Is Nokia’s performance in the Smartphone market affected negatively by marketing strategy decisions?

Analysis of marketing strategy choice and implementation for Nokia Lumia in Europe
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Abstract

Nokia’s market share in the European smartphone market has shown a huge decline in the past couple of years. The problem began with the introduction of the Iphone in 2007, which set a new trend in the market. In order to return to the market leadership position, Nokia entered into partnership with Microsoft. Threatened by the rapid lost of market share to rivals, Nokia created series of Smartphones called Nokia Lumia. Nokia bet on these products to regain its lost market share. However two years after the partnership, with 9 Lumia products out in the European market, the company has not achieved its goal.

This thesis looks at the marketing strategy that Nokia has chosen to implement for some of the Lumia devices. The thesis analyses products introduced within two years after the partnership. The approach seems reasonable due to the fast decline of market share for Nokia and the need of taking quick actions to reverse the situation. The analysis finds some evidence that the present situation of the company may be affected by wrong strategy implementation.

The research begins by understanding the goals of the company in the smartphone market. From this analysis it becomes clear that one of the main objectives for Nokia is to regain its lost market share, and return to the leadership position in the Smartphone market. The company mainly counts on the partnership with Microsoft, and on its Lumia smartphones to achieve this goal. The analysis moves on to exploring the external and internal environment of the company. Nokia has its main strength in its brand and loyal customers, and it has opportunities in creating innovative ecosystem with Microsoft. The company main threat comes from the existing rivals in the industry.

The paper then presents the product life cycle concept, and the marketing mix of two Nokia Lumia devices in their introduction stage. Lumia 820 and 920 are the smartphones, which are the focus of the analysis. The two smart devices are quite different, such that Lumia 920 is a high-end costly smartphone and 820 is a cheaper product with less impressive features. The 820 also serve as an example for the rest of
the Lumia products. These products, except for the 920 seem to have the same introduction strategy.

From the analyses it becomes clear that for the introduction of Lumia 920, Nokia has implemented differentiation strategy. Nokia targets the mass market with differentiated marketing mix. This strategy is successful as the product is very differentiated in the product and price components of the marketing mix. The market leader in Europe-Samsung also uses this strategy with its flagship device.

However compared to Samsung Nokia has not done so well with its mid price range devices. Lumia 820 and the rest of the Nokia Lumia products seem to use the same introduction marketing strategy. For these products Nokia has decided to use segmentation strategy. This strategy implies that the company targets smaller market segments, by recognizing the needs of these groups of customers. However by looking at the marketing mix it does not become clear, which market segments are the different products targeting. Nokia has not positioned its products well and customers may not be able to recognize, which product suits them best.
1. Introduction

In 2007 the launching of the Iphone by Apple Inc created the Smartphone market for the average person, before that the product was targeting only business users. Since then Apple’s Iphones and Android phones, which have been offered by Motorola, Samsung, HTC and others have tried hard to compete in this fast growing market and have succeeded to be the big players in the industry. This environment of fierce competition, has forced the companies to come up with unique technology and creative ideas as well as winning marketing strategies.

Nokia, which has been one of the most popular brands for mobile phones, somehow faded out with the creation of the massive Smartphone market in Europe, as Alison Donnelly (2008) points out the situation is already changed in late 2008. She stresses the fact that not so long ago it was very popular to own Nokia, but at this time the company was loosing customers to rivals. The Finnish company had troubles adapting to the market changes, it did not recognize that the Iphone release in 2007 would create a new era into the mobile world.

Nokia offered smartphones running their own software “Symbian” long before the Iphone release, however the platform was not very successful and Nokia’s sales start declining to Apple’s Iphone and Android running smartphones. The Symbian operating system did not succeed in creating an ecosystem and did not provide enough application for the customers to use. This is because Symbian developers did not actually understood that the basic functions were not enough in the growing smartphone market, as well as technical problems with the operating system slowed down application developers. With the growing success of Apple’s Iphone and their App Store as well as Google’s Android ecosystem, Symbian started to lose popularity. (“Why does Symbian” 2013). Nokia was loosing rapidly its customer base. According to research firm IDC in BBC the company’s market share fell from 38% in 2009 to 28% by the end of 2010 (“Nokia at crisis” 2011). Stephen Elop, CEO of Nokia corporation, referred to the Symbian as 'burning platform' in a memo to his staff in the beginning of 2011, and points out that the company is far behind Apple’s Iphone, and that Nokia is loosing its leadership position in smartphone volumes to Android running smartphones (“Nokia at crisis“ 2011).
Understanding this the company knew it had to make a difference, so rushed into creating new identity by entering into partnership with Microsoft in February 2011. On the announcement of the partnership Stephen Elop mentions that the two companies would create third innovative ecosystem in the smartphone market, which will surpass Apple’s IPhone and Google’s Android ecosystems ("Nokia and Microsoft” 2011). Having lost some of its loyal customers, Nokia had to build great products with distinctive marketing strategy in order to compete with its rivals and regain its lost market share.

The products that the company bet on to build its image in the smartphone industry and regain its customers are Lumia smartphones, these devices are running Windows software. The products were introduced to the European market for the first time in November 2011, 10 months after the partnership was announced (Weber, 2011). On the global scene Lumia smartphones could achieve only 3% market share between April and June 2012 according to a study by Canalys (“UPDATE 1-Samsung” 2011). At the end of 2012 Nokia market share in the smartphone market was around 16% making it the third smartphone manufacturer in Europe after Samsung and Apple ("Samsung dominates European” 2013). Two years after the partnership, Nokia did not regain its lost ground in the smartphone market.

In a fast growing industry, time is a very expensive asset, as every company wants to possess the most innovative technologies and products before its rivals. Nokia wanted to enter the market as soon as possible with its new products in order to regain some of its customers. However this may have led to wrong developing and implementation of marketing strategy. In April 2012 for the topic Timo Rothovius, Chairman of the Finnish Shareholders Union, says for Routers US:

"At the moment it seems that the strategic decisions were not correct" (Virki, 2012)

1.1 Problem statement

This thesis has the purpose of exploring the marketing strategy of Nokia, and more specifically the introduction strategic choices of the company when marketing its Lumia products. The purpose of this analysis is to understand whether there is evidence to conclude that Nokia’s performance in the smartphone market has been
affected negatively by the marketing strategy choices of the company. This paper will concentrate on finding problems with the marketing strategy choice and implementation.

The research question of my thesis is:
What is the problem with the marketing strategy of Nokia Lumia, which may have slowed down the recovery of the company?
In order to answer the research question I have come up with smaller questions to guide my analysis:
What is the goal of Nokia in the smartphone market, and how does it want to achieve it?
Which marketing strategy the company chooses to translate its vision into reality?
Is the strategy choice proper and implemented correctly?
What course of action should the company undertake to fix the problem?

1.2 Scope/Delimitations
Nokia’s situation may be affected by factors outside the scope of marketing strategy, those may be discussed briefly but they are not included in the scope of this thesis. This analysis is taking into consideration only the marketing strategy factors, affecting Nokia’s performance in the European market. The paper is manly discussing the marketing decisions of the company in the Smartphone market and the mobile phone market is ignored, as the product is sidelined due to changing customer needs. More specifically the analysis focus only on Nokia Lumia series, as this products seem to be marketed in order for Nokia to achieve its main goals in the smartphone market.

1.3 Terminology
Smartphone - Mobile, build on mobile operating system, addressing many features such as cameras, media players, Internet, GPS that form a device with multiple usages.
Apps – Refer to application software for mobile phone. Apps are the programs that Smartphone users can download, for their software. Apps are very important as by downloading these, the users can customize their products according to their needs.
1.4 Methodology
In my analysis I have perceived as relevant to explore the competitive situation in the Smartphone industry. For this analysis I have chosen to use Porter’s Five Forces. I find the method suitable as it exposes every aspect of the competition in an industry. It is important that Nokia is aware of the dangers of the various sources of competition, so it builds its marketing strategy protecting from those.

I choose to use SWOT analysis to map the environment of Nokia. The method is a way to better explore the strengths, weakness, opportunities and threats for Nokia. SWOT analysis will help me understand whether Nokia has build its strategy utilizing its strengths and protecting from the threats in the market, and whether it has worked to offset its weaknesses.

I have used the product life cycle concept, as Nokia is manufacturing physical goods and the method will help me understand, which strategies are appropriate for the introduction stage of the Lumia Smartphones. For the strategy analysis I have chosen to explore two strategy models, which I find suitable for the introduction stage of a smartphone. These are Smith’s differentiation and segmentation strategies and Porter’s Generic strategies. I have chosen to use this two strategy models, as they seem to fit the strategic possibilities in the smartphone market.

2. Nokia’s Mission and Vision
In order to understand better what Nokia wants to achieve in the smartphone market and how, I will analyze the company’s mission and vision statements. This step is important in order to understand the underlying drivers for Nokia’s strategy choice in the smartphone market. According to P. Drucker (1973) the mission statement is the starting point for the strategies and plans. He also argues that strategy formulation requires answer to the question “what our business is and what it should be.” (Drucker, 1973, p.57), and this answer is to be found in the mission statement.

According to Drucker (1973) a company needs to answer five questions to define its mission statement. A company has to understand, which business they are in and who is the customer and what this customer value, as well as what will the business be and how the business should be. Answering these questions will determine the choice of
strategy so that it leads to accomplishing the goals set in the mission statement. I will analyze Nokia’s mission and the vision of how it will achieve its goals in the smartphone market in order to understand which are Nokia’s customers, and where it wants to stand in the smartphone market.

“Nokia’s mission is simple: Connecting People. Our goal is to build great mobile products that enable billions of people worldwide to enjoy more of what life has to offer. Our challenge is to achieve this in an increasingly dynamic and competitive environment.” (Nokia, about us)

Nokia’s mission seems focused on building its brand worldwide, it looks like Nokia would like to achieve again the credibility and the position as a market leader, which it once had. The company wants to target the mass market and it also understands that the products it has to offer must be “more” than what already exist in the market. The mission statement is recognizing the competitive environment that Nokia faces now. Nokia is lacking the positioning and the brand identity of its competitors.

I will look now at one of the key elements of Nokia strategy, which is focusing on the smartphone market:

“Regaining leadership in the Smartphone space

To help us achieve our mission, Nokia has formed a strategic partnership with Microsoft that will, we hope, see us regain lost ground in the Smartphone market. Together, we intend to build a global ecosystem that surpasses anything currently in existence. The Nokia-Microsoft ecosystem will deliver differentiated and innovative products with unrivalled scale in terms of product breadth, geographical reach and brand identity.” (Nokia, about us)

Nokia’s mission in the smartphone market is to regain its leadership position. The company’s vision on how it will achieve its mission seems build around the company’s strategic alliance with Microsoft. Nokia seems to understand that they have lost their brand identity and bets on the partnership with Microsoft to build new
ecosystem, which will compete with and surpass their rivals. Nokia’s main objective is to regain its lost market share and position itself as market leader. From their vision we can see that, they recognize the need of differentiation and innovation in order to achieve these objectives. However from the mission and vision statement it does not become clear who are Nokia’s customers. The company is targeting the mass smartphone market.

3. Internal analysis

3.1 Overview of Nokia
The company was founded in 1865 in Finland and was named Nokia in 1871 (Nokia, story). President and CEO of Nokia Corporation at the moment is Stephen Elop. He joined Nokia in 2010, after working two years for Microsoft as President of Business Division and member of the senior membership team of Microsoft Corporation (Nokia, leadership team). Nokia serves worldwide demand for its products, which are feature phones and Smartphones. The company offers also services such as maps, navigation and music. Nokia has about 139 000 employees around the world. (Nokia, people and culture)

3.2 Marketing mix
In order to understand which strategy Nokia has used to achieve its objectives of regaining lost ground in the smartphone market, I will look at the marketing mix of the company. As marketing strategy shapes the marketing mix for the products, the marketing mix will point to the strategic choice of the company. The marketing mix is a synonym for 4ps, which is constructed of the four most important components of every product’s strategy - Product, Price, Promotion and Place. These components hold the opportunities for the company to differentiate.

3.2.1 Product
Nokia’s products vary a lot because the company has a number of series of Smartphone such as Nokia Lumia, Nokia Asha, as well as feature phone series. Product design also varies, the company has touch screen products, classic button phones, as well as slide sets. Nokia’s products have some great features that vary from product to product. Nokia is known for great quality of its devices, and often offers technologically advanced cameras and great maps for its smartphones.
3.2.2 Price
The prices of the smartphone series vary between 2000DKK and 6500DKK. There is high price variability of the products, so that the prices meet every social class needs.

3.2.3 Promotion
Nokia makes use of advertising on television, newspapers, radio and billboards. There is no information on any current or near past promotional campaigns.

3.2.4 Place
Nokia is getting its products to the market through distributors. It mainly sells its smartphones and feature phones through Mobile operators and retailers, which is common for the industry. The company does not own shops in most of Europe, exception make UK.

According to the marketing mix analysis for Nokia, the company mainly focuses on product component of the marketing mix. Nokia offers great variety of product at a different price levels. Given the variability in products and series, at this point it is hard to understand the strategic choices of the company. It is even impossible to assess the decisions regarding the new series Nokia Lumia, which are of interest for my analysis.

4. Competition Analysis

4.1 Overview of Nokia’s competitors
I will start competition analysis by presenting some of Nokia Lumia existing rivals. I find most important to talk about Apple’s Iphone and Samsung, which is part of Google’s Android ecosystem. I find these two companies the most important, because Samsung and Apple are the market leaders in Europe. I will focus on the market leaders, because Nokia according to the mission and vision statement analysis wants to regain its leadership position. If Nokia wants to achieve the leadership position it has to deal with this two companies. Even Mr Elop was frustrated by their success according to an interview for BBC ("Nokia at crisis" 2011).

4.1.1 Apple Inc
Apple Inc entered the European smartphone market for first time in November 2007 with its Iphone. The smartphone has been great success and by now there is 6
generations of the product. Currently the Iphone has 25.3 % market share in Europe (Yarol, 2013). Apple has a very diversified customer base such that some of the Iphone users are children, students, average adults, and businessmen and women.

The product has differentiated design compared to its rivals; it is very simple and classic. The simple design allows it to target the mass market and to be chosen by different people who can customize it with covers according to their style. The product is offered in two colours and it has some of the latest technologies available on the market. The software is also very user friendly and simplified. The ecosystem offers great variety of apps followed closely by Android operating system. Apps are very important, because the users can customize the smartphone according to their needs (Desmarais, C. 2013). Iphone is one of the most expensive products in the smartphone market in Europe. Apple does not make so much use of advertising on TV and billboards; it is mainly using word of mouth advertising. The company has its own shops in almost all Europe where it sells its products. Apple is very differentiated in terms of almost all 4 dimensions of the marketing mix compared to its rivals.

4.1.2 Samsung

Samsung is the market leader with 32.3% of the market share in the European smartphone market (“Stellar growth sees” 2012). In the second quarter of 2011 Samsung overtook Nokia with 29% market share in the Western European market. In this region Nokia has been the market leader since 1990 (“UPDATE 1-Samsung” 2011).

The smartphones that Samsung offers run Google’s operating system- Android. In 2012 Samsung introduced its first Windows phone. The company offers a great variety of products targeting almost every customer segment in the market. For example for music lovers Samsung offers Galaxy music, which has features such as surround sound and easy access to music. For people who appreciate innovative technology the company offer the Galaxy S3, also it offers a mini version for the people who find the S3 too big. The galaxy note series offer its users to write down as they write on real pen and paper (Samsung, mobile devices). The price of the products also varies a lot to meet almost every need. Samsung does not differentiate itself in the place and promotion of the marketing mix.
4.2 Porter’s five forces

In order to map the competitive situation and threats in the European smartphone market, I will use Porter’s five forces. Porter (2008) argues that the model brings out the underlying structure of the industry by mapping out the competitive forces and revealing the roots of industry’s current profitability and provides framework for getting ahead of competition. Porter (2008) recognizes 5 forces that shape competition these are threat of entry, the power of suppliers and buyers, threat of substitutes and rivalry among existing competitors.

4.2.1 Threat of entry

The threat of entry in the smartphone industry is low. The smartphone business requires high capital investments and high sunk costs and this may discourage new entrants. Also there is competition between existing companies with established and respected brands. Customers tend to be loyal to the brand they choose. The existing competitors possess technologies and patents, which give them competitive advantage, these may be costly or impossible to acquire. Strong distribution network is also important so it is another barrier to entry.

4.2.2 The power of suppliers and buyers

The power of suppliers is low this is due to the high competition between suppliers and substitute inputs available. The power of buyers is low as well, because there is large number of buyers.

4.2.3 Threat of substitute

Threat of substitutes is low in the smartphone industry. As the smartphone is many devices in one, there is no one product that can substitute the smartphone. It will be too costly to acquire substitute.

4.2.4 Rivalry among existing competitors

The Smartphone is highly perishable product this may create high rivalry among competitors. According to Porter (2008) highly perishable products need to be sold fast, that is why companies are often tempted to cut prices and increase competition. Exit barriers are low so unprofitable companies are not forced to struggle and compete, but can leave the industry easily and make room for the healthy companies. The industry has a fast growth rate this avoids fights for market share.
In conclusion the threat in the smartphone industry comes mainly from existing competitors.

5. SWOT analysis

According to Kotler and Keller (2009 p.101) SWOT analysis is a way to monitor company’s internal and external environment, it is the overall evaluation of the strengths, weaknesses, opportunities and threats. If a company takes under consideration its strengths, and builds its strategy exposing and utilising them this will create a competitive advantage. Weaknesses and threats are those factors that can affect the company in negative way. Nokia should be aware of these, so that the strategy it develops can offset its weaknesses and protect from the threats. Opportunities are the chances for the company to expand and grow in the market.

5.1 Strengths

One of Nokia’s main strengths is in its brand. Before the mobile phone market was sidelined due to changing market trends, Nokia has been one of the most respected and well-known companies in the mobile phone market. Their products are associated with distinct design, accountability and sturdiness. The company has headed the sales in mobile phone market since 1998 until the last couple of years (“Samsung overtakes Nokia”, 2012).

Nokia has developed brand awareness and the company brand has been associated with the best products in the industry. Although Nokia is having hard times catching up with the Smartphone market, their brand and loyal customers can help the company to regain its market share. The company has been long time in the smartphone market and has great and experienced personnel.

5.2 Weaknesses

Nokia is having difficulties catching up with the changing customer trends; it is lagging with introducing innovative products. The main evidence for this is the inability of the company to meet market trends after the Iphone release, and the failure of its Symbian platform. Nokia plays the role of phone manufacturer so Internet, software and services are not its strengths. However this weakness is now offset by the Partnership with Microsoft.
5.3 Opportunities
The main opportunity for Nokia is in its partnership with Microsoft. Nokia is one of the first companies to provide Windows phone, it could use this as competitive advantage, and develop new and innovative products. Samsung and HTC have also released Windows Phone 8 models after the first Lumia Smartphones were introduced in Europe. However Samsung has only one windows phone and Nokia by now has released eight. This means that Nokia is more experienced into developing joint products with Microsoft. The company can expand its Lumia series offering devices from different price range and features to serve multiple customer demands.

5.4 Threats
Nokia is facing a huge competition in the Smartphone market from Samsung, HTC and Motorola. In the high end costly mobile segment the company is facing Apple’s Iphone and RIM’s Blackberry. Nokia has played the role of a market follower and has lost time in the Smartphone market with developing and repairing its strategy. Nokia has switched from Symbian software to Windows phone, which confused customers and made it hard for the company to deliver its message and build awareness in the market.

It will be very hard for the company to come back to the top again as Smartphone switch from the customer’s perspective is hard. The handset is more than just a phone, it becomes part of people’s lives keeping their important and personal information, it adjusts to their personal preferences. Due to the different software it is hard for the users to transfer their information from one software as Android to other as Apple’s IOS. This switch may cost users to loose important information. Given all this customers need a very good reason to change their operating system. In order for Nokia to gain back its lost market share, the company has to come up with very good technology, and convince the customers that their products are the best choice in the market.

From the SWOT analysis it becomes clear that Nokia has its main strength in its brand and its loyal customers. The company should use this to regain its reputation as one of the top brands in the market. Nokia is threatened by huge competition from its
existing rivals. The company should use its partnership with Microsoft to build great products and regain its lost market share.

6. Product Life Cycle

For my analysis it will be useful to understand how Nokia has introduced its Lumia Smartphones. The introduction stage of a product is one of the most important, because in this stage a company positions its products in the market. In order examine the strategic choice of the company I need to understand the strategic possibilities in the introduction stage of a product. According to Kotler and Keller (2009 p. 490), company’s positioning and differentiation strategy must change throughout the life of its products. I will give a brief description of the stages of the product life cycle and strategic possibilities in each of these stages.

According to Kotler and Keller (2009 p. 490) to be applicable to a product the assumptions behind the life-cycle are that the product must have limited life; sales go trough different stages, with different challenges, opportunities and problems; profits change at different stages; products require different manufacturing, financial, marketing, purchasing and human resource strategies in each life cycle stage. The Smartphone products fulfill these assumptions. Kotler and Keller (2009 p.490) recognize 4 different Life-cycle stages for a product.

6.1 Introduction Stage

Introduction is a period of slow sales growth as the product is just introduced. It is also recognized with heavy advertising. (Kotler and Keller, 2009, p.490).

According to Shaw (2012) in the introduction stage a company can choose by penetration strategy or niche strategy. A penetration strategy involves aggressive marketing mix and product for the mass market offered at a low price. A niche strategy according to Shaw (2012) involves a narrow market segment and a higher price.

In this stage Shaw (2012) recognizes only two possibilities targeting the mass market with low price and a niche strategy involving higher price. Looking at the smartphone market it is possible for the companies to target mass market with higher price as for
instance Iphone does. This is also due to the affordable terms of the mobile operators where people can buy the smartphone on leasing.

6.2 Growth Stage
This is a period of rapid growth and market acceptance. Here the profits are higher. According to Shaw (2012) in the growth stage companies can choose between two strategic options these are segment expansion and brand expansion. In segment expansion, the company can add new target segments, with their own marketing mixes. Strategic alternative to segment expansion might be brand expansion. This strategy adds new products or variations to the existing line. The strategy delivers to the customer segment bigger choice, or greater value. Some of these strategy ideas might be delivery, gift-wrapping (Shaw, 2012).

6.3 Maturity Stage
In maturity stage the sales are lower as the product is already bought from most of the potential buyers (Kotler and Keller 2009 p.490). According to Shaw (2012) in maturity stage it is common for a company to employ s stable marketing mix. As the product moves further on the curve harvesting strategy becomes necessity.

6.4 Decline Stage
Here sales decline and profits erode (Kotler and Keller 2009 p.490). In this stage Shaw (2012) recognize only divesting strategy as an option.

7. Introduction Stage Marketing Mix of Lumia 920 and 820
According to Shaw (2012) the marketing strategy of a product should change in the different stages of the product lifecycle. I believe in Nokia’s case the introduction stage of Nokia Lumia shortly after the partnership is crucial due to the delicate situation of the company and the need of regaining market share. Also given the partnership with Microsoft and the launch of Nokia Lumia series, the company has changed its strategic approach, so the overall marketing mix of Nokia in the beginning of my analysis is not helpful in encountering the new strategic decisions of Nokia in the smartphone market.

I have selected two smartphones from Nokia Lumia’s series, and I will analyze them in the introduction stage of the products. I have chosen to look at the 4ps for Lumia
920 and 820. The products have been introduced in an important time period for Nokia—less than 2 years after the partnership with Microsoft was announced. In my opinion this time frame was crucial, as this products would set the customer perception for the future of the series.

Lumia 920 is an interesting product because it is a flagship device, and it is one of the most technologically advanced products in the Lumia series. Lumia 920 has achieved high user interest and demand (King, 2012). Also the product is important because it is at the same price level as Iphone and Samsung Galaxy S3 this will provide me with some perspective for comparison. I will also include analysis of Lumia 820, which is a cheaper device. However this device has not achieved such a huge success, as well as the rest of the Lumia series, which are not included in the analysis. Combining the two products will give me overall picture of the strategic choices of the company in the smartphone market with its Lumia series.

The analysis of the marketing mix of Nokia Lumia 820 and 920 at their introduction will help me understand, which marketing strategy Nokia has implemented for the introduction stage of its products. The products have been introduced in 2012 so I will focus on the prices, promotions and other relevant information for that past period.

7.1 Product

On 5 September 2012, BBC reports that Lumia 920, which is the flagship device in Europe, features wireless charging as well as its revolutionary camera pureview, which allows you to take pictures at night. Nokia argues that it can capture 10 times the amount of light, compared to the rest of the Smartphones in the market (“Nokia unveils two” 2012). This feature creates competitive advantage for the company as well as technological leadership. The 820 model featured also wireless charging however less impressive technology and a slightly smaller display (Stevenson, 2012)

Customers have encountered problems with the phone software. Such as, Lumia 900, which is the flagship device for US, has been introduced with software bug, which prevents users from connecting to the Internet (“Bug hits new”, 2012). This has surely caused negative word of mouth for the devices, as well as disappointment for the owners of the Windows phone, it has surely affected European customer base as well.
Apps that run on Windows phone are much less than those that Android and IOS offer for their customers. This is a huge problem for Nokia, as apps are really important for the Smartphone user. Nokia’s devices are offered in different colours such as green, red and yellow so the customers can customize the phone by their preferences.

The devices are differentiated in the product part of the marketing mix. However it does not become clear whether the products are targeting any particular customer group from the physical or non-physical features.

7.2 Price

In Europe earlier in September Nokia launched its Lumia 920 and its cheaper device 820. The launch prices are about 4500DKK for the 920 and 3500Dkk for the 820 (Stevenson, 2012).

Looking at the prices of Nokia’s flagship device 920, the product is selling cheaper than the Iphone 5, which was launched in September also. Lumia 920 is selling for the same price, or in some places cheaper than Samsung Galaxy S 3, which is the flagship device for Samsung. Galaxy S3 went on sale, three months before the Lumia and it could be argued that the price for the Lumia is too high, because people are not familiar with the product and they may not be willing to take a risk for the high price.

7.3 Promotion

Nokia advertises heavily, promoting its Windows phones. It makes use of advertising on TV, billboards and the Internet.

Just before the lunching of its flagship device - Lumia 920, Nokia was caught cheating on an advert featuring a new technology. The video was promoting the new feature of the Smartphone camera optical image stabilization-OIS. The advert intended to support the firm’s claim that the technology helped reduce blur, but later from the video it became clear that it was filmed with professional camera (Nokia's bet on, 2012). This is a really bad start for Nokia’s flagship device. The launching of the device is really important strategic moment for the Nokia and this is a serious mistake. The new Windows phone had most opportunity to position the company and create competitive advantage, as the technology is new to the market. The cheating on that advert will cause disappointment and mistrust into customers.
In its promotion part of the marketing mix the company does not position the products in any particular customer segments nor does it differentiate itself from its competitors.

7.4 Place
Nokia is getting its products to the market through distributors. It mainly sells its Smartphone through Mobile operators. The company does not own shops in most of Europe, exception make UK. Nokia does not differentiate itself in this component of the marketing mix.

8. Strategy Analysis of Lumia 820 and 920
Having understood the marketing mix of the product, I can proceed in fitting it into marketing strategy. This analysis will help me to determine whether the choice of strategy is correct and whether it is implemented properly. According to Shaw (2012) in the introduction stage of a product a company can choose between penetration strategy and niche strategy. He also argues that penetration strategy should use aggressive marketing mix such as low price, low service, and high promotional expenditures. According to him the other option is a niche strategy, which is best for small companies and involves high price and a product suited for a niche market.

However looking at the smartphone industry as whole and taking into consideration that price is just one factor that customers consider in the market, I am choosing different approach. I argue that in the introduction stage of a smartphone, a company can choose between niche strategy, with marketing mix suited for certain market segment, it could include a low or a high price, as well it could be employed by big or small company. Also I consider appropriate to use differentiation strategy instead of his penetration strategy also suitable for different price levels, and company sizes. However I recognize the need in the smartphone market that a company should employ a Differentiation strategy with aggressive marketing mix. This is due to the high competition in the market and very strong trend for coping within the industry. However this marketing mix should not be concentrated on penetrating the market by low price and low service as Shaw (2012) suggests, because I believe this is not what creates value in the smartphone industry. The marketing mix should focus on differentiation in most of the components of the 4ps.
Having researched the strategy models available for my analyses I have recognized two models, which best suit my analyses. I have chosen to work with: Porter’s Generic strategies and Smith’s differentiation and segmentation strategies. In my opinion and by looking at the situation in the smartphone industry, these two models seems to fit best my understanding of strategic options in the introduction stage of a product in the smartphone market. I have also chosen the two models because they are similar and this will provide me with stronger evidence for my findings.

8.1 Porter’s Generic Strategies

According to Shaw (2012, p. 43) Porter’s generic strategies is two by two matrix, which “juxtaposes low cost and uniqueness with industry-wide and narrow target segments”.

Figure 1: Porter’s Generic Strategies

![Porter's Generic Strategies Diagram](source: Byron Sharp (1991))

8.1.1 Lower cost

Low cost competitive advantage is focused on achieving the lowest cost possible within an industry. As the strategy implies low cost a marketer would only appreciate, if the lower cost leads to lower price. According to Byron Sharp (1991) low cost competitive advantage combined with broad target scope emphasizes production of standardized products, at low per unit cost for the price-sensitive buyers.

8.1.2 Differentiation

Differentiation competitive advantage promotes a product that is perceived by the customer to differ on any physical or nonphysical product characteristic.
Differentiation in nonphysical product characteristic might be created by usage experience, word of mouth and promotion. Physical difference is created by the product characteristics. (Dickson, 1987)

8.1.3 Broad target
Broad target scope is offerings for the mass market. It is most commonly applied with lower cost competitive advantage, for big companies offering a standardized product (Shaw, 2012). However it could also be applied with differentiation, offering a very differentiated product to the mass market. Companies choosing this scope, often use one marketing mix for their business (Shaw, 2012).

8.1.4 Narrow target
Porter’s narrow target is also known as market segmentation or niche scope. It is suitable for smaller companies with not so strong financial resources (Shaw, 2012). It involves dividing the market into smaller or niche markets and targeting those with products suitable for that market segment. It could also be used for big companies, targeting multiple niche markets.

8.1.5 Porter’s Generic Strategies critique
Porter’s matrix excludes cost as a differentiation strategy. This is not very realistic because if we look at low cost, as lower price for the buyer compared to the other products on the market, this could also be a differentiation strategy (Shaw, 2012). Price is also part of the marketing mix and every part of the marketing mix can be differentiated in order for the company to gain competitive advantage.

8.1.6 Nokia’s strategic decisions
Nokia is clearly using Differentiation strategy, which is a combination of differentiation competitive advantage and broad target scope. Differentiation in the marketing mix for the Lumia 920 occurs in the Product and Price components of the marketing mix. Lumia 820 is also differentiated, but only in the product component of the marketing mix. However the price of the 820 is lower and mid-ranged for the market, it is not differentiated.

The smartphones are differentiated from its rivals in the Product component of the marketing mix with their physical and non-physical characteristics. The physical characteristics of the 920 and 820 are the design of the product as well as the multiple
colors that are available to the customers. The colors offer customization for the devices and differentiate the products from rivals such as Samsung and Apple. The two companies often offer their smartphones in only two colors.

The devices are differentiated in a non-physical way through the company’s partnership with Microsoft. Nokia is first to manufacture a smartphone running Windows software, and at present it is offering more Windows phones than any of its rivals. The Lumia 920 is also differentiated by its innovative technologies such as its revolutionary camera. Nokia 820 and 920 both offer wireless charging, which is a new and innovative offering for the European market.

I will move on to Smith’s differentiation and segmentation strategy and check whether I will arrive at the same conclusion as in the previous analysis.

8.2 Smith’s Differentiation and Segmentation Strategies

According to Shaw (2012) all variation of Porter’s generic strategies may also be derived from Smith’s differentiation and segmentation strategies. Unlike Porter’s Generic Strategies, Smith is recognizing price as a differentiation strategy. According to Smith (1956) Product differentiation and market segmentation are both applicable within the framework of imperfect competition. The strategies aim to shift or change the demand curve slope for the market offering of individual supplier.

Figure 2: Smith’s Differentiation and segmentation

Source: Shaw (2012)
8.2.1 Segmentation strategy
According to Smith (1956) Segmentation at the right side of Figure 2 is focused around the demand side of the market. It is a more precise adjustment of the marketing mix to consumer and user requirements. The strategy brings recognition of several demand schedules compared to one recognized when targeting the mass market or broad market. Market segmentation views one heterogeneous market as couple of homogenous market segments (Smith, 1956). It offers a better recognition of the customer’s desires and higher satisfaction of the segment (Shaw, 2012). Using a segmentation strategy means recognizing smaller market segments and targeting those with products suitable for that specific customer group.

8.2.2 Differentiation strategy
Market differentiation in the left of Figure 2 aims to secure share of broad and generalized market. Differentiation strategy is also recognized as securing a measure of control over the demand for a product, through heavy advertising (Smith, 1956). The idea behind this strategy is to position the brand in the market as different from competitors in the customer’s perspective. Consistent with Porter’s Generic strategies the differentiation can be physical or non-physical. Physical may be design, package, and price or not real based on perceived value such as prestige image, or logo (Shaw, 2012).

8.2.3 Nokia’s Strategic Decisions
Consistent with my previous analysis of Nokia using Porter’s matrix, here I arrive at the same conclusion. Nokia is using differentiation strategy with its Lumia smartphones. The differentiation is physical and non-physical. Physical is observed with the phone’s design and customization possibilities through the different color offering. The Smartphone’s innovative technology and features we can recognize as non-physical differentiation.

It could also be argued that the company is using segmentation strategy taking into consideration the two models, which are differentiated from each other by price and features. It could be argued that the company is targeting two markets: higher to middle social class customers willing to pay more money for higher quality and a middle to lower class customers interested in the cheaper version. However even if some segmentation exist it is still too broad. Richer customers may buy the cheaper
phone if they are not interested in the innovative technology of the 920 and vice versa for the lower class. The product does not seem to offer a great understanding of any consumer group’s needs and desires.

8.3 Conclusion of the strategy analysis section

This section focused on presenting some strategy methods, and fitting the marketing mix of Nokia Lumia into some of the strategic options. The company has chosen to use for launching of its Lumia products differentiation strategy targeting a broad market segment. The Smartphones are very well differentiated from its rivals in the product component of the 4ps. However to use differentiation strategy in introduction stage a company is to use aggressive marketing mix. It will not be possible for Nokia to achieve great success in the smartphone industry by targeting the mass market and differentiating only one component of its marketing mix. This is true for the Nokia 820 it may be a better idea if Nokia was using segmentation strategy for this product. To back up my findings I will point to the competition analysis earlier in my thesis where I made a brief description of Apple’s marketing mix. Apple Inc possesses the second place by market share in the European smartphone market. However the company has differentiated itself in almost every component of the marketing mix. Apple is using differentiation strategy by positioning its product as different from its rivals in the market.

If we look from another perspective we may conclude that Nokia might be using segmentation strategy by targeting different market segments. However the segmentation is very weak and broad. If we take into account the Lumia 920 and the cheaper version 820 the difference between the products is in price and quality, which will target different social classes. However I find this not so good choice of segmentation because the target group is not well defined for each product. To back up this statement I will point to the success of the market leader in Europe-Samsung. In the competition analysis I pointed out how Samsung recognizes every need in the market and offers product for different customer segments. Samsung offers products for almost every taste and pocket and it is surely using segmentation strategy.
9. So which strategy has Nokia used?

At this stage of my analysis, it does not become very clear what Nokia is actually doing in the smartphone market. To get a bigger picture of the situation I will take a brief look at the rest of the Lumia smartphones, which are currently offered in the European market. The products are mid range priced and their marketing mix is similar to Lumia 820.

The prices are mid-range for the industry and the product component of the 4ps is quite differentiated. The smartphones offer some very interesting features such as wireless charging, great cameras and others. Promotion and the Place components of the marketing mix are the same as in the 4ps analysis of Lumia 820 and 920. So the marketing mix of most of Lumia Smartphones, except for the Lumia 920 is one. However this marketing mix does not seem to fit into any of the strategic options available for the introduction stage of a product. These Lumia products are not positioned in the market. They do not seem to target different market segments. It seems like these products are targeting the mass market however they don’t have the marketing mix qualities for doing that.

Here I arrive at the conclusion that Nokia has lost its vision of a target customer. The strategic choice of the company with their Lumia Smartphones seems quite similar to what Samsung is doing. This is logical as Nokia wants its leadership position back, and Samsung is the market leader at the moment. I arrive at this conclusion by making a simple comparison between Nokia and Samsung.

Samsung offers Galaxy S3, which is positioned in the high-end costly Smartphone. Nokia offer its Lumia 920 and succeeds in positioning it in the same market. These two products are marketed with differentiation strategy. They have differentiated marketing mix in the product and price component and are quite innovative, which position them as ”different”.

Samsung is using segmentation strategy with its other products. The company targets different market segments, as it became clear in the competition analysis. Samsung has positioned its products well, and lets the customers know that they are offering
something for everybody. However Nokia hare has not succeeded in positioning the rest of the Lumia devices.

**10. Nokia’s Strategic Problems - Summary and Advice**

Given the analysis of Nokia 820 and 920 introduction strategies, and taking into consideration the rest of the Lumia series Smartphone out in the market, I arrive at the conclusion that Nokia has lost its vision of a target customer. The company also uses different marketing strategies for its flagship device and for the rest of the series.

Nokia has done well positioning its Lumia 920. The product is a flagship device and possesses very innovative technology. It is suitable for differentiation strategy, meaning targeting the mass market with differentiated marketing mix. The product component of the marketing mix is very well differentiated as the product offers innovative technologies and design qualities. The price is also quite high, which differentiates it from the rest of the products in the market and position it in the high-end costly smartphone market, where Galaxy S3 and Iphone are competing. That is why the product has achieved great interest in the smartphone market. We can also see this type of strategy in the marketing of Galaxy S3 by Samsung. This smart device also possesses very innovative technology and it is sold at a very high price. The product became bestseller in the world for the 3rd quarter of 2012 (“Samsung Galaxy S3”, 2012). According to the analysis and given the market situation this strategy decision of Nokia is successful.

However Nokia has not yet achieved its leadership position, and the reason for this I find in the marketing strategy used to market its mid-price range products. In my analysis I have looked at the marketing mix in the introduction stage of one of these smartphones - Lumia 820. The product did not seem to enter into any marketing strategy option. That is why I arrive at the conclusion that Nokia did not succeed in positioning its product. This can also be seen in the rest of the Nokia Lumia models. Nokia has 7 more Lumia devices. Looking at the market situation I assume that Nokia has tried to use segmentation strategy. However the company did not position its smartphones well into any market segments. These Smartphones have great features but the users may have hard time distinguishing between the Lumia products and finding the one suitable for them.
I would advice Nokia to reexamine the introduction marketing strategy it is using for its mid price range products. If Nokia would like to use segmentation strategy when introducing its next smartphones, the company should be more careful when formulating and implementing its strategic choices. One way of creating a winning segmentation strategy for the company would be to use the following framework. According to El-Ansary (2006) marketing strategy formulation involves a number of steps. The process should begin with understanding customer behavior. The second step is to divide the market into smaller market segments, and decide which of these segments there is greater chance of success. Nokia should build products suitable for the chosen market segments, and position itself clearly so that customers are aware that Nokia recognizes their needs. The company may segment the market based on demographics, psychographics, sociographics, geographic and behavioral characteristics (Eric H. Shaw, 2012), whichever source of market segmentation Nokia chooses the company should work to position its products in the minds of consumers using the promotion part of the marketing mix.

11. Conclusion

Nokia’s mission is to regain its leadership position in the smartphone market. The company sees greatest potential for achieving its objective in the partnership with Microsoft. According to the environment analysis the most serious problem for the company is the threat from existing rivals. Apple Inc and Samsung are the market leaders, companies with innovative products and great marketing strategies. Apple is using differentiation strategy when introducing its products, and Samsung is using segmentation strategy for the majority of its products except for its flagship device.

Nokia has built some interesting products in the Lumia series, with very impressive technologies and beautiful designs. However the market success of these products has not been so great and Nokia did not achieve its goal of becoming a market leader in Europe. According to the analysis the reason for this is wrong implementation of marketing strategy and specifically problems with the positioning of the products.

Nokia has introduced its flagship device at a high price with very innovative technology and has position it in the high-end costly Smartphone market. The product
is introduced by implementing differentiation strategy. This strategy implementation is correct according to the analysis, as the product is introduced with aggressive marketing mix, targeting the mass market. Lumia 920 has seen great interest in the Smartphone market in Europe. However this product is only one of the nine Lumia devices, which have been introduced in the past couple of years.

According to the analysis Nokia has tried to use segmentation strategy, when marketing the rest of the Lumia products. Segmentation strategy involves dividing the market into smaller market segments based on different characteristics of the customer group. A company has to choose among those market segments and build products suitable for the chosen segments. Customers have to be aware that the products recognize their needs, so positioning is important for the success of such strategic decision. However when analyzing Nokia’s segmentation strategy, it does not become clear what the segmentation actually is. The products are not positioned well in the market, and customers may have hard time choosing among Lumia series.

This problem could be making customers to turn to one of Nokia’s rivals such as Samsung, which have positioned well their products and are letting their customers know that their company provides what they need. I believe this is really harmful for the company as the Lumia phones are important strategic point for Nokia in its journey of regaining its lost ground in the Smartphone market. Nokia, as pointed out in the vision of the company, mainly counts on its partnership with Microsoft to achieve its objectives. This marketing strategy mistake may harm the future success of the company given the high switching costs for consumers between different operating systems.

If Nokia introduce other products in the Lumia series, it would be useful for the company to follow a simple framework for segmentation strategy formulation. The company should try to focus more on the customer, and build products for the market segments it would like to target. Also it should use the promotion part of the marketing mix to position its products, and inform the customer of what Nokia offers and for whom.
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