

# Nokia

## Looks Beyond

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# Handsets

Nokia India can ill-afford to bask in the glory of being the biggest foreign-owned company in the country. Key to its lasting success is how it helps its parent make an ambitious transition into services.

JOSEY PULIYENTHURUTHEL

**T**wo days to Christmas, on an unusually warm afternoon in the capital, management guru Ram Charan is pacing a large conference hall at a Radisson hotel in south Delhi. His audience, the most successful consumer sales force in the country, some 250 sales and marketing people from Nokia, each key to the €4 billion, or Rs 22,700 crore, annual revenues the world's

**The Nokia India team (L to R):** Vineet Taneja, Marketing Director; D. Shivakumar, VP and Managing Director; Shankar Subramanian, Head, Retail; Vipul Sabharwal, Director, Sales; Sudhir Kohli, Head of Care, (standing at the back) and V. Ramnath, Head, Operator Channel



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biggest phone maker counts from India.

The part-time consigliere to global CEOs (from Jeff Immelt of General Electric to the Coca-Cola Company's Muhtar Kent, to Mukesh Ambani of Reliance Industries) has a simple fix to the dilemma before Nokia's foot-soldiers in India: What's there left to achieve after securing a crushing 60 per cent share of the market?

"What you are selling today is not just boxes (phones) but services and applications," booms Charan, 68, to the collective sound from the audience and some rapid note-taking on smartphones. Then, paraphrasing legendary Coca-Cola CEO Roberto Goizueta's "share of stomach" strategy—that the Cuban-born honcho crafted to brilliant effect in the 1980s to counter Pepsi—Charan asks the core team of Nokia India: "What is the share of consumer time you can command? What is the app that a consumer cannot live without?"



Not a killer app yet: A Nokia Ovi store in India

Services—that's how you increase your runway."

The angst at Nokia India has a global context. As early as 2001, when phone markets such as China were booming—and India was just a blip on the global telecom radar—it was evident to Nokia's top team that saturation of its core market was but a few years away and soon it would be selling phones only to replace existing handsets. But, that 50,000-foot view was visible to few outside Nokia's Espoo, Finland, management. In 2002, when then-chairman Jorma Jaakko Ollila outlined his vision to have Nokia wade into mobile and technology services, it was not even noticed by analysts, who saw it as another attempt at "convergence" by yet another telecom, broadcasting or technology company. Nokia "started very early when the

market and competitors were not ready for it," says Carolina Milanese, Research Director for Mobile Devices at the London offices of tech research firm Gartner Inc.

Today, the world has an estimated 4.6 billion phones to its 6.2 billion people, and Ollila's (currently Non Executive Chairman at both Nokia and Royal Dutch/Shell) vision is seen as a no-brainer and bought into widely. Even India, which had 10 million mobile phone connections when Ollila first publicly articulated his vision, today has at least 40 times more cellular phones and some 500 million connections. It is the fastest growing telecom market in the world but the writing on the wall is clear for the Nokia team that Charan was addressing: Transform into an Internet company or perish.

That is easier said than done when you are a company with €41 billion in sales globally and a legacy stretching 14

years. Think of the challenge with the hypothetical example: tv makers such as Panasonic or Videocon trying to get into creation of content to be stickier with viewers. There have been few attempts at transformations of such scale globally and far fewer that are successful. Disasters include the Detroit carmakers' attempt to get into insurance or Pepsi's move into fast food in the late 1970s and 1980. Successes: Hewlett Packard's dive into printer services or IBM diversifying into services after a near-bankruptcy.

Like IBM's teething troubles in the early 1990s, Nokia has had its share of failures in the last six years. The initial years saw a confused Nokia aiming to be Google for the mobile world. Roadkills on the way—Ollila's platform of applications that didn't climb as much in popularity as expected, its gaming strategy that turned a dud, and an \$8.1-billion (yes, Rs 32,240 crore then!) acquisition of Navteq, a maps company,

that Nokia couldn't monetise (see *More Misses Than Hits*). Things came to a head middle of last year with analysts panicking Nokia's services and solutions shift. In August 2009, Goldman Sachs downgraded the stock saying the company's troubles were "self-inflicted".

But all that's history. Let's come back to India and management guru Charan's worried audience. Nokia globally is setting up for its next set of big drives into mobile services and its playground is decisively India. "India is a great microcosm of the world; it has (demand from) both the high end and low end of the market. We are using India as a test-bed for other markets," says Mary McDowell, Nokia's New York-based Chief Development Officer, and a member of its Global Executive Board (GEB) led by CEO Olli-Pekka

MONEY SHARMA

Kallasvuo that steers the company with weekly meetings in what are turbulent times (2009 saw Nokia revenues shrink by one-fifth from €52 billion a year earlier). Top among the CEO's agenda are new initiatives Nokia is putting together to speed up its rollout into services and solutions.

## The Death of ATMs

**Nokia Money promises anytime, anywhere, anyplace shopping. Merchant payments and person-to-person transfers hold big sway.**

Primary among these is a project the company calls Nokia Money—a financial services platform that enables money transfer, remittances, airtime recharges and payments on the mobile phone—that is being put to trials for the first time anywhere in the world in India. There have been several experiments and models around mobile transfers and payments but the Nokia secret sauce of a simple and intuitive user interface shines in Nokia Money (branded “Mobile Money Services” of partner yes Bank in India in deference to Reserve Bank of India rules). A customer can transfer money from a bank account or pay for a purchase with simplicity akin to sending an SMS or text message. Imagine being able to pay for vegetables with an SMS or wire money to an impatient daughter's mobile phone at a mall.

That is appealing but how will Nokia, which uses technology from Obopay, a mobile payments company it bought into in March 2009, differentiate itself from at least half a dozen others such as mChek or Boku vying for traction in the space? “We have the scale, cash and brand,” says D. Shivakumar, Managing Director, Nokia India. The Finnish giant has an estimated 240 million phones in India, making it at least double the size of the biggest mobile phone services operator, Bharti Airtel. Globally, it has spent some \$15 billion on its transition into services. On trust, Gartner's Milanese thinks Nokia, which has topped brand-trust surveys in India, has the edge. “Customers don't really trust their phone operators (for mobile payments),” she says.

If it gets its act right, it could be a game changer for Nokia in emerging markets. Ranjit Tinaikar, Partner at McKinsey & Co., reckons that revenues that banks and financial services providers make about \$15 billion from all payments—salary transfers to social security spending to candy purchases, all of which tot up to some \$9 trillion in India. Within this, mobile payments today account for just \$60 million but, at 43 per cent growth a year, is the fastest-expanding segment. “Even based on a conservative, traditional business model of urban penetration, that could grow to about \$1 billion by 2015,” Tinaikar says.

Or more if market uptake is faster for the service. Given that financial inclusion—the aim to increase banking cov-

## MORE MISSES THAN HITS

**Nokia's history in services has been a roller-coaster ride with more lows than highs.**

In consumer electronics launches, there is little way to distinguish between hype and truth. In 2003, when Nokia unveiled the N-Gage gaming mobile device, the press releases bragged how the device will be a game changer, giving mobile device users the ability to play high-quality games. But the device flopped, not least because you had to hold it to your ear sideways.

By 2006, it was withdrawn from the market only to make a re-entry in 2008, when Nokia made it a game platform rather than being hardware-specific. This time it was done in by a lack of titles, clunky hardware and consumers gravitating to stand-alone portable gaming devices such as the Nintendo DS.

Nokia's other service and solution initiatives such as Nokia Maps and the Ovi Store have been great ideas, but the company has dragged its feet on implementation, particularly in India. Two years ago Nokia announced the virtues of “Comes With Music”, a service that allows unlimited access to the nearly 9 million tracks Nokia has on its music store, but is yet to introduce it in India and several other markets.

Several other initiatives are in the works and Nokia will work hard and with intense tenacity to make sure they work. Full marks too for its honesty: Nokia Executive Vice-President Anssi Vanjoki admitted a few weeks ago that the N97, billed Nokia's iPhone Killer and launched in mid-2009, was indeed a let-down.

Despite such openness, it is difficult not to conclude that Nokia has the smart people to come up with ideas but not enough of them to implement and build them into big business. Even when they implement an idea, it is often too little, too late to catch up with the market leader. Nokia today moves around a million applications a day from the Ovi Store, one-tenth of what Apple users download. And Apple is constantly improving its service as is the rapidly climbing Google and a newly-vitalised Microsoft which recently announced Windows Phone 7, a new mobile operating system.

One way to fight this would be on the legal front. Nokia recently complained against Apple to the US International Trade Commission alleging Apple used Nokia patents without permission. Apple counter-sued. Whatever the result of this legal battle, Nokia will not win the war. The war is for consumers and the prescription there is simple: Delight the customer with new phones or services.

One offering from the Nokia portfolio that has the potential to deliver such delight is Nokia Life Tools, an application that delivers information and entertainment updates on basic handsets. Between India and Indonesia, the company has a million users signed up in less than nine months and the application is ready for transplanting into markets such as China, Africa and South America, where consumers have similar needs.

KUSHAN MITR

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erage of a population—is a key item on the government's agenda, the plans of Nokia Money (as also others in the mobile banking space) could get a big leg-up. Depending on the location and services offered, it costs a bank up to Rs 600 to open a new customer account. Even for so-called no-frills accounts that operate at near-zero balance, the costs rarely fall below Rs 60 for a new account.

With mobile banking, says Rana Kapoor, Managing Director and CEO of YES Bank, "such accounts will suddenly become bankable with 70-80 per cent lower costs of opening and running an account". Besides, Nokia Money, which is telecom operator and bank agnostic, will get a fillip as such savings accounts make for the cheapest source of funds for banks, he adds. YES Bank alone is targeting some 30 per cent of incremental savings deposits between 2012 and 2015—which is when mobile banking will "take off like the hockey stick curve"—amounting to some Rs 5,000 crore from mobile bank accounts.

Nokia will not spell out how it will make money but says it will charge a service fee, commission or a cut of the transaction amount much like how credit card companies



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"There will be a small amount charged for cash-in and a small percentage for cash-out. A merchant will pay a small amount on each transaction"

SURESH VEDULA/ Head/ Nokia Money

or banks levy a charge. "The business model is straight forward," says Suresh Vedula, Head of Nokia Money in India. "There will be a small amount charged for cash-in and a small percentage for cash-out. A merchant will pay a small amount on each transaction."

How small? Vedula says that costs imply the Nokia Money charges will be much like credit cards where the transaction fee is typically 2-2.5 per cent or postal money

orders that levy 3-4 per cent to deliver money. That could make for a tidy—and profitable—sum, given customer targets (Nokia Money will for now potentially work on the 200-million-odd phones in India, including those made by Sony Ericsson and Samsung, running recent versions of Symbian software). Vedula, the man at the forefront of Nokia's next big thing, expects to convert a "good proportion of the 200 million" in three-to-four years with inflection

### NOKIA'S SERVICES PATH

2002

03

05

06



Nokia's then-CEO Jorma Ollila outlines the services vision: "Digital convergence can bring new revenues and productivity gains for all parties of the value chain. The company takes its first tentative steps towards multimedia devices. The first major release of Symbian Series 60 operating system is made; it is considered ahead of its time."



Nokia enters the gaming market with the N-Gage deck. Poor design and a patchy selection of games condemns the device to be a colossal failure. It was outsold by Nintendo handsets by a factor of 100-1 in its initial days. Nokia discontinues N-Gage in 2006.

Nokia launches the first two of its self-styled 'multimedia computers', the N70 and N90. With support for the mobile Internet, dedicated music players and high-resolution cameras and support for applications, these are a breakthrough in mobile devices.

Nokia launches the N73, its most successful product in the Nseries product range. The device comes with an upgrade to the Symbian OS and is the first device with a 3.2 megapixel camera. In July, Ollila steps down and Olli-Pekka Kalliasvuo takes over as CEO with a more aggressive thrust on services. Nokia acquires German route-planning company gate5 and licenses maps from Navteq.



point expected in 12 to 18 months, "Much like SMSes took off in India," he insists.

The aim at Nokia is clear: Take Nokia Money to other markets, says McDowell, the highest-ranking non-Finn in the company. "The goal of Nokia Money is to have a global tech platform and to be in similar economies."

## Beyond Cash

**Other money-spinner applications on the way, too. Agri information, entertainment, English tutorials on tap.**

If Nokia Money is the silver-tipped spear for the company, there are other arrows in its services quiver as well. Services such as music, maps and messaging; applications like Nokia Life Tools (NLT) and scores of others banded under its Ovi platform; and platforms that are being set up to tap into the needs of small businesses in emerging markets. All these services and solutions together contributed nearly



SHEKHAR GHOSH/ www.indiatodayimages.com

**"No-frills accounts will suddenly become bankable with 70-80 per cent lower costs. Between 2012 and 2015, mobile banking will take off like a hockey stick curve"**

RANA KAPOOR/ MD & CEO/ YES BANK

€170 million in revenues in the fourth quarter of 2009 for Nokia. This is small change for the company but enough to show the potential that services hold for Nokia's future. (Reality check: Nokia's media, gaming and Ovi global downloads of a million a day pale in front of the 15 million of iTunes songs and iPhone applications that Apple counts daily, mostly in the US.)

Several among Nokia's suite of services have been

conceived, developed and honed in India. Take NLT, for instance, which offers a range of agriculture, education and entertainment services for between Rs 30 and Rs 60 a mobile phone user a month. Nokia India gathers regularly updated information on 130 data points and categories and organises it with the help of a 40-seater call centre in Bangalore. Result: Farmers, traders and the like can access farm produce prices, weather forecasts and advice on seeds,

► 07

January: Apple launches the **iPhone**, the most successful multimedia mobile device to date with close to 50 million sold. September: Nokia launches 'Ovi' an umbrella for all its services offerings. December: Nokia buys Navteq for \$8.1 billion and Nokia unveils its 'Comes With Music' platform. Google forms the 'Open Handset Alliance' to create a new mobile OS.

► 08

In an effort to keep up with BlackBerry, Nokia introduces a new push email service: **Nokia Messaging**. Company takes the Symbian OS forward with the Series 60 5th Edition that runs Nokia 5800, its first touch-screen device. Device still lags "multi-touch" capabilities of devices such as the iPhone. The first Google Android devices start to ship.

► 09

In June, Nokia introduces the **N97**, billed an iPhone rival. The N97 too does not support multi-touch. August: Nokia introduces Ovi Store with 10,000 apps and Nokia Music Store with the largest digital repository of Indian tracks.



**Google** launches several new features of Android including free navigation. Nokia announces its Nokia Money, a mobile financial services initiative. In October, Nokia sues Apple, which hits right back with a legal suit.

► 2010

Nokia launches a new version of **Ovi Maps** with Free Navigation. In February, Nokia and Intel announce that they will combine their mobile OS efforts to create 'Meego' a new Linux-based platform to run multiple devices.



fertilisers and farming on their mobile phones. Since its launch in mid-2009, the service is being taken pan-India after trials in Maharashtra. The model, exported to Indonesia in November, today has one million users—a number expected to ratchet up this year as Nokia rolls it out in other markets.

Ditto with Nokia Tej, a sales force automation, or SFA, software. (*Tej* is Hindi for fast.) Tej allows a company's sales people and distributors easily update a retailer's stocking requirements or the quantum of raw materials needed by clients such as garment companies. Typically, today such information is relayed to the producer over phone, fax or email but Tej attempts to automate the process through a highly customised application on a mobile phone.

This is not new ground that Nokia is breaking. "There will always be other players but with a platform like Nokia, we have the advantage," says Antti-Jussi Suominen, General



**"Nokia started on mobile and technology services very early, when the market and competitors were not ready for it"**

CAROLINA MILANESI/ Research Director, Mobile Services/ Gartner

Manager of Corporate Business Development for Commerce at Nokia's Espoo headquarters. The bigger challenge, according to him, is the ability of Nokia to build an eco-system of software product vendors and system integrators around Nokia Tej to help the spread of the software.

A similar eco-system test stares Nokia in the face as it tries to morph itself into an open, Internet company embracing a multitude of community-generated applications. Nokia is no Google or Apple when it comes to following in the developer fraternity. The responsibility to change that and make Nokia a destination of choice lies on the shoulders of Purnima Kochikar, an Indian-born technologist in Silicon Valley, California, the heart of innovation in all things tech. She leads a developer initiative called Forum Nokia.

"The Forum brings in third party innovation into the Nokia fold," says Kochikar. The pace at the Forum Nokia so far lags rival Apple by a few light years (6,500 applications vs. 150,000), but Kochikar and team are putting together the various pieces of their jigsaw together. While Apple is mostly US-focussed, Nokia's strategy is to build a presence that is more widely dispersed. There are early signs that penetration might be happening. Democracy activists in Teheran used Qik, a live video streaming application for phones with Symbian software and available on the Forum Nokia site, to broadcast videos to the world when the government there clamped down on media in June 2009 after elections that the protesters said were rigged.

Still, critical to seeding a large and vibrant code jock community is a mass base of customers willing to buy those applications for utility or entertainment reasons.

That is where Nokia's billing arrangements with 60 operators in 18 countries helps. In effect, a bhangra rap music fan in Toronto or Taran Taran can buy an application around it and pay for it in local currency to his phone operator through a deduction of a pre-paid account or a charge on his monthly bill.

Nokia makes money by keeping a cut of the amount paid for the application and passing on the rest to the developer. This can be a powerful model, especially for advertising clients: in a recent contract, Unilever's Brazil unit approached Nokia Interactive (the company's ad network) for five cooking campaigns. Nokia connected the foods and personal products giant with developers who rendered the campaigns. "Our market footprint make it interesting for developers," says Kochikar, who counts India (second only to China by the number of developers signed on today with Forum Nokia) as a big potential base for developing applications for global and local consumption.

## Devices, Culture a Drag

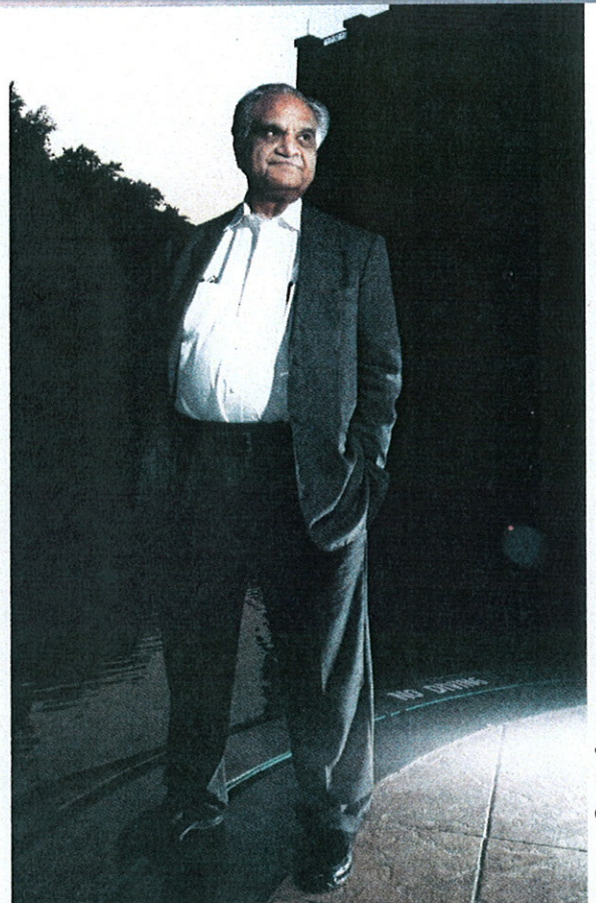
**China-made phones nip at Nokia's heels; three years after the iPhone, it is yet to respond. Telecom legacy hurts in Web era.**

Even as Nokia attempts the big transition into services, its core business of phones is hurting. Not just from the recession. In the developed world (primarily, the US), which makes for a big proportion of high-end phone sales, Nokia

## COVER STORY—NOKIA

is yet to recover from an almost knock-out punch that came from Apple in the form of the iPhone. "We've been waiting for an answer to the iPhone for the last three years," says Milanesi, the Gartner research head. "At the high end, they have one last chance—the product after the N900 has to be the answer." The N900, launched in November 2009, is the latest of Nokia's smartphone releases and has been panned by reviewers and customers, who have been more impressed with launches by the likes of HTC and Motorola. That position looks more vulnerable as phones with better software capabilities such as Google's Nexus One hit the market. And, here's what makes it look worse: Smartphone consumption is forecast to climb to a third of global phone sales from 14 per cent by 2013.

In India, Nokia's second-ranked market by volume sales and where typically the demand for phones is in the value category, the company is getting buffeted by China-made phones that retail for less than Rs 2,500. A bevy of new mobile phone brands—Lava, Micromax, Intex, Karbonn, Spice, to name a few—have flooded the market with phones that challenge Nokia primarily on price (and



SHEKHAR GHOSH/www.indiatodayimages.com

**"What is the app that a consumer cannot live without?  
Services—that's how you increase your runway"**

RAM CHARAN/ Management Guru

margins) and, occasionally, features such as dual-SIM card capability. It's what Nokia's Shivakumar called "a real nightmare" in an interview with *BT* last year, it seems, is coming true. "I wake up every morning thinking how to prevent a competitor from chipping Nokia's dominant market share away," he had said in May 2009. Even branded competition such as Samsung has stolen a march over Nokia in India with so-called touch phones.

So, that makes Nokia's world all the more complex: Not only should it chart its way into a new Internet-led world of telecom, it needs to deal with the pincer-like pressure at the top and bottom ends of the mobile phones market. Its culture from the telecom world, relying on closed-door and proprietary technologies, is alien to open, Internet-based models and this too hurts. "The telecom world is one of gentlemanly agreements on standards and handshakes," agrees McDowell. "It is more bare-knuckled in the Internet world. Nokia is (today) aggressively setting standards." A recent tie-up merging its Maemo software platform used on its high-end phones with Intel's Moblin to create a unified Linux-based platform branded Meego that will run on multiple hardware platforms across a range of computing and mobile devices is one such effort.

To be sure, spunky combativeness has always been a

strong feature in Nokia culture. Chances are that at least one of its new initiatives or all of them collectively will help Nokia hit paydirt (far beyond its conservative €2 billion target for 2011 for services). Think Nokia Money (*BT* saw a demo of Rs 100 transferred to a Pune customer with the ease of an SMS), think music or entertainment content on phones, think a killer application (for instance, one that is integrated with Nokia Maps and helps you track your kids), think software for sales people or suppliers, or think free BlackBerry-like email for enterprises.

The possibilities before Nokia are enormous. It is just that no company in the world has made such an ambitious transformation driven in a large part far away from its home market. But if there's one international corporation that can make the change, it is Nokia. It is arguably the best positioned in emerging markets full of customers with fast-evolving needs that are waiting to be capitalised upon. And it has a history of changing its spots successfully (it shed its power, tyres, cables and machinery businesses as late as the early 1990s to focus on electronics and mobile phones). As Kochikar, the Forum Nokia head, says, "We made the transition from rubber boards to mobile phones, didn't we? I suppose we can make it from mobile phones to mobile solutions." ☺