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## Elop Rejoining Microsoft Lifts Odds of Succeeding Ballmer

By Adam Ewing and Peter Burrows - Sep 4, 2013

Stephen Elop, already an odds-makers' favorite to take over as [Microsoft Corp. \(MSFT\)](#)'s next leader, just boosted his chances by helping orchestrate the \$7.2 billion deal that makes him a senior executive at the software maker he once helped run.

The 49-year-old Canadian, who has been chief executive officer at [Nokia Oyj \(NOK1V\)](#) for three years, will move back to Microsoft as it buys the Finnish company's mobile-phone unit. The one-time head of the software maker's business division returns with experience competing head-on in mobile devices against [Apple Inc. \(AAPL\)](#) and [Google Inc. \(GOOG\)](#)

Microsoft needs a leader to help it add market share in smartphones, tablets and search as CEO [Steve Ballmer](#) prepares to step down. While Elop did little at Nokia to erode Apple and Google's lead, he was a loyal Microsoft partner who negotiated the agreement that landed Windows on millions of phones.

"Elop is on the short list of possible CEO candidates," said Sami Sarkamies, an analyst at Nordea Bank AB in Helsinki. "He has the right experience from working both inside and outside the company."

Elop nonetheless has detractors who decry his failure to make Nokia profitable, and its shares have declined by half on his watch. Ballmer, one of Microsoft's largest owners with about 4 percent of its outstanding shares, declined to say yesterday whether Elop is a candidate to succeed him as CEO.

### No Shoo-In

"Given the performance of Nokia under Elop's stewardship, getting the CEO job would seem a pretty big reward," said Charles Golvin, an analyst at Forrester Research Inc. in Cambridge, [Massachusetts](#). "From a financial perspective, it wasn't a stellar performance."

Microsoft, based in Redmond, [Washington](#), has said it will consider internal and external candidates to replace Ballmer. Tony Bates, Satya Nadella, Qi Lu and Terry Myerson are the other leading choices among Microsoft's executives, according to people with knowledge of the matter, who asked not to be identified because the process isn't public.

If Microsoft brings in a leader from outside, analysts have suggested candidates including [eBay](#)

[Inc. \(EBAY\)](#) CEO John Donahoe and Sheryl Sandberg, [Facebook Inc. \(FB\)](#)'s chief operating Officer.

Microsoft and Espoo, Finland-based Nokia have had a close relationship through Elop, who was in charge of Microsoft's Office products and helped lead the division's cooperation with its Finnish handset partner. He left the software maker in September 2010 to take the top job at Nokia.

## Burning Platform

At Nokia, Elop took over as the mobile-phone pioneer's market-share losses to the iPhone and Google's Android devices threatened to accelerate. At the time, he likened Nokia's position to a person standing on a burning oil platform on the verge of being engulfed in flames, facing the option of staying aboard or jumping to the ocean to have a chance to survive.

In February 2011, Elop struck a deal with Ballmer to switch Nokia's smartphones from its own Symbian operating system to Windows Phone. In exchange, Microsoft paid more than \$1 billion to Nokia for marketing and development of products on Windows.

Before his careers at Microsoft and Nokia, Elop ran Macromedia Inc., focusing on Flash Internet software and helping to arrange the company's \$3.4 billion sale to [Adobe Systems Inc. \(ADBE\)](#) in 2005.

During his year as COO at [Juniper Networks Inc. \(JNPR\)](#), he oversaw reorganizations that helped expand profit margins and boost sales, closing the gap with networking leader [Cisco Systems Inc. \(CSCO\)](#). Then, days before Juniper was to name him CEO in 2008 -- the press release had already been written -- Elop quit to join Microsoft.

## Nokia Outsider

At Nokia, Elop became the first non-Finn to run the company and challenged its slower-moving, consensus-driven culture. He took over from a 30-year Nokia veteran.

Elop's effort to transform Nokia's handset business hasn't led to an earnings recovery, with the company losing more than 5 billion euros (\$6.6 billion) in nine quarters. Even as sales of the Lumia smartphone brand -- introduced under Elop -- have started to rise, Nokia has made scant market-share gain against Google's Android and Apple's iPhone.

Among the victories Elop can claim: In the first quarter, on the strength of Lumia, Microsoft beat out [BlackBerry \(BBRY\)](#) as the third-largest smartphone operating system, according to a [Gartner Inc. report](#). Elop has also helped attract new application developers through Lumia's nascent sales gains.

## Lumia Brand

The Lumia brand will follow Elop to Microsoft, which also will license the Nokia brand for 10 years to be used in cheaper, more basic phones. That means Elop gets to work with many of the same partners and customers he knows from Nokia.

“We can invest more resources into the effort, and we can build on the momentum that has already been established,” Elop said yesterday on Ballmer’s conference call with analysts.

Elop also has experience overhauling a major corporation. He has cut tens of thousands of jobs in a bid to revive Nokia after the company fell outside the top five in smartphone rankings and became unprofitable.

After the sale to Microsoft, Nokia’s biggest business will be a network-equipment division that competes with [Ericsson AB \(ERICB\)](#), Alcatel-Lucent SA and China’s Huawei Technologies Co.

Microsoft’s [profit](#) in the latest quarter missed analysts’ projections by the most in at least a decade as the Windows business shrank. Poor sales of the Surface tablet computer led to an inventory writedown of \$900 million, more than the \$853 million in Surface sales in the latest fiscal year.

## Stocks Languish

Neither Elop nor Ballmer has been a boon to his company’s shares. [Nokia stock](#) has dropped by half since Elop was hired on Sept. 10, 2010, even with yesterday’s 34 percent gain to 3.79 euros in Helsinki. The stock added 0.5 percent today. Microsoft declined 2.2 percent to \$31.20 at the close in New York, and the stock is down more than percent since Ballmer [became CEO](#) in 2000.

To revive Microsoft’s mobile business, Elop will face the same challenge he faced at Nokia: getting more consumers to give Windows devices a chance. Android and Apple cornered 92 percent of the 237 million-unit smartphone market in the second quarter, compared with Windows’ 3.6 percent, according to IDC.

“If Elop hadn’t made some of the drastic moves he did, such as switching operating systems, it would have ended up like Palm,” the pioneering handheld-device company that eventually got sold to [Hewlett-Packard Co. \(HPQ\)](#), said Francisco Jeronimo, an analyst at researcher IDC in [London](#). “Moving to Windows was the right decision, but Elop probably wasn’t expecting the ecosystem to take so long to grow.”

## Elop ‘Jumped’

Even so, Elop’s playbook may not work at Microsoft, Forrester’s Golvin said. Wrangling an array of operating systems, tablets, phones and services into something consumers will love is “at least an order of magnitude more challenging,” he said.

Given Nokia’s struggles on his watch, Elop may have had little sway over his fate, Golvin said.

“He wrote this famous memo about the burning platform,” Golvin said. “But the cynic would say he jumped -- and somebody threw him a lifeline.”

That lifeline may just secure his place as Microsoft’s CEO one day. The odds of Elop getting the job shortened to 4-to-6 after yesterday’s deal, from 5-to-1, at Ladbrokes Plc, the U.K.- based gambling operator. It puts Elop ahead of Facebook’s Sandberg, whose odds moved to 7-to-1 from 2-to-1 with yesterday’s deal. The chances also got slimmer for Andreessen Horowitz board partner Steve Sinofsky, who is a former top Microsoft executive, and Kevin Turner, another internal candidate.

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