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# Hoping for Turnaround, Nokia Bets on Windows 8

By **KEVIN J. O'BRIEN**

BERLIN — Over the past 27 years, whenever [Microsoft](#) sold a new version of Windows, the world's dominant computer operating system, the software releases had seismic consequences affecting hundreds of millions of consumers.

But this time, the debut of Windows 8 on Wednesday will cast an even bigger shadow: The success of the software will largely determine the fate of Microsoft's struggling cellphone partner [Nokia](#), which has bet its survival on the Windows operating system.

Analysts say that if Windows Phone 8, the mobile version of the software, does what Microsoft and Nokia expect, the cellphone maker, which is based in Espoo, Finland, will solidify its turnaround over the next three years and overtake iOS, from [Apple](#), as the No. 2 operating system behind [Android](#), from Google.

If not, Nokia's future in the cellphone business, and that of its chief executive, the former Microsoft executive Stephen Elop, the architect of the strategy, will come into question, the analysts said. Mr. Elop said in April that Nokia had suspended development of its Symbian and MeeGo smartphone platforms to focus everything on Windows.

"This is a make-or-break moment for Nokia," said Carolina Milanesi, an analyst at the technology research firm Gartner in San Jose, California. "Everything is resting on Windows Phone 8. If that doesn't work, it will cause an existential crisis for the company."

Nokia's transition to a Microsoft-centric smartphone business has been costly.

The company has lost €3.9 billion, or \$4.9 billion, since announcing the switch in February 2011 as sales of its older-generation Symbian devices, which still make up the majority of its telephone business, plummeted.

In June, nine months after Nokia began selling the first of its Lumia line of [Windows](#) smartphones, its total sales had fallen by 19 percent from a year earlier. The Moody's and Fitch reduced Nokia's debt ratings to junk status this summer. Nokia had lost 70 percent of its market value since Feb. 11, 2011, the day [Nokia](#) and Microsoft announced their alliance.



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But the company and analysts are upbeat about Nokia's chances for survival.

On Wednesday, Nokia is expected to announce at least two new Lumia phones, the company's first to run Windows Phone 8 software, which will complement four Nokia models already on the market — the Lumia 900, 800, 710 and 610. Those older Lumia models run Microsoft's Windows Phone 7.5 software and cannot be upgraded to Windows Phone 8.

One of the new Lumia devices will be a top-end device similar to the Lumia 900, according to a person with knowledge of the product who was not authorized to speak for Nokia and declined to be identified. Like other Windows 8 phones, it will be the first Lumia to have a multicore processor, which makes the device faster and more agile in Web surfing and able to present crisper graphics. The second new Lumia will have a price closer to that of the Lumia 610, which sells for about €190 in Europe.

Nokia is also expected to signal on Wednesday that it is prepared to reduce prices on some existing Lumia models to sustain sales during the transition to Windows 8. It may also announce enhancements to Lumia's security and encryption features to lure potential business customers of BlackBerry devices made by Research In Motion, the struggling Canadian company.

Jo Harlow, the Nokia executive vice president in charge of the company's smartphone business, said the new Microsoft software, the first to be developed with input from Nokia, would increase the desirability and demand for the Lumia smartphones.

"The visibility that is going to be created for the Windows user interface, which is the same as that used for Windows Phone 8, is going to create momentum in the marketplace and generate awareness of the platform, where there had not been much awareness in the past," Ms. Harlow said Friday.

Ms. Milanesi, the Gartner analyst, said Nokia would be helped by the use of multicore processors, which are already standard in smartphones made by Apple, Samsung and others; by enhancements to the Windows scrolling tile interface; and by changes making it easier for software developers to create applications that connect Windows computers, phones, tablets and other devices.

But a cutting-edge smartphone platform will not be enough, she said.

"What Nokia needs from a brand perspective is to get back to being seen as the sexy, cutting-edge brand they were when they were on top," Ms. Milanesi said. "That is the hardest part. You don't do that with a platform only. You need compelling hardware."

Francisco Jeronimo, an analyst at International Data Corp. in London, said there were signs that Lumia devices were beginning to gain market share on Apple and the makers of Android

phones, especially Samsung of South Korea, the industry leader.

In Finland, Windows' share of the domestic operating system market rose to 32 percent in June, nearly overtaking Android, with 36 percent.

One year earlier, Windows had zero market share, according to I.D.C.

While some might attribute the gain to Nokia's hometown advantage in Finland, Mr. Jeronimo said Finnish buyers had largely rejected the Symbian smartphones from Nokia.

"I think Windows 8 will make a big difference for Nokia," Mr. Jeronimo said. "It is very clear that Microsoft and Nokia are in a marathon. They are not looking at short-term results. This is not about selling devices alone but about selling an ecosystem."

Through June, Nokia had sold 7.2 million Lumia devices worldwide, which has helped increase Windows' share of the global market for handset operating systems to 3 percent from 2 percent a year earlier, according to I.D.C. By the end of this year, Windows' global market share will rise to 5 percent, and it will double to 10 percent by the end of 2013, I.D.C. forecasts.

That share will be dwarfed by Android and iOS, which together have more than three-quarters of the global market. But Nokia, Mr. Jeronimo said, will be on more solid footing. By 2016, I.D.C. predicted, Windows will overtake Apple in operating system market share.

But skepticism remains.

Pete Cunningham, an analyst at Canalys, a research firm in Reading, England, said iOS would be more prevalent than Windows in 2016, holding 18 percent of the market compared with 15 percent for Windows. Mr. Cunningham sees Windows Phone 8 helping Nokia solidify its comeback, but not catapulting the company to the position of market leader.

"I don't think we are going to ever see Nokia return to the dizzy heights it was once at," Mr. Cunningham said Friday. "Can Nokia build a sustainable business in this space? We think it can. Windows 8 will help them do that. But the market dynamics and power have shifted."

The Chinese cellphone makers Huawei and ZTE could use their domestic success to expand globally, challenging Nokia's fragile foothold, Mr. Cunningham said. Some might expand their own lines of Windows phones to avoid the fate of Samsung, which was fined \$1 billion last month by a U.S. District Court jury for infringing on Apple's patents with its Android devices.

Samsung, the global market leader in cellphone sales, could also decide to shift its smartphone emphasis from Android to Windows. Mr. Jeronimo, the I.D.C. analyst, said he expected Samsung to do exactly that in 2016, after Nokia and Microsoft have made the necessary investment to build Windows into a credible third operating system.

Samsung introduced the first Windows Phone 8 handset, the Ativ S, on Friday.

“They will do what they did with Android,” Mr. Jeronimo said. “They will swoop in and take over the market in Microsoft phones.”