Nokia

"Be adaptable to survive"

A DECADE AGO, NOKIA WAS AN UNKNOWN COMPANY IN A TINY country on the edge of the Arctic Circle. So little was known about it, in fact, that until recently most people assumed it must be Japanese.

Today, the Finland-based firm makes three out of every ten mobile phones sold around the world, convincingly trumping electronics giants such as Motorola and Ericsson. Its brand was rated the sixth most valuable by Interbrand in 2005, just behind Microsoft and Coca-Cola. It is Finland's largest exporter, has inspired a technology boom around the capital, Helsinki, and its shares have created thousands of Finnish millionaires. Mobile phones are so commonplace in Finland today (seven hundred per one thousand people) that teenagers call them kännykkä, or känny, which means "an extension of the hand."

Bold leadership, inspired hiring decisions, good timing, and an element of national character all played a role in Nokia's success.

The company dates back to 1865, when it ran a lumber mill in the southern Finnish town of Nokia. It expanded slowly into rubber, making boots, cables, and phone lines. In the early 1960s, thanks to its telecom connections, it began to dabble in early radio telephones. Sparsely populated Scandinavia was a natural market, and when the region launched a basic cellular network in 1981, Nokia ran a small factory to supply the early phones, such as a ten-kilogram car phone.

If that was where the company's future lay, though, it was far from obvious. Nokia diversified into televisions and computers without much success. By the mid-1980s, the company's main achievements were as the chief supplier of toilet paper to Ireland and the world's only manufacturer of studded winter bicycle tires. In 1987, Nokia's fledgling mobile phone business started losing money. Under the direction of CEO Kari Kairamo, Nokia started looking for a Japanese partner to help it build a consumer electronics brand, but, as negotiations were under way in 1988, Kairamo committed suicide after battling depression. In 1991, the Soviet Union, Finland's main trading partner, collapsed, and Nokia's traditional businesses started struggling too.

With shareholders complaining, Nokia management considered selling off the mobile phone interests to cut costs. First, though, they turned to a young executive called Jorma Ollila to see if the mobile phone division could be turned around.

Ollila, who had joined the company in 1985, was always a bright prospect. Although born and schooled in Finland, at the age of seventeen he gained a scholarship to attend Atlantic College, an idealistic boarding school in Wales designed to bring together future leaders. After graduating, he studied for an MBA at the London School of Economics and worked at Citibank's London office, where he was given the Nokia account to look after.

Within a year of joining Nokia, he was appointed head of finance. In 1990, he was made head of the mobile phone division and was given six months to decide whether to sell up or keep it. After four months, he replied: keep it. He had visited the factory in Salo, about an hour from Helsinki, where he learned the company was struggling to prepare for the new European mobile digital standard, GSM (Global System for Mobile Communications). "The GSM project was in disarray," Ollila recalled in 2001. "There was a lot of disillusionment with the spec and the difficulty of the technology." He streamlined the process so successfully—the first GSM call was made in 1991 by the Prime Minister of Finland on a Nokia mobile—that in 1992 Ollila was named CEO.

Ollila was not the only smart newcomer Nokia had hired in the 1980s. In 1989, it had sent Matti Alahuhta, a young manager, on a sabbatical to a Swiss business school to ponder the company's future: particularly, how it could overtake its rivals from such a small base. He concluded that what Nokia needed was a technological shift, something Nokia could grasp first and use to gain an advantage.

Ollila could see that shift occurring. In 1991, with his right-hand man, CFO Olli-Pekka Kallasvuo, he decided on a new mantra: "telecom-oriented, focus, global, value-added." In a nutshell, that meant mobile phones. Ollila believed mobiles, at that stage still expensive and cumbersome business equipment, would become ubiquitous—important enough to bet the company on.

Investors liked the new approach enough that Nokia was able to raise cash in the United States and the company set about ditching the rest of its businesses (today Nokia rubber boots are considered collectors' items).

Nokia had gambled correctly on digital, manufacturing the first digital phone, and GSM, which was to become the dominant world standard. But technology was only part of the equation: Ollila knew he had to build Nokia into a brand.

The company had previously sold mobiles under several names, including RadioShack; now it would only sell under its own name. Just as important was a uniform look to the company's products, so they were recognizable even before you saw the brand.

Ollila contracted a Los Angeles designer called Frank Nuovo to work on the first of the new line of phones. Nuovo sculpted a smoothly rounded form with a big screen and intuitive keys, a quantum leap from its sharp-edged predecessors. Nokia hoped to sell 400,000 of the model, launched in 2004 under the name 2100. It sold more than 20 million.

Nuovo joined the company as chief designer in 1995, which was when Nokia began implementing the second pivotal phase of its branding strategy: differentiation.

Up until now, it had been enough for a phone to be small and cute. But now that more and more people owned one, Nokia realized it could sell different kinds of phones to different people. Nokia folklore has it that its engineers started painting their phones with car paint so they would recognize them on the bar of the local watering hole.

So, under the guidance of Frank Nuovo, Nokia started making phones in different colors. Then, phones with interchangeable face-plates and phones with dozens of different ring tones. Then came the phone as fashion statement: shiny, tiny, high-status phones. Its competitors, particularly Ericsson and Motorola, could not keep up. By 1998, Nokia was the world's number one cell phone manufacturer. In five years its stock had risen almost 2,000 percent.

It was not just about fashion, though: during the 1990s Nokia had developed a corporate culture that it says allows departments to do their own thing and for ideas to bubble up from anywhere in the organization, whether in Finland or at any of a growing number of factories, offices, and design labs around the world. Keeping what Ollila calls a "meritocracy" under control is a tight-knit management team—mostly Finns—who act as gatekeepers: Frank Nuovo, for example, signs off every design decision.

It is a resilient structure that in recent history has weathered severe stock market volatility. As a company, Nokia has already survived much worse, including the Bolshevik revolution, a civil war, and the death of its CEO in 1988.

Ollila believes Nokia is well-placed for the so-called third generation of phones, which will put the Internet in everybody's pocket. The new phones use Internet-style data transmission, which means Nokia is facing competition from phone makers such as Asian makers Samsung and LG and a revitalized Sony-Ericsson partnership, but also from computer firms such as Palm (who make electronic personal assistants) and even Microsoft, who can see endless possibilities in software applications. As a result, Nokia's market share slipped from 38 percent of the world market in 2004 to 30 percent by the end of 2005, resulting in another savaging of the historically volatile share price, though its market share appears to have stabilized since. In 2005, Nokia announced a new device called the 770 Internet Tablet—not a phone, but a book-sized web browser you could use in Wi-Fi hot spots instead of a full-blown laptop, for around $350 (or less as part of a phone-style connection deal).

Nokia argues that as the dominant brand, with the highest volumes in the industry, it is in the best position to exploit the new technology, wherever it leads. "We can jump on it and adapt," says Ollila. "Finns live in a cold climate: we have to be adaptable to survive."

NOTES

"The GSM project . . ." Silberman, Steve. "Just Say Nokia," *Wired*, 9.99.
"We can jump . . ." *The Economist*, "A Finnish Fable," 10.14.00.

REFERENCES

BusinessWeek, CNN, *Daily Mail, Economist, Financial Times, Fortune, Korea Herald, New Media Age, New York Times, New Yorker, Pittsburgh-Post Gazette, Scotland on Sunday, The Times, Utopian Studies*

Avon

Reinvention can happen to even the oldest brands

MRS. P.F.E. ALBEE OF WINCHESTER, NEW HAMPSHIRE, sold her neighbor some perfumes in 1886 and has gone down in history as the very first Avon lady. David McConnell established the California Perfume Company with a view to sell fragrance through a network of representatives rather than through a store. He kept himself busy developing affordable new cosmetic luxuries, and Mrs. Albee kept selling. In just twenty