

Coalition of the Weak

In a last attempt to stop its decline, Nokia has teamed up with Microsoft. But shrinking sales and the dubious performance of their early products might soon put an end to their last hope.

This alliance is actually the last chance for both companies. Not only is Nokia having serious problems competing against Apple and Google, but Microsoft has not been particularly successful either. Their second partner, LG, recently reported that its Windows phones were not selling very well either. Windows Phone 7 currently has a market share of about 1.6 per cent – ridiculously small in comparison to the 43 per cent Android enjoys. The partnership with Nokia could significantly increase market parity, but customer acceptance of the new products remains unproven. A good operating system may be a solid start, but it is far from being enough. The huge number of applications was a key factor for Apple's success. While the iPhone boasts about 500,000 apps and Google Android has a similarly impressive 250,000, the 30,000 currently offered by Microsoft is weak by comparison. "If you don't have enough apps, customers won't buy your products but without customers, your system won't be attractive for application developers. It is a vicious cycle that Nokia could soon be facing," Mr Dineen warns. Although Stephen Elop and Microsoft CEO Steve Ballmer hope that their ecosystem will become a solid number three in the market,

it might just as well become the next victim of the tough competition.

The fire rages on

Within one year Mr Elop has brought significant changes to Nokia and did not exaggerate when he said that the company would need to jump into ice cold water to escape the burning platform. But has he



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jumped in the right direction? Nokia took the irrevocable decision not to jump on the Android bandwagon and tied its fate instead to Microsoft.

In spite of both companies high hopes for their collective future, the cooperation has only caused more trouble so far. Nokia's decreasing smartphone sales in 2011 were at least partially caused by customers waiting for the new Windows phone. If the final product does not man-

age to convince them, they might make the switch to Apple or Android and thus be lost for Nokia.

Even if the new Lumia series can win over customers, Nokia will have to keep the pipeline filled with new products, which will require significant investments in research and development. And even though the success of their first products is still uncertain, Paul Amsellem, managing director of Nokia France, has already announced a Nokia tablet computer for June 2012.

In times of constant losses and budget cuts, this will soon become a problem in its own right. "Nokia used to make a lot of profit when their business model was right but this has changed. Now they have to wind down their old business which is expensive and time consuming while they also have to build up another business which is also expensive," HSBC analyst Mr Dineen explains. The lower rating will make it even more difficult for CFO Timo Ihamuotila to provide enough cash for all the investments. How he plans to achieve this remains a secret – neither Nokia nor Microsoft were available for comment. ||

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