

# Nokia: Attempting an Organizational Renewal

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*Nokia is the global leader in the mobile handsets business. In recent times, the company's sales have not been growing as rapidly as in the past. Nokia is also facing stiff competition from players like Microsoft in software and Samsung in hardware. Responding to this situation, Nokia has embarked on a major organizational restructuring exercise. It is splitting into nine business units. Nokia also has plans to launch low end products for emerging markets like China.*

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Nokia, based in Finland, is one of the most admired companies in the world today. The company's mobile phones are considered sleek and fashionable. Starting off in the timber business, Nokia is today a high-tech company with one of the highest valuations and one of the best known brands in the world.

Nokia's revenues had soared 54 percent in 2000 but were flat in the first half of 2001. In 2002 sales growth is expected to be less than 5 percent. Nokia is facing resurgent competition from rivals left in the dust years earlier. The threat posed by Asian manufacturers, ranges from Korean giant Samsung Electronics Co. to Chinese newcomer TCL. The software giant Microsoft is further complicating matters by offering phone makers a stripped-down version of its Windows software.

In May 2002, keeping in view the threats in the highly volatile business environment, Nokia sprung into action. It split its huge \$21 bn mobile-phone unit into nine profit-and-loss centers, each catering to a particular market, from \$1000 units for corporate customers to \$160 no frills handsets for users in developing countries. According to CEO, Jorma Ollila<sup>1</sup>, "We foresaw that being too big was a real

danger. We had to break up the company in a meaningful way to retain the entrepreneurial thrust we had in the 1990s."

In the complex organization which Nokia has put in place, each business will have its own product R&D and marketing. A separate unit has been created to focus on low-priced phones for markets such as Russia, India, and China. The very existence of such a group is an implicit admission that Nokia had not earlier concentrated enough on this segment. But Nokia will have a 4500 person central research lab for basic technology and product design. To generate efficiencies in procurement and manufacturing, Nokia will have a shared operations and logistics group. The idea is to make sure that decentralization is not carried to the extremes.

But Nokia is certainly not a struggling, sick company that has been forced to restructure. Despite the industry's woes, Nokia boasts enviable operating margins of 18 percent in handsets, and is expected to record overall profits growth of 6 percent this year, to \$3.7 bn on sales of \$29.7 bn. But there are signs that Nokia is losing its edge in certain segments. For example, it has been outpaced in color-screen phones, by rival Sony Ericsson Mobile Communications Inc.

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<sup>1</sup> BusinessWeek, July 1, 2002.

Nokia is also faced with the challenge of figuring out what customers want. Mobile phones were earlier about talking anytime, anywhere. Now they have become devices for sending and receiving data as well. More than half of new phones come with built-in browsers, and a growing number include digital cameras of music players.

In the past, only Nokia and a few others had the technical competencies to design the special-purpose electronics that go into cell phones. Now, many components are available off-the-shelf from multiple suppliers, and companies like Motorola, Texas Instruments, and France's Wavecom are offering ready-to-assemble phone kits. This is creating a trend towards commoditization.

Moreover, new competitors like TCL are emerging in places like China. Multinationals currently have a near lock on handset sales in China, which will top 65 million units this year or 17.5 percent of the world total. But local Chinese manufacturers are expected to double their market share, to 30 percent, in the

next 2 to 3 years. It may only be a matter of time before such companies as TCL and China Kejian begins to export inexpensive cell phones.

The Chinese may not be as tech-savvy as Nokia, but this is not a serious issue thanks to the software support of Microsoft. With the cellular business moving away from vertical integration in which the same company writes software and designs and makes cell phones, China is expected to play a big role in the months to come.

Whether Nokia's restructuring moves will pay off, only time will tell. As *Business Week*<sup>2</sup> recently put it, "Everybody who competed with Nokia will be watching its experiment with a mix of curiosity and dread. If it works, the rush to imitate will be swift and massive. If it doesn't, Nokia will have to work even harder to stay on top." Meanwhile, there is mounting cynicism whether the new arrangement at Nokia will work. According to an analyst<sup>3</sup>, "This kind of reorganization look good on paper, but in practice they are difficult to implement." ■

<sup>2</sup> July 1, 2002.

<sup>3</sup> *BusinessWeek*, July 1, 2002.

### From Paper to Phones

Nokia's history dates back to 1865, when the Finnish mining engineer Fredrik Idestam established a wood-pulp mill in Southern Finland and began manufacturing paper. Since then, the company has evolved dramatically, growing first into a conglomerate encompassing industries ranging from paper to chemicals and rubber, and streamlining in the 1990s into a dynamic telecommunications company.

The groundwork for the shift to telecommunications was laid in the 1960s, when Nokia's electronics department was researching radio transmission. In the decades that followed, Nokia's mobile phones and telecommunications infrastructure products reached international markets, and by the 1990s, Nokia was established as a global leader in digital communication technologies.

#### Success through Vision

Since its entrance into the field of telecommunications, Nokia has faced competition from established international competitors. Yet in a relatively short time, Nokia has earned global success. Nokia's ability to recognize and exploit the opportunities created by continuous technological and market changes has helped the company develop into what it is today.

Nokia's history has shown that the right decisions made at the right time breed success. The company is confident that this vision and the courage to create new opportunities will help Nokia achieve its as it moves targets into a new era in communications.

Source: [www.nokia.com](http://www.nokia.com)