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Globalization Strategy of Nokia

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Abstract

The mobile phone usage is increasing every day, revolutionizing the field of technology and our lives throughout the world. We all spend a considerable amount of time using our mobile phone for various purposes making it the technical innovation that we use most frequently. Nokia is one of the biggest brands in Telecommunications Industry globally. It enjoys a market share of around 35% at the moment. The Finland based company Nokia caters to GSM as well as CDMA segments. Nokia's phones are loved by a lot of people and its name is synonymous with reliability. Nokia has its presence in every segment of the market. It offers the cheapest of phones with the most basic features as well as high-end swanky phones with all the latest features.

The purpose of this paper is to briefly look at Nokia’s impact on the international business under the following topics:

• Nokia’s market entry strategy: Marketing Mix, Branding, PLC

• Foreign Direct Investment

• Foreign Exchange Impact over international Trade of Nokia

• Culture of Nokia and CSR

This will help to understand how Nokia’s way fits in to the theories of International Business and what strategy put it on the top of mobile phone market.

1. Introduction: Nokia’s background

Nokia was founded by Fredrik Idestam in 1865 as a wood-pulp mill in south-western Finland. It was later relocated to the town Nokia where the company got its name. The name Nokia is an old Finnish word for a dark, furry animal (such as the sable). In the beginning of the 20th century Finnish Rubber Works established its factories and began using Nokia as its brand. The companies merged in 1967 as Nokia Corporation, which went on to produce paper products, bicycles, car tires, footwear, personal computers, communication cables and televisions. It was not until 1987 that Nokia introduced one of the world’s first handheld phones, the Mobira Cityman 900. It weighed only 0.8 kg and cost €4,650. In 1992 Jorma Ollila became the President and CEO of Nokia and focused the company on telecommunications. Nokia launched its first GSM handset in 1992, the Nokia 1011. In 1994, the first mobile to feature the Nokia Tune the Nokia 2100 was launched. In the same year, world's first satellite call was done using one of Nokia's GSM handsets. In 1997, the first mobile to feature Nokia's classic Snake game was launched, the Nokia 6110. 1998 was the year when Nokia became the world leader in mobile phones. The year 1999, was very significant as the Internet went mobile when the world's first WAP handset, Nokia 7110 was launched. 2002 saw the launch of Nokia's first 3G phones, the Nokia 6650. Nokia launched the N-Gage in 2003. It helped in making the mobile gaming multi-players. Another significant year in the history of Nokia was 2005 when the ‘Nseries’ was introduced. In the same year, Nokia sold its billionth phone. Nokia continues to be the market leader. It is now a huge multi-national company with manufacturing units all over the world. In the highly competitive world of mobile phones, Nokia still has a lot of market presence and provides a lot of mobile contracts and will continue to do the same (Nokia, 2010).

2. Role of Nokia on the telecommunication market

Finland, home of Nokia, the world's largest manufacturer of mobile phones, has honed a new innovation plan aimed at keeping the tiny Nordic country competitive in an increasingly competitive, global market. In 2006, Olli-Pekka Kallasvuo, formerly Nokia’s Chief Financial Officer, took over as CEO from Jorma Ollila, who became chairman of Nokia’s Board of Directors. Nokia’s success has made Finland one of the fastest-growing and most prosperous economies in Europe. A company becomes a ‘multinational corporation-MNC’ when it conducts any business function beyond its domestic borders’ (Cullen & Parboteeah, 2010). Internationally Nokia has captured markets of over 60 countries in the world where China, India, USA, Middle East, Africa, Asia, Australia and New Zealand having largest market shares. It was ranked in 85th place of ‘Fortune 500 list’ and employees over 125,000 staff (Cable News Network, 2009). "We are expanding our presence and operations in India, not for the local market alone. We want to strengthen our global presence by exploiting the skills found here.'' Said Kullasvuo to Bloomberg when India became the second largest market for Nokia surpassing USA in 2007 (Kallasvuo, 2007). This is clear intention of Nokia’s globalization strategy. The sales volumes depict how Nokia’s business arms have spread globally. Nokia Q1 2009 net sales were EUR 9.3 billion. This is enough proof for one to realize how Nokia’s presence in each country contributes towards GDP and employment statistics. (NOKIA, 2009) Finland already commits around 3.4 percent of its GDP (gross domestic product), or 6 billion [euro] (US$8.6 billion), to R&D. That compares with the European average of around 1.8 percent. Around 28 percent of this is paid for by the government, with the lion's share--72 percent--being footed by the private sector. Nokia accounts for 45 percent of all industrial R&D in Finland and more than 80 percent of the R&D investment in the telecommunications sector (Blau, 2008). Time marches on and history has proven that standing still means death for any company (Bradford, Duncan, & Tarcy, 2000). Change is inevitable for telecommunication industry and the size doesn’t matter even for a company like NOKIA if it is not adoptive. Based on strategies and events of 2008-09, let’s look at the SWOT analysis of NOKIA. SWOT analysis will help a firm to understand its Strengths, Weaknesses, Opportunities and Threats.

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| Strengths • Long history of flexibility and adoptive to change • Steady revenue growth • Brand power • Strong financial position • Flexible Capital Structure • Investment in research and development of technology • Reached low operating costs in 2009 • Consumer retention rate of 55% • Product innovation bundled with value added services mainly focusing on maps, music, messaging, media and games. • Successful mergers, acquisitions and collaborations | Weaknesses • Reduced staff strengths to achieve low costs. • Declining profitability ratio due to current economic conditions • Decline in the converged device share (by 32% in 2008 despite the shipment of over 60 million units).  |
| Opportunities • Consumer demand for mobile computers • New segments such as potential first-time email users in India, Africa, etc• Consumers attracted to less expensive devices during recession | Threats • Mobile device manufacturers • New entrants from the PC and internet industries • Contraction of the market due to current economic conditions • Innovative technologies in smartphone industry by competitors |

Out of the above weaknesses, reduction of overheads and staff was critical for Nokia since staff cut down had to be handled more humanly. Nokia announced plans to cut Operating expenses and cut production overheads by EUR500 million at an annualized level by the end of 2011. As part of this effort, the company is conducting a global personnel review, which may lead to headcount reductions in the range of 7% to 9% out of approximately 125,000 employees.

Also to reap benefits from the opportunities Nokia renewed its business mobility strategy in year 2008 and set out to excel in the following three key areas (International Security & Counter Terrorism Reference Center, 2009): 1. Successful device portfolio; 2. Collaborating closely with carriers; 3. Partnering with industry's leading companies. One of the key strategies in surviving in the economic turmoil is to re-invent the business by way of innovative product and services (Fischer, Gebauer, & Fleisch, 2008).

3. Market Entry Strategy of Nokia

The marketing mix:

Price: The phones that Nokia produce are usually sold at high prices (new phones can be expected to enter the market at around £200+, if they carry the latest technology). The price of the new phones usually decreases after an introductory period, which is usually around 2 months long. Nokia's prices are usually competitor based, in such a way as, they try to keep their prices a bit lower than those of the closest competitors, but not as low as the "smallest" competition as consumers do not mind paying the extra money for the "extra quality" they will receive with a well known brand, such as Nokia.

Place: Nokia phones are generally sold at all established mobile phone dealerships such as Carphone Warehouse and The Link, although they are also sold at other retailers such as Dixon's and other electrical suppliers. The products are only sold in the electrical suppliers and store other then dedicated phone dealerships after the introductory period so the phones can remain limited edition, as this will encourage younger consumers to buy them.

Promotions: Nokia tend to promote the new technologies and mobile devices they create using one big advertising campaign that focuses on a singular technology instead of each individual handset so they can appeal to a lot of different markets with one campaign.

Product: Nokia phones tend to include all the latest technology. When the phones came out they were big and bulky and quite unattractive but now they are all quite sleek and stylish with phones now they are small and slim. Most of the phones produced nowadays have accessories that consumers must buy with them (carry cases, hands free kits and in-car chargers) these generate Nokia a lot of profit, as they are very high priced.

Nokia's marketing mix has worked very well until recently as the market they are aiming at has become more and more saturated and after looking at all the mobile phone sales figures, it looks as if the phone companies can aim at this same youth market for about another 2 years until they need to change, but they should change sooner so they can start making a bigger profit and get a head start on the competition who will also have to change the market they are aiming at. Nokia's current promotional strategy is working very well as they are able to "talk to" a large number of consumers in different markets rather than the niche markets the old promotional strategies where restricted to.

Market segmentation

Market segmentation refers to the different areas of the population that companies can aim their products towards. The market segment that Nokia has chosen to aim is the youth market focusing on students aimed 13-19 as market research has shown that some of the youth market are receiving large amounts of pocket money and most have no real commitments to spend it on and that means they have lots of disposable income and will be able to spend a lot money on new mobile phones.

As a big company Nokia is able to do a lot of promoting and advertising that smaller, less successful companies, may not be able to afford, such as television advertising and sponsoring lots of events that will be viewed or heard by large amounts of people in their chosen market segment (events such as music festivals and music awards are a goldmine for companies as they are viewed by millions of people worldwide). Adverts such as television and print adverts will be put into certain areas so that they can attract their chosen market segment, Nokia tend to put a lot of their print adverts in men's magazines such as FHM and Loaded so they can appeal to all of their readers instead of a smaller percentage of the readers they would attract in magazines such as Lifestyle and Good Housekeeping. Nokia's way of promoting is very good as they can appeal to mass markets and large amounts of people in their chosen market segmentation with certain advertisement's and with sponsoring large events like the ones I have previously mentioned.

Pricing strategy

Nokia's current pricing strategy is based on two main theories: 1. Penetration pricing- although this strategy is usually for companies that are trying to gain instant market share in a new market, companies who are already well known in the market still do it with new products that carry new technologies so they can take more market share from their competitors. 2. Competitor based pricing- this is used when there is a lot of competition in the market and a company is looking to take another companies market share by offering the same or similar products or a lower price, this happens a lot in the communications market and this strategy is used by every mobile phone producing company that is still in business.

Nokia's pricing strategy has proven very effective, this is down to the fact that they first sell their products for high prices and have very limited sales but make big profits on each sale, they then lower the price of their product and have lots more sales but they make less profit, but they still make a large profit due to the amount of sales, the other reason that they are so successful is that they offer high quality products and they sell them for the same price and sometimes even lower prices than the competition and have now built up the highest market share, they currently have 37.2% of the mobile phone market share and are the biggest selling mobile phone company in the world.

Branding

Nokia phones are seen as being of the highest quality and this is reflected in their massive sales figures. The fact that they are seen to be such high quality products is partly down to successful branding, they have a highly recognizable packaging style and the style of their handsets is similar in every line of production with the company name printed just above the screen and just below the earpiece. The fact that Nokia operate such an aggressive marketing strategy has elevated them above the competition as consumers are fooled into believing that branded products are "better" then un-branded products or products produced by lesser-known brands such as One Tel and other lesser-known phone producers in the market.

Product life cycle-Nokia

When Nokia phones were first introduced they required a lot of promoting and advertising as they weren't established enough to sell based on their quality and what they offer to the consumer, so this is where Nokia spent the largest amount of money promoting their products and establishing their brand as a leader in the communications market. Also when mobile phones were first available there were only a few companies as well as Nokia in the market (Sony est.) so they could charge higher prices then they can at the present time in the product life cycle because no companies would dare to enter a price war with such a new product.

Growth- This stage of the life cycle also has high promotion costs involved in it, this is due to the fact that mobile phones are becoming established as a consumer necessity and lots of other companies decide to enter the growing market, although companies do not need to assure customers that they need a mobile phone, Nokia have to assure the customers that they want a Nokia phone and this is where the high promotional costs come from.

Maturity- In this stage the promotional costs do decrease as the more popular brands, such as Nokia and Samsung, have gathered the majority of the market share and only have to show customers that they have a new model out and it will sell well, as they have been established as a quality brand and customers no-longer need to be persuaded to buy Nokia brand technology.

Decline -This is the stage that the mobile communications market, including Nokia, have recently entered, and companies are promoting, heavily, their new products to the market in an attempt to get out of decline and back into growth, with a new generation of technologically advanced phones that offer motion picture capture, camera technology and the opportunity to watch television on your handset.

Today Nokia has captured the markets of over 60 countries in the world where China, India, USA, Europe, Middle East, Africa, Asia, Australia and New Zealand having largest market shares. There are two interesting cases of entering strategy of Nokia: Indian market and Chinese market.

Nokia entered India in 1995. Since then the Nokia brand has been steadily growing and has gained wide acceptance in the Indian market. India is the third largest market for Nokia, in terms of its net sales as of 2006. Nokia is one of the most trusted brands in India and leads other cellular phone brands in terms of market share, advertising and customer service. The innovative technologies, user-friendly features and affordable prices contributed to Nokia's success in India. The case facilitates discussion on Nokia's brand building strategies in India. It also allows for discussion on the future of the Nokia brand and the cellular market in India.

Since 1985, Nokia had been fighting hard to establish a strong presence in the Chinese cell phone market that had grown significantly during the 1990s. Despite investing heavily in research and development and manufacturing facilities, Nokia had been facing tough competition not only from foreign companies like Motorola and Samsung but also from domestic players like TCL and Ningbo Bird. The market share of domestic players had increased from a mere 5% in 2000 to 56% in 2003.

There are six types of entry barriers to international markets according Michael Porter. They are listed below (Porter, 1980). (1) Loyalties among buyers and sellers established previously. (2) Customers’ switching costs (any customer who wants to switch from one Supplier to another faces varying costs). (3) Access to distribution channels (available channels might not be imaginable or they may be controlled by competitors). (4) Scale effects (the entrant may need large volumes and low costs). (5) Extensive need for resources (e.g. management capacity and capital) in order to be firmly established. (6) Important costs independent of scale.

In order to overcome the above barriers Nokia adopted strategies such as mergers, acquisitions and partnering or collaborating with market leaders in those specific countries/industries.

4. Foreign Direct Investment

This section analyzes what kind of strategy Nokia took in terms of FDI.

Foreign direct investment (FDI) occurs when a company directly invests in production and/or marketing of products in a foreign country. FDI can be categorized in to two. 1. Greenfield Investments, when established as a new operation in a foreign country. 2. Acquiring and merging with existing firms of a foreign nation (Joint Ventures).

Horizontal FDI is when the company is starting business in the same industry in the foreign nation. Dubai based Telecommunication Corporation buying over Tigo Sri Lanka in Oct 2009 to enter into the Sri Lankan market is a good example (Arab News, 2009).

Vertical FDI takes place when a multinational corporation (MNC) owns some shares of a foreign enterprise, which supplies input for it or uses the output produced by the MNC (Hill & Jain, 2007).

In terms of motives, Foreign Direct Investment can be categorized as: 1. Market seeking FDIs 2. Resource seeking FDIs 3. Efficiency seeking FDIs

FDIs that are undertaken to strengthen the existing market structure or explore the opportunities of new markets can be called 'market-seeking FDIs.' 'Resource-seeking FDIs' are aimed at factors of production which have more operational efficiency than those available in the home country of the investor. FDI activities may also be carried out to ensure optimization of available opportunities and economies of scale. In this case, the foreign direct investment is termed as 'efficiency-seeking.

For Nokia it was more or less a mix of all of the above three motives. Some of the key examples for NOKIA can be listed as follows: Mergers, Collaborations and Acquisitions by Nokia • Nokia Siemens Networks (NSN) - To develop a portfolio of products and service solutions to help operators run their networks more efficiently. • NAVTEQ acquisition. To get in to the Maps and navigation technology, which have become tremendously popular services on mobile devices. (NAVTEQ’s advanced map capabilities are critically important, as we believe that the next phase of Internet services will be defined by local relevance and your "social location". Nokia is well-positioned to take leadership here). • Collaborate with The Symbian Operating System to broaden the definition of the smartphone, by expanding smartphone features into the mid-range, and into new categories. • Working together with certain competitors, new players and partners in new ways to tackle global environmental issues. • Agreements with Microsoft and IBM for corporate e-mail services. • Collaborate with Qualcomm to develop smartphones for the North American markets. • Nokia and Broadcom are cooperating on technologies a next generation 3G baseband, radio frequency (RF) and mixed signal chipset system supplier for worldwide markets., including Nokia modem technology (Tolkoff, 2009).

In the 1990s, Nokia internationalized its R&D function, by setting up research centers abroad. By 1998, half of the company’s R&D was conducted outside of Finland. Some of these centers, located in regional clusters of scientific excellence (e.g. Silicon Valley), have helped Nokia tap knowledge from rivals and foreign markets. In addition, Nokia has forged collaborations with leading universities in Finland and abroad (e.g. Massachusetts Institute of Technology) and has participated in various international R&D projects, in view of expanding the scope of its long- term technology development. By the end of the 1990s, co-operation with other companies, research institutes and universities had become a central part of Nokia’s global R&D strategy. This approach triggered two-way knowledge transfers, enabling Nokia to exploit external expertise and technology.

Furthermore, by end 2000 Nokia had set up ten plants for the manufacturing of its mobile devices in nine different countries. These plants have handled huge amounts of parts (e.g. more than 100 billion in 2006). The challenges of managing such huge volumes are enormous, but Nokia has turned high-tech manufacturing, supply chain management and logistics into one of its core competencies. In addition, the company has also been working with a selected number of external suppliers in Finland and abroad to procure electronic and mechanical components, and software. Collaborating with such a diverse base of suppliers worldwide through a horizontally-integrated supply chain model has generated (two-way) knowledge and technology transfers between Nokia and its partners, helping it to multiply its technological capacities. Moreover, Nokia’s long-term supplier relationships have functioned as a growth engine for the entire Finnish ICT (information and communication technologies) sector as it served as an international marketing channel for many smaller Finnish companies. The increasing significance of Nokia’s foreign operations in the company’s global business strategy has however implied potentially greater risks and higher costs from changes in tariffs and other obstacles to trade affecting the import and export of mobile device components.

Finally, in the early 1990s, Nokia adopted an export-based sales strategy. As a result, between 1990 and 2006, Finland’s position as Nokia’s dominant geographic market declined dramatically at the expense of other European countries, the Asia-Pacific and the Americas. In recent years, emerging markets (e.g. China, India and Russia) have been Nokia’s main markets. In addition to the changing composition of key markets, the volume of net sales also dramatically increased (+ 209% over eight years, increasing from a total €13 326 million in 1998 to €41 121 million in 2006), which enabled Nokia to recoup its R&D investments more easily. Today Nokia is ranked 85 in top 500 companies in the world (Lesser, 2009).

5. Foreign Exchange Market Impact over Nokia

"The foreign exchange risk usually affects businesses that export and/or import, but it can also affect investors making international investments. For example, if money must be converted to another currency to make a certain investment, then any changes in the currency exchange rate will cause that investment's value to either decrease or increase when the investment is sold and converted back into the original currency" (Investopedia, 2010). This way unfavorable market volatility will have a huge negative impact in Nokia’s profitability.

Large companies such as Volkswagen, Airbus and Philips, among others, have experienced a foreign exchange loss on profit arising from unhedged sales in dollar countries. Moreover, some companies, such as Heineken, Nokia and again Airbus, have already announced that the weakened dollar will keep affecting returns, due to mere short-term hedges in previous years.

The most common of these solutions are conversion of contracts into domestic currency or transferring the production abroad. The foreign exchange risk for a company will increase with the length of its foreign commitments. Relative small changes in the foreign exchange rates can have a huge impact on the profit and solvency of a company (Wijckmans, 2005).

According to the foreign exchange policy guidelines of the Group, material transaction foreign exchange exposures are hedged. Exposures are mainly hedged with derivative financial instruments such as forward foreign exchange contracts and foreign exchange options. The majority of financial instruments hedging foreign exchange risk have duration of less than a year. The Group does not hedge forecasted foreign currency cash flows beyond two years. One example from Nokia is KongZhong Corporation, a leading mobile Internet company in China, reaching a non-binding agreement with Nokia Growth Partners (NGP) to receive an investment of about US$6.8 million in 5-year convertible senior notes. NGP would also receive warrants to purchase an additional 2.0 million American Depositary Shares (ADS) at US$5.0 per ADS, exercisable within five years (PR Newswire Association LLC , 2009).

Nokia uses the Value-at-Risk ("VaR") methodology to assess the foreign exchange risk related to the Treasury management of the Group exposures. The VaR figure represents the potential fair value losses for a portfolio resulting from adverse changes in market factors using a specified time period and confidence level based on historical data. To correctly take into account the non-linear price function of certain derivative instruments, Nokia uses Monte Carlo simulation. Volatilities and correlations are calculated from a one-year set of daily data. The VaR figures assume that the forecasted cash flows materialize as expected.

6. Culture and Environment

Culture of a MNC is very vital when conducting business. Colleagues of different ethnic groups should be clear in communication as well as in interaction. While understanding the core cultural competencies within MNC it is equally important to apply them in the local contents (Smedley, 2008).

Some of the key highlights in the ‘Nokia Way’ can be listed as follows: • In 2007, it held 16 "Nokia Way Cafe" events, which saw 2,500 employees worldwide getting together to discuss what they perceived the driving cultural values of their company to be. • The four values, ‘Engaging you’, Achieving together’, ‘Passion for Innovation’ and ‘Very Human’ are drilled down to the new recruits • Job rotation is highly valued by the employees and transparency in selections • Work-life balance and flexibility in home worker facility

As a MNC the belief that a company should take into account the social, ethical, and environmental effects of its activities on its staff and the community around it is defined as the Corporate Social Responsibility (CSR). Let us also look at Nokia’s belief in company's accountability towards the community.Some of the key CSR initiatives of Nokia are as follows: • A global leader in recycling, with the industry’s largest voluntary recycling program. It is now operating in 85 countries, and working hard to increase awareness to encourage more customers to recycle their old phones. • Responsible ways of working have become business as usual at Nokia. • China headquarters in Beijing has received global recognition as one of the most environmentally sensitive buildings in the world. • Nokia also has been highly ranked for its environmental sustainability by several organizations worldwide. These include the Dow Jones Sustainability Index, the Carbon Disclosure Project and more recently, the Greenpeace Green Electronics Guide. • The GSM Association recently recognized Nokia's commitment and actions with its environmental achievement award for Nokia this year. • Nokia also is working with the industry to reduce the environmental impact of mobile phone chargers.

Summary

Mobile phones have already become part of our lives. People want to be truly connected, independent of time and place, in a way that is very personal to them. Nokia’s promise is to connect people in new and better ways. Nokia’s strategy is to build trusted consumer relationships by offering compelling and valued consumer solutions that combine beautiful devices with context enriched services.

But at the same time as a multinational corporation Nokia has to be mindful in how the future is planned and executed. This paper gave some insight information of Nokia’s market entry strategy, foreign direct investments, foreign exchange risk culture and environment. Lessons can be learnt from Nokia on the importance of interacting and integrating these segments as often as possible in order to ensure survival in economic turmoil. New markets has to be tapped, new products and services have to be invented and above all a positive culture should be encouraged to be adoptive to change as and when the market conditions change.

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