

THE NOKIA REVOLUTION

The Story of an Extraordinary
Company That Transformed an Industry

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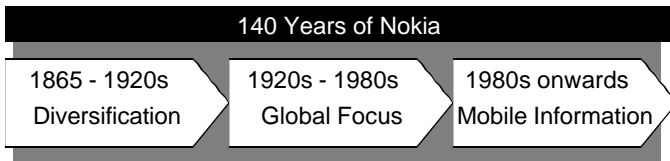
1. The History of Nokia

"Finland has quite a few resources. Briefly put, there are two of them: the people and the trees. Exports are obligatory in the future as well. Things must be sold abroad so that living conditions will remain good domestically. This, in turn, requires that we have extensive experience in international business. This is the greatest risk facing the Finns – the small amount of international business experience."

– Kari Kairamo, Nokia managing director 1981

Most people who buy consumer electronics products from Nokia assume it is a Japanese company because of the sound of its name. In reality, however, Nokia is not Japanese but the largest corporation in Finland. And while Nokia is now a global powerhouse in mobile communications, it actually began operations in 1865 as a forestry company.

In essence, the history of Nokia as a company can be broken down into three broad phases:



What marks the history of Nokia as being extraordinary is the fact each time the company has moved from one competitive stage to the next, it has succeeded in building its current generation of competitive advantages on the foundation of its strategic capabilities developed in the previous stage. Nokia is a great example of the benefits which can be derived from adaptability and strategic flexibility.

1865 - 1920s – The Forestry Era

Nokia was established as a small forestry company on May 12, 1865 to commercially exploit a tremendous boom in the lumber industry which occurred in Finland around that time. The company's founders were:

- Fredrik Idestam – an engineer who became interested in a new process for manufacturing wood pulp.
- Leo Mechelin – one of Finland's leading parliamentarians who was leading the country's struggle for political independence from Russia.

The new company was named after the Nokia River and a mill was set up about 10 miles from Tampere, Finland. The company was funded by a group of private investors and took a couple of years to get going. However, by the 1890s, the first small mill had given way to a very large mill, a pulp factory, a large paper factory, an electrical power generator and a number of other facilities. The original founders of Nokia always made certain the company focused on mastering the full value chain.

"While Nokia is well known for its emphasis on innovation, its long-standing focus on differentiation has been less well known. What has made Nokia distinctive among its competitors is the fact that it has consistently focused on mastering the full value chain, from operations and new product development to marketing sales and service."

– Dan Steinbock

1920s - 1980s – Global Focus

With the end of World War I, Nokia was in the process of changing from a family owned business to a public company. As part of that process, the company started moving into new business segments. Nokia expanded its electrical power generation line of business and looked for other innovations.

When the Finnish Rubber Works relocated to the Nokia region in the 1930s to take advantage of the electrical power supply, it grew rapidly. Soon, an electrical cable manufacturer (the Finnish Cable Works) followed suit and talks began to explore consolidating all three companies. These talks dragged on for many years – the consolidation proposal was rejected in 1937 and then periodically until the mid-1960s when finally the boards of all three companies agreed a merger would make sense. The restructured Nokia Corporation was formalized in 1967 with four major business divisions: forestry, rubber, cable and electronics. The name of this new company was Oy Nokia Ab.

"Again and again in the course of its history, Nokia has seized opportunities to enter new and exciting businesses characterized by high risk but great promise for growth. In each case, it has staked its future on massive infrastructure projects, from forestry, rubber and cable to electronics, cellular and the mobile Internet. As business and financial stakes have risen, Nokia's scale and scope have increased accordingly."

– Dan Steinbock

During the 1960s, Finland entered into a trade agreement with the Soviet Union and Nokia had the opportunity to sell much of its output to the Soviets. Nokia's managing director of that time, Bjorn Westerland, realized the danger of relying too much on one customer and insisted any sales to the Soviets had to be balanced by equal sales in Europe, Asia and Africa as well as new products for the domestic market. (That astute policy would later mean Nokia would survive the collapse of the Soviet Union in the 1990s).

In the late 1970s and 1980s, a new managing director, Kari Kairamo, also started transforming Nokia. The Finns by this time had started perceiving themselves as becoming the "Nordic Japan" and Kairamo grew impatient to penetrate new international markets. He also talked about mobilizing Nokia's key strategic assets – its technologies, accumulated customer information, brand name, reputation and corporate culture.

"We must learn to become fast. If, for instance, one isn't fast enough in the most competitive segments of electronics, there just aren't any chances to succeed. We're garnering international experience at an accelerating pace. Our educational level is high. We can become fast."

– Kari Kairamo

Kairamo increased Nokia's investments in electronics research and went on an aggressive acquisition spree. Nokia acquired Salora Oy, Scandinavia's largest television manufacturer. Nokia then purchased Luxor AB, Sweden's electronics and computer company. With the purchase of Oceanic, a French television manufacturer, Nokia became Europe's third largest television manufacturer. The company also acquired Mobira, a Finnish mobile phone company, Ericsson Group's Data Division and Finland's largest electrical wholesaler. By the end of this scramble, Nokia's revenue base was \$2.7 billion with 27,600 employees and a market capitalization of more than \$1 billion.

