Of course competition will be heightened in those segments where new technologies are being introduced by Google and Apple. At the same time, Nokia maintains a good competitive advantage in Asia and Latin America because of its established operations and clientele. The company has been exceptionally efficient regarding introducing those technologies and product lines that are competitive and adaptable. Nokia also carries an advantage in global markets because of its first-mover advantage in the mobile phone industry and its stable networks. Of course, markets are changing in favor of firms such as Apple and Google that aim at introducing new technologies and know how to compete efficiently and effectively.