

# Nokia's Shrinking Market Share In India: Can Nokia Sustain Its First-Mover Advantage?

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## INTRODUCTION

Nokia, now an institution in Finland, continues to cast an ever-lengthening shadow of influence over the global multi-billion-dollar mobile phone industry. It is Finland's largest company, accounting for almost more than one third of the market capitalization of Helsinki Stock Exchange (currently around €225 billion).<sup>1</sup> With one in three of all hand phones sold globally bearing its name, Nokia is one of the world's most recognizable brands. Nokia is selling more mobile phones as numbers 2 and 3 combined. Nokia is also the world's largest smart phone maker -selling more smart phones than numbers 2 and 3 combined. Nokia is profitable where most rivals are struggling to make profits.<sup>2</sup> None of Nokia's big 5 global handset makers have managed to migrate customers to smart phones in meaningful ways, while Nokia's market share in smart phones is better than its market share in dumb phones. By all measures, Nokia is executing well. But Business in general, and stock markets in particular, have proven to be merciless punishers for the companies who take their early success as granted and tend to be unimaginative and uncompetitive in the face of ever changing dynamics of business. Business history is full of such companies, who have fallen from grace and have become extinct like dinosaurs before the comprehensive changes of technology, tastes and preferences, competitors and disruptive innovations. Nokia's shrinking market share in USA, China and India is nothing but an indicator to prove that all is not well within Nokia and it is all set to enter the long list of companies who have fallen from the grace of customers. Hence, this paper makes an attempt to probe the reasons for the dwindling global market share of Nokia in general and India in particular. This paper also evaluates Nokia's opportunities and strategic challenges to get back on track in the Indian Market.

## NOKIA IN INDIA: DIALING THE RIGHT NUMBER

Nokia has played a pioneering role in the growth of cellular technology in India, starting with the first ever cellular call made around one and half decades ago, made on a Nokia mobile phone over a Nokia deployed network. Nokia started its operations in India in 1995, and presently operates out of offices in New Delhi, Mumbai, Kolkata, Bangalore, Chennai, Hyderabad and Ahmedabad. The Indian operations comprises of company's handsets, network infrastructure business and Research and Development centers in Bangalore, Hyderabad and Mumbai and manufacturing plant in Chennai. The handset business is supported by a team of professionals across 03 business groups - namely Mobile phones, Multimedia and enterprise solutions.

## SOME FIRSTS FOR NOKIA IN INDIA

- ✿ 1995- First mobile phone call made in India on a Nokia phone on a Nokia network.
- ✿ 1998- *Saare Jahaan Se Achaa*, first Indian ringtone in a Nokia 5110.
- ✿ 2000- First phone with a Hindi menu (Nokia 3210).
- ✿ 2002- First Camera Phone (Nokia 7650).
- ✿ 2003- First Made for India Phone (Nokia 1100).
- ✿ 2004- *Saral Mobile Sandesh*, Hindi SMS on a wide range of Nokia phones.
- ✿ 2004- First Wi-Fi Phone - Nokia Communicator (N9500).
- ✿ 2005- Local UI in additional local language.
- ✿ 2006- Nokia manufacturing plant in Chennai.
- ✿ 2010- India's Most respected brand according to a survey conducted by Brand Equity, Economic Times, consecutively from 2007 to 2010.

But the question remains in the mind of various industry analysts and experts that how did Nokia take the lead in the

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Indian mobile phone market, ahead of companies such as Ericsson, Motorola, LG and Samsung? The answer can be found in the strategies followed by Nokia in India and the same have been explained as under.

**1) The Power of Focus:** From the history of Nokia in India, one can assess that focus played a key role in the company's growth in India. Because all the other companies in 1995 had other things and businesses to focus on, but Nokia completely and sharply focused on mobile phones. Being ahead of the curve was another component of Nokia's strategy in India, as they had invested before everybody else in the brand, in the people, and most importantly, in distribution. Nokia's investment is worth more than \$1 billion in India and this is ample proof of its focus on emerging markets, that too especially in India.<sup>3</sup>

**2) The Distribution Edge:** Investment in people is difficult to judge; every company claims to have the best talent in the business. But when it comes to distribution, Nokia's lead is clear. Nokia started distributing its phones through a partnership with HCL (formerly Hindustan Computers Ltd.), which had already built an extensive network for its own products. Recently, Nokia has decided to supplement that with its own distribution efforts individually and has begun to set up concept stores in Indian cities, where they tried to bring to life all the experience that they offer at Nokia experiential zones across the world.<sup>4</sup>

**3) Investment in Manufacturing:** The other big investment area that has set Nokia apart from other telecom firms is manufacturing facilities and R&D. Nokia has several R&D centers and labs in India. More importantly, it established a \$150 million handset manufacturing facility in Chennai in 2005. The total production at this unit has crossed 25 million handsets. Other companies, such as Motorola, LG and Samsung, have also lined up similar investments or are in the process of setting up manufacturing units, but Nokia has had a clear head start.

**4) Building the Brand:** Another crucial aspect of Nokia's investment strategy focused on building its brand. Nokia has understood the Indian market by straddling all segments: the high, the middle and the low end and as a result its range available in India extends from ₹ 1,499 (\$37) at the lower end to ₹ 45,000 (\$1,125) at the high end. Jagdeep Kapoor views the Nokia brand in terms of his proprietary "REAPS" model, which takes into account five needs -- *Rational, Emotional, Aspirational, Physical And Spiritual* -- of the Indian consumer. *"Nokia as a brand has been able to address all the five needs to various degrees at various stages,"* he says. *"The rational need of quality versus price has been met across price segments with options. The emotional need of being able to keep in touch with near and dear ones during times of joy and sorrow is being adequately fulfilled. The aspirational need with the new models and features and the look-good approach has helped the brand become a sought-after, must-have brand. The physical need has been taken care of through size and comfort. And, finally, the spiritual need has been met through (local) languages and people -- whether they are 18 or 80 -- being able to greet one another via SMS [text messages] during religious festivals."*<sup>5</sup>

**5) Products For India:** The Nokia story in India has not been about grafting a model that has worked abroad. In fact, some of its models -- the handsets, not the strategies -- are unique to India. Consider this example: It would probably be inconceivable to mobile phone users in the U.S. or Europe that their mobile phones should incorporate a flashlight, or torch. But in India -- where large numbers of the rural population do not have electricity, and power cuts are commonplace even in the cities, having a torch built into a mobile phone is a distinct and tangible benefit. The Nokia 1100, the first made-for-India phone, has been a runaway success. Manufactured at Chennai, it is also being exported. The 1100 incorporates a torch, an alarm clock and a radio. Such India centric product innovations are the main plank in Nokia's R&D center in Chennai, where it employs more than 700 people.

## **SHRINKING MARKET SHARE: ARROGANCE OF A FIRST MOVER OR MISPLACED PRIORITIES FOR NOKIA?**

Business in general, and stock markets in particular, have proven to be merciless punishers for the companies who take their early success as granted and tend to be unimaginative and uncompetitive in the face of ever changing dynamics of business. Business history is full of such companies who have fallen from grace and have become extinct like dinosaurs before the comprehensive changes of technology, tastes and preferences, competitors and disruptive innovations. Nokia's shrinking market share in USA, China and India is nothing but an indicator to prove this empirical fact, if not everywhere, but in India. Starting around 2006, new mobile phone handsets made their way into the Indian market, right under the nose of a mostly oblivious market leader i.e., Nokia. Starting with the grey market 'China phones', it grew to be the foundation that's launched a slew of *desi* domestic contenders for their share in ever

increasing Indian mobile handsets market. The smaller companies worked with vendors to create dual SIM handsets that could switch between CDMA and GSM and later, between two GSM cards. It was a bet that paid off for them. The demand for dual SIMs went through the roof, driven by a flood of new operators offering telephony at the lowest prices in living memory. Everyone from relative newcomer Micromax to Samsung leapt aboard the dual SIM bandwagon. On the other hand, many of the newcomers in the market have been able to crack the same distribution model Nokia relied on for rural markets: piggybacking on *kirana* stores or any other regular shopping destination to make themselves available. Micromax, for instance, fanned out to the urban areas from the hinterlands. Its first model launched two and a half years ago came with a 30-day battery backup. The Micromax portfolio also features a phone that doubles up as a universal remote for television sets and air conditioners. The Korean electronics major Samsung launched Marine, a phone powered in part by solar energy. Spice Mobile threw in an ultra violet torch that would help detect counterfeit currency and has recently come up with a model with two memory cards that serve like double cassette decks of yore, allowing for easy transfer of data. Many of these new products are definite proof of marketers with their ears to the ground, ready to exploit any opportunity, any niche, without wasting time.<sup>6</sup>

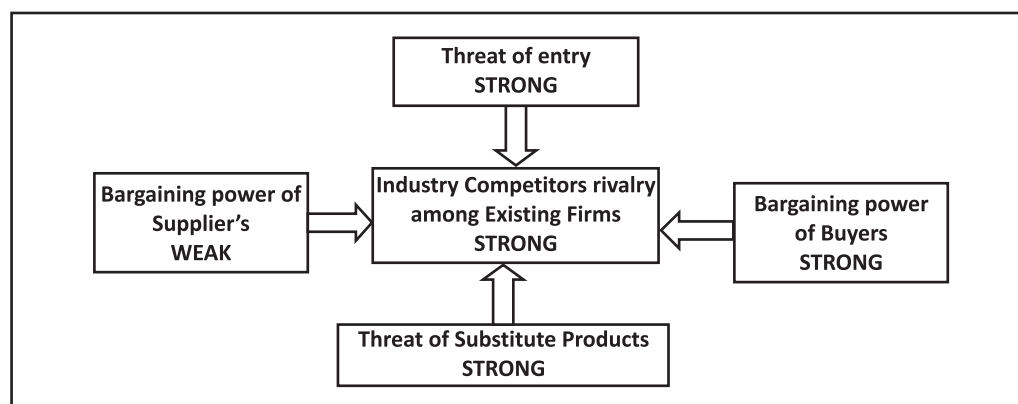
The newcomers seem to be fighting Nokia at a game it played very well, when it first fused cameras and FM radios to its phones. The mobile category has always led its consumers. Many features are articulated strongly only after they've been experienced. And it's a strategy that's yielding rich dividends to the new innovators, just as it did for Nokia. For example, Micromax accounts for a million of the 10 million handsets sold every month in India, with 60% of its off-take coming from the rural markets. Even the top and the middle of the market, Nokia's mainstay, are under threat. The perceptual high ground on touch phones was taken over by the iPhone even as Blackberry grew synonymous with business phones. While Nokia was slow to launch touch screen phones, Samsung, which claims to have a 16% volume and 20% value share of the mobile market, went to town with these models.<sup>7</sup>

Instead of focusing on handsets and service, Nokia has tried to focus on a market with higher margins - the top end, and it is, perhaps, too late as seeing the success of MicroMax, Karbonn, Lava and Lemon - low cost “*value for money*” entrants in India's burgeoning handset market. More consumer companies are now adding mobile handsets to their portfolio. But it's a reality that market leader Nokia has reacted very lately when it launched its Nokia C1 and Nokia C2 on 30<sup>th</sup> August 2010. Part of the reason Nokia missed the bus on dual SIMs and a few other innovations could be because the company's attention has been consumed by its drive into the apps. and services space - a global strategy. It is very unfortunate that the brand that seemed to know India almost as well as its native Finland has not been able to cash in yet on the biggest handset trend of the last couple of years. Apart from missing out on key innovations, it has been losing share. According to Voice & Data figures, Nokia's market share in India has fallen from 64% in 2008-2009 to 52.2% in 2009-2010. Globally, its net sales fell in 2009 to Euro 40,984 million from Euro 50,710 million in 2008.

## IS REDEMPTION/REVIVAL POSSIBLE FOR NOKIA IN THE INDIAN MARKET?

The early success of Nokia can be attributed to the facts like focusing on the mobile phone market, establishing crucial

**Figure 1 : Nokia- External Analysis (Porter, 1998)<sup>9</sup>**



distribution partnerships, making early investments in manufacturing and brand building and developing innovative product features- such as mobile phones that could double as flashlights. Being ahead of the curve was another component of Nokia's strategy.<sup>8</sup> Though, Nokia still retains 52% market share in India, but there's trouble at the bottom with more of these local brands launching handsets, and there's trouble at the top with the Android juggernaut replacing Symbian. It won't be long before Android handsets are available for ₹ 6000-8000, and then Nokia will be in serious trouble. In the past, Nokia's distribution and exceptional service quality have saved its skin; people still trust the brand, but Nokia has failed to deliver with its handsets. An attempt has been made to probe the possibilities of redemption of Nokia in India by using **Michael E. Porter's** five forces model and the analysis is as under :

**a) Threat Of Entry:** The threat of entry for Nokia is really strong as there is already a string of domestic brands that are eating into its market share like *pirhanas*. On the other hand, Akai, the Japanese Company has also entered into the Indian Mobile handsets market. Moreover, there is an increased threat that new network operators can supply the customized, operator-specific handsets. Hence, it becomes clear that Nokia will face intense competition in the Indian Market.

**b) Threat Of The Substitutes:** There is no direct substitute in the mobile phone industry, especially for Nokia's advanced products at the higher end, but at the lower end, its product were cornered by a string of domestic and foreign brands who offered a series of new product features at throw away prices.

**c) Bargaining Power Of Suppliers:** Since Nokia is the market leader in the mobile phone sector, Nokia is in a strong position.

**d) Bargaining Power Of Buyers:** In handsets market, end users are not directly purchasing handset from Nokia, instead they purchased from the service providers. Since the market becomes more sensitive to the price, Nokia could meet the strong bargaining power from the buyers.

**e) Rivalry Among Existing Competitors :** There is intensive competition in mobile phone industry. The competitors include Samsung, LG, Sony Ericsson and other new emerging manufactures like Akai.

## **NOKIA SWOT ANALYSIS (BARNEY, 1991)<sup>10</sup>**

An attempt has also been made to conduct an SWOT analysis of Nokia in the changed Indian market scenario by using the Barney's Model of Firm Resources and Sustained Competitive Advantage. The analysis is as under:

### **\*STRENGTHS**

- ✿ Having the advanced technology over the competitors in the mobile phone industry.
- ✿ Decentralized company structure, innovative and creative employees.
- ✿ The market leadership in the mobile industry.
- ✿ Strong brand name and company image in the global market.
- ✿ Has its own manufacturing network in India.
- ✿ India specific product innovation.
- ✿ Economy of scale.

### **\*WEAKNESSES**

- ✿ Complacency and arrogance.
- ✿ Few customized, operator-specific handsets.
- ✿ Few alliances, company sticks to its standing in the market, does not want to cooperate with the operators.

### **\*OPPORTUNITIES**

- ✿ The emerging market in rural India.
- ✿ The emerging market for high-end mobile phone such as business user phones.

### **\*THREATS**

- ✿ Facing new competitors, especially from domestic brands.
- ✿ Stronger buyer power from the network operators.
- ✿ Lost market share.
- ✿ The urban market in India may become saturated.



## CONCLUSION

Based on the above analysis, one can agree that Nokia has the potential to remain a major presence in the Indian mobile phone industry in the following years. The external mobile phone market environment in India is dynamic; Nokia has lost its market share due to the misinterpretation of the market trends and customer needs. But the market also brings the big potential opportunities to Nokia, such as the expanding market in the rural India, customized business user mobile phones and so on. Moreover, the most important of Nokia's internal strengths, such as the advanced technology, innovative products, economy of scale, could let it surpass the competitors and solidify its market leader position; Furthermore, Nokia can benefit further from its strong brand name and company image.

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