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The Rise and Fall of Nokia

In 2001 Nokia was the undisputed leader of the mobile phone industry. It had increased its market share to 35% from 30.6% the year before, with sales of 139.7 million units[1]. The number two, Motorola, held 14.8% of the handset market.

One analyst observed: "They are demonstrating that they are hugely superior to everybody else in this market."[2] Another commented: "There is no other company in the sector that's in as good shape as Nokia. What's impressive is their efficiency at keeping high margins in the slowdown part of an economic cycle."[3]

Fast-forward 10 years. In February 2011, incoming CEO Stephen Elop circulated a memo to his colleagues, saying Nokia was in deep trouble and was standing on a "burning platform." He attributed the company's problems to a changing competitive environment:

The first iPhone shipped in 2007 and we still don't have a product that is close to their experience. Android came on the scene just over two years ago and this week they took our leadership position in smartphone volumes. Unbelievable.[4]

By mid-2011 Nokia was making one tenth as much money on its phones as Apple. Its market capitalisation stood at US$43 billion[5], compared to a high of nearly US$250 billion in 2000[6].

What had happened over this 10-year period? How had Nokia surrendered its leadership position in the industry so quickly?

Nokia's rise to leadership, 1967 to 1996

The Nokia Group, a conglomerate established in 1967, traced its origins to three independent businesses: a wood-pulp mill in 1865, the 1898 Rubber Works and the 1912 Finnish Cable Works. It took its first tentative steps into telecommunications in 1960 and by the time of the merger in 1967 electronics was just 3% of the Group's sales. Through the 1960s and 1970s the Group successfully expanded into digitalisation and wireless. In 1969 Nokia was the first company to introduce digital transmission equipment to international standards. In 1982 it introduced Europe's first fully digital telephone switch.

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