Reversal of Fortunes – Nokia and Apple

By Charles Galunic , INSEAD

Some images are incredibly powerful. It takes just a few moments to capture the message behind the graph below. This graph measures the industry profit shares of major mobile phone vendors over the past four years, effectively since the iPhone was introduced in 2007. Along the diagonal is the story of some up and down, but largely stable, movements of competitors like RIM and Samsung. But the big story is the dramatic reversal of fortune for Nokia and Apple.

Apple's take of profits in smartphones is staggering, especially for a such a common "household" technological device where there is considerable competition. It is only eclipsed in visual impact by the speedy and steady drop of Nokia. (Source: www.macrumors.com carries such graphs from time to time).

The question is why? What can account for such an incredible reversal in fortunes? And how in particular does a global giant and visible brand like Nokia, with a substantial lead in mobile phone technology, manage to lose such a lucrative position? Disclaimer: I was, and to some degree still am, a

fan of Nokia. My first mobile phone was a Nokia product (I still have it, a part of my small "personal technology museum"). It looks and feels more like an older fixed-line phone (with a small nib antenna) compared to the slim products on the market today, but at the time it looked shapely and felt comfortable in my hand, certainly less cumbersome than fixed-line receivers of the day. It worked well and it was cutting edge.

Nokia's fall of course has much to do with Apple's rise. Apple got things right, from hardware (Nokia's traditional strength), to design (it turns out to matter more than some suspected), to software (simplicity over complexity), to realizing that the phone was just one part of a larger ecosystem, or platform, and to be successful in the former meant also creating and investing in the latter (i.e., a device which not only allows you to talk but is your internet, music player, email/IM client, game console, all in one). I'll leave aside how Apple got things right, and there is plenty written about Apple's success these days, even the incredible task they have of sustaining the levels of growth they have managed in the past decade (hint: product portfolio expansion is likely as growth within categories would have to otherwise achieve incredible growth, see NYT Blog Feb 25, 2012).

What happened to Nokia? Books could be written on this issue, and I acknowledge the inadequacy of condensing what was probably a gradual and complex process into a paragraph in a blog. But a few things strike me as critical. The first is Nokia's incredible early success in mobile telephony. People who lament Nokia's struggles underestimate this fact. Take a look at that graph again and stare at the far left axis- capturing well over 50% of industry profits is likely to make you think twice about doing anything to destroy that lead, a lead built on solid hardware. Risk-aversion and it's sibling, consensual decision-making, is likely to creep-up in importance and habit. Nobody wants to be known as the executive who sunk Nokia through a far-fetched gambit, and so it's easier to just "carry-on" in the proven ways of the past.

It seems that the problem for Nokia was that they may have not looked only twice at new options, but many times over as they confronted technological crossroads and key decisions (such as building their own app store, well before Apple, but which was initially shelved and eventually came out late). One way to look at it is that their internal ecosystem was not adventurous enough, not entrepreneurial and robust enough in generating multiple directions or future options, or at least not quickly enough to match the

external ecosystem, which was more rapidly developing pathways and niches. Remember that the issue is never how fast any company develops robust options but how fast they discover and develop those options compared to what others are doing. Nokia CEO Stephen Elop deserves credit for recognizing this issue and challenging, with brutal honesty, the entire organization (see his open letter "**burning platform**"). I hope there is also some attempt to capture how the past successes hindered progress.

Not all successful companies fail to capture major transition points. Intel managed to shift from memory devices to microprocessors successfully, and this was a nail-biting transition, one if they got wrong could have cost executives the company or at least many years of problems and decline. Intel's secret was having a robust internal ecosystem, which took chances and paved adventurous paths for long enough, and long before, they were proven winners. Having those options in place gave executives a broader set of resources from which to build company strategy and maneuver around competitors.

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