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## Thoughts From Europe On Microsoft's Nokia Acquisition

Closing the press conference announcing the sale of Nokia's handset industry and the licensing of its patents to Microsoft, the outgoing CEO, Stephen Elop, beat the drum for the essential and undiluted Finnishness of Nokia as a phone maker.

“ When you see a bright yellow Lumia 1020 in someone's hand anywhere around the world, know with pride that this device and the devices that will follow are the work of your friends here in Finland.

A cynic might have responded that this should more accurately have been *if*, rather than “when”. The problem Elop was brought in to address, primarily, was a struggle by Nokia to adapt to the modern smartphone world, with handsets based on the Symbian operating system marching into the meat grinder of the market and experiencing the humiliation of deep discounting after being touted as iPhone competitors.



Siilasma and Ballmer shake hands at the Nokia press conference

Arguably, one success of Elop's reign has been an adjustment of expectations: like Britain's recent acknowledgements that it is no longer the imperial power it once was, recent success in Nokia's smartphone division has come from traction from the low-cost Lumia 500 range. However, the announcement of the sale of Nokia's devices division to Microsoft along with the licensing of its relevant patents, for €5.44 billion (c. \$7 billion) is, to quote Forbes contributor Tero Kuittinen, “shockingly low” for those of us who remember Nokia's historic highs.

Whether this is a forcible readjustment of the illusions of the European tech sector or a horrific undervaluing of a technology giant on the cusp of recovery probably depends on who you talk to. One thing is for certain – feelings in Europe will run higher than the US.

Handset manufacturers are like aircraft carriers – they may be expensive, and their utility in an setup without vast resources to throw at using them as part of a broader attack force may be questionable, but they are a symbol of prestige. Despite the far smaller fee involved, this is likely to strike more chords in Europe than Vodafone's \$130 billion sale of its Verizon stake.

### **This is emotional**

Speakers at Nokia's press conference today stressed their own emotional

relationships with Nokia, a giant that has spent more than a century as Finland's most recognizable brand. Interim CEO Risto Siilasma acknowledged the elephant in the room immediately by saying that, although the deal made sense to him rationally, "emotionally it gets complicated". CFO Timo Ihamuotila reminisced about the first mobile phone call he ever made, in 1984, on a prototype Nokia device owned by a friend's father.

The counter to these feelings was that Nokia was not ending but changing, as it has done many times in its history – it would now be able to focus on its telecoms equipment business, and also on location-based services for phones, often the differentiator for Nokia, and advanced technologies. While this is true, and both the cash and the €1.5 billion credit line being offered to Nokia regardless of the conclusion of the deal welcome, it will be a blow to European pride to see those canary-yellow phones and know that they are no longer the product of a Finnish-owned company.

### **You don't have to be faster than the lion..**

After Nokia hit a very big red button in September 2010 by announcing their first ever non-Finnish chief executive in the Canadian Stephen Elop, the Canadian handset manufacturer Blackberry (then still called Research in Motion) appointed a northern European CEO, the Gifhorn-born Thorsten Heins.

After a relaunch with a new name and a new set of devices running on Blackberry 10, Blackberry recently announced that, in effect, it was prepared to entertain buyers. RIM and Nokia had some woes in common – a differentiator too closely tied to the exchange of small packets of data (push email and SMS), a failure to adapt quickly enough to current expectations of the smartphone experience and the double whammy of the iPhone and Samsung S-series at the high end of the smartphone market and low-cost Android handsets at the low.

Microsoft's strategic rationale for the purpose specifically mentioned that Windows Phone on Nokia was outselling Blackberry in 34 markets – and yet Nokia has been consolidated.

UPDATE: Francisco Jeronimo, Research Director for European Mobile Devices at [IDC](#), notes that Blackberry and Nokia were facing similar challenges – the dwindling number of first-time smartphone buyers, leading to competition for "switchers" – a far more expensive proposition, and one in which price is a major feature, forcing mobile players to "dominate the entire value chain", in order to be able to extract margin from lower costs. Nokia was not only the largest shipper of Windows Phones, it was also the only one that was realistically for sale, and which had Windows Phone at the center of its mobile strategy.

### **The leadership race**

Clearly, the purchase of Nokia's device business is not intended simply to return Stephen Elop to the Microsoft fold – there are easier ways to have done that. However, Elop, previously a dark horse in the running to replace the retiring (as in gold watch rather than 'shy and') Steve Ballmer, will now be back in the heart of the machine, with 32,000 new Microsoft employees arriving from his previous business – he is returning, and with an army at his back.

Julie Larson-Green, another dark horse for the leadership, retains her Devices and Studios leadership but will now report to Elop as head of an overarching devices business. This probably extends the longness of her shot at being the next Microsoft CEO – but also creates a position for her to move up to.

Meanwhile, largely under the fold in the news is that Nokia's Design CEO,

Marko Ahtisaari, will be leaving in November to return to entrepreneurship. Ahtisaari was a pivotal figure in the creation of the instantly recognizable design language of the Nokia N9, which informed the Lumia range's look and feel. When last Ahtisaari left Nokia, he cofounded Dopplr, an ahead-of-its-time travel application. It would profit everyone to keep a side-eye on him.

### **(Recycle) Bin full of Asha?**

Elop described Nokia mobile phones as an on-ramp to Windows Phone in the new order. What this means is that low-cost "feature phones" can still use the Nokia brand. However, Windows Phones previously branded as Nokia Lumia will become Microsoft Lumia phones.

As a scale manufacturer of phone handsets, Nokia had a keen interest in its low-cost Asha range, and "Nokia OS" – in essence the venerable but hugely extended Series 40 operating system. It makes less sense for Microsoft to direct the same attention to an OS they did not originate. It may be reasonable to expect some form of Windows Phone to creep further and further down the tree, and for hardware specs to creep up it, pushing S40 out of the product range at both ends – a process already begun with Nokia's lower-cost Lumia handsets.

UPDATE: Jeronimo sees Asha's life as longer, primarily because of its role in developing markets:

“ I don't expect the Asha brand to disappear in the next few years. First, it's a profitable market. Second, in markets where feature phones are still popular, people like the Nokia brand and will eventually upgrade to a smartphone. When smartphone prices reach the ASP of feature phones, people who like the brand will then upgrade to a Windows Phone, because they see that as the natural upgrade path.

If Asha is killed at once, those same buyers will move instead to a feature phone by Samsung or a Chinese manufacturer before they have the opportunity to be able to afford any kind of smartphone, and will then upgrade to one of their smartphones when they can. Feature phone adopters are the last new adopters – in most markets people will be changing from one smartphone to another, which is far more expensive.

So, Microsoft needs to speed up its development of Windows Phone, to enable Nokia to deliver it to lower price points, as they have already begun to do with the 500 range, but they need to push further down, and use Asha as a way to push upgrading users from the expiring feature phone category up to the low-end smartphone of the future.

On the other hand, he adds, Samsung, HTC and any other handset makers with plans for Windows Phone 8 probably cancelled those plans today: unlike Google with its purchase of Motorola Mobility, Microsoft does not depend on them, and can focus instead on making the Nokia experience the best Windows Phone experience and on promoting Nokia phones at the point of sale.

Terry Myerson, head of Microsoft's Operating Systems division and thus Windows Phone, has [moved to reassure other manufacturers that they are still valued and important](#) - and certainly Microsoft needs penetration and market share, however it is achieved. Time will tell.

### **Microsoft out of "out of the enterprise"?**

Speaking to [The Verge](#), Steve Ballmer mentions calling Siilasma to reassure him that the acquisition was a board project rather than a Ballmer project – that is, that his retirement announcement would not dim Microsoft's eagerness to close the deal.

Analysts, among them Nomura's [Rick Sherlund](#), have argued that Microsoft would be best served by focussing on its enterprise elements, and there was

speculation when Ballmer announced his retirement that this might be an opportunity for an incoming CEO to make a clean break with areas such as the Xbox 360 and Bing, which occupied large amounts of corporate focus but offer limited returns.

RIM initially made its name and fortune by focusing on communication devices for the enterprise. However, the market has moved on – many employees are already using their own devices, with or without official sanction, and IT departments have learned to deal with consumer products, and vice versa. The purchase of Nokia suggests very strongly that the Ballmerian strategy of “a devices and services company” retains favor over “an enterprise operating system and office software development and licensing company”.

### **The changing constitution of Microsoft**

This purchase will transfer around 32,000 employees from Nokia to Microsoft – many of whom will be European. That represents around a third of Microsoft's current numbers, so, at least for the moment, a quarter of Microsoft's employees will be Nokians. This is a real difference between this acquisition and the acquisition of, say, Skype, or the northern European/Nordic Navision (now Microsoft Dynamics NAV) and FAST (now Microsoft Development Center Norway). Steve Ballmer also announced at the Nokia Press conference that Microsoft would be making Finland the center of its phone research and development, and investing \$250 million in setting up a data center in Finland.

This all means that, even after some rationalization, Microsoft will have many more European employees than before, and certainly that ownership of its non-Xbox devices (by legacy) will be clustered in Europe until it can build out its presence.

Also, a large number of mobile heavy hitters – Elop, of course, but also Jo Harlow in Smart Devices, Timo Toikannen at mobile phones (the Nokia term for non-smart phones), Chris Weber at Sales and Stefan Pannenbecker, who will step up from Head of Product Design into Ahtisaari's role. This represents a non-trivial challenge

Microsoft, which encountered production and supply chain issues with the Surface tablets, its first foray into making its own mobile devices in the smart age, is likely to want to keep hold of this expertise – the theory being that the combination of Nokia (which knows how to design, produce and move to market mobile devices) with the deep pockets and global range – and in particular the North American strength – of Microsoft will allow Windows Phone to step up as a competitor.

Few theories, of course, survive contact with reality wholly undamaged. Certainly, however, Microsoft will be a very different company post-acquisition. The business landscape of Finland will also be considerably different. Risto Siilasma put a positive spin on the sale, saying that Finland was now the home of two global technology companies, which could act as an accelerator for the Finnish economy.

This may also be a spur to small business in Finland, in another way: when Nokia terminated its Meego experiment, former employees formed Jolla, which is now aiming to bring its own mobile hardware and software to market. Who knows what might happen if and when this acquisition completes? Perhaps some of Elop's friends in Finland will still have stories to tell in mobile which will not be co-written in Washington state.

Meanwhile, Nokia shares are trading 35% up, having slipped back after an early peak. This is starting from a low base, but it seems that the market at least sees virtue in the acquisition.

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