



Commentary and Analysis...

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Nokia And Microsoft: Can Two Weaklings Make a Muscleman?

Nokia finally revealed what has been rumored for weeks- it will go with Windows Phone 7 as its high end smartphone platform and abandon Symbian in this space. This alliance will have dramatic ramifications for Nokia, Microsoft and the overall market, with winners and losers beyond the two primary players. Can Nokia make this work and regain the market dominance it once had? Can Microsoft gain mobile market share it desperately seeks? Or is this an exercise in futility?

Nokia and Microsoft are now allies. This is not a total surprise as Nokia has partnered with Microsoft in the past, albeit in a much more limited fashion (e.g., connection to Office and SharePoint). But with ex-Microsoft executive Elop now running the company and the likelihood that he'll tap some of his past Microsoft colleagues to fill vacant executive positions, going this route seems like a more rational choice than going with Android, even if Android is the more popular platform and greatly eclipses WP7's market share.

With this new alliance Nokia is maneuvering for a high level assault on the mobile smartphone market and especially business-centric devices. But will a partnership with Microsoft and WP7 provide what it needs to succeed? And what effects will this have on Nokia's partners and ecosystem?

Lowering cost of operations

Plagued by shrinking market share and increasing overhead costs, this strategy should significantly lower costs for Nokia. It no longer has to support high end user interface and Symbian OS development. Symbian is now essentially a Nokia proprietary OS after a failed effort to make it open source and its subsequent abandonment by other phone makers. Nokia will have to pay Microsoft a royalty for each device they ship with WP7 on board. But this is more attractive than the burden associated with platform development which Nokia has now effectively transferred to Microsoft.

Getting to market faster

Nokia can develop hardware fairly quickly, but it has been hampered in its new product "time to market" by a notoriously slow pace in OS platform development. Going with WP7 corrects this imbalance. Of course, if WP7 doesn't gain significant traction in the market, will Microsoft

abandon WP7 and leave Nokia in an untenable position? This is a possibility, but less likely now that Nokia will be shipping WP7 devices.

What does Microsoft get?

Microsoft wins big in this arrangement, having gained a partner for an OS that is struggling in the market and losing share even among its current device suppliers (e.g., HTC). Nokia brings huge scale and can dramatically increase WP7 market share beyond its traditional reliance on vendors with much lower market share. And this precludes Microsoft from having to enter the device market directly (as it did in its KIN disaster) or through purchasing a device vendor (which many have suggested, but which never made sense).

RIP Symbian

As a result of this alliance, Symbian will now die a slow death. Nokia still needs it for its lower end devices, but Symbian will likely not get any major upgrades and will essentially go into maintenance mode. Since no substantial vendor but Nokia uses the OS, this shouldn't have much of an effect on the market. But Symbian fans will not be happy, nor will the European carriers who saw Symbian as a push back on Apple/Android hegemony.

Making the carriers happy

The European carriers fear the dominance of Apple's iPhone and Google's Android. Both are making the carriers less relevant (and profitable) as they push their own end user marketplaces and direct-to-user interactions. This is driving carriers towards "dumb pipe" status. Nokia may have been led down a rosy path here by the carriers whispering in its ear, as they no doubt wanted Nokia to be a counterweight to Android and iPhone. They were pushing Symbian as that counterweight. But WP7 can serve the same purpose if it's successful.

A Setback for Intel and MeeGo

Nokia had been pursuing MeeGo as its next high end OS which it now has abandoned. As a result, Intel loses its primary partner in trying to make MeeGo a competitive threat. MeeGo won't disappear but this is clearly a setback for market penetration which Intel hoped to leverage for Atom sales. And since WP7 only runs on ARM chips (at least for now) this means Intel won't be powering any Nokia smartphones with its Atom processors despite Intel starting to produce competitive silicon to the ARM products. Intel for its part will be pursuing Android based devices (which run quite well on Atom) and the tablet marketplace where its high performance chips show real promise.

Will app development suffer?

This partnership sends a not so attractive message to Nokia's development community. Developers who subscribed to the Qt model of rapid development, pushed by Nokia as its primary app development environment, will now have to change strategy. Qt does not currently embrace WP7 so either Nokia will have to extend it (possible since it does support full Windows) or ISVs will have to move to Microsoft development tools (a non-trivial shift). And it means any apps currently running on Symbian will need to be ported. This could be a major impediment as developers may concentrate their efforts on the more popular platforms (Apple/Android) if they have to change anyway. But Microsoft does have a large number of developers that will now be able to develop product for Nokia WP7 powered devices which may offset this loss. Nokia and Qt have a relatively small share of developers compared to the other platforms, so all in all, this may result in a minor hindrance when compared to gaining lots of Microsoft developers.

What about North America's market?

Regardless of this partnership with Microsoft, Nokia still has a major issue independent of WP7 powering its devices. Nokia has near zero presence in North America, an extremely important market in both volume and device innovation. It's not clear that choosing WP7 will buy Nokia much impact in the market, given WP7's lukewarm reception so far. Further, Nokia has basically abandoned half the North American market for years by refusing to build CDMA compatible smart

phones. This has eliminated Verizon and Sprint as carrier partners and has hurt Nokia significantly. This strategy is unlikely to change with this alliance.

Symbian does have fans

This arrangement will alienate many of Nokia's loyal Symbian users. The move away from Symbian means when users go looking for a new device, they will have to select a new environment even if they wanted to stay on Nokia/Symbian. This is a boost for iPhone/Android and even RIM as Nokia loses its lock-in and users decide which new platform they will move to. The market is rapidly adopting Android and iPhone and many Nokia users will now have even more incentive to switch.

Can Ovi survive?

Nokia's Ovi marketplace will eventually leverage the Microsoft marketplace, although for the time being it will remain distinct since there are many legacy devices running Symbian that Nokia has to support. But long term it's likely that the two will converge if Nokia becomes the dominant supplier of WP7 devices. Since much of the marketplace will be controlled by Microsoft, Nokia will lose substantial control, and along with it, revenue opportunities.

Will the enterprise embrace this alliance?

This alliance is not great news for the enterprise market. WP7 is not enterprise ready at this time, although no doubt MSFT will make improvements over time. Even though WP7 has Office tools built in, its lack of security and manageability gives companies an incentive to look elsewhere, unless they add third party enhancements, such as the ones readily available for Android and iPhone/iPad, but not currently available for WP7. This is a boon to third party mobile management vendors, but doesn't help Nokia in the short term.

Is this a last stand?

If this alliance fails, it essentially means a death knell for Nokia in the high end of the market, relegating it to a low cost producer in a battle with the rising Far East manufacturers which it likely can not win. For Microsoft, failure means that it will essentially be pushed out of the client side of mobile devices, which would not necessarily be a critical failure. Microsoft can still make lots of money in Office compatibility, ActiveSync/Exchange licensing, and cloud based services. So this alliance is a much higher risk for Nokia than it is for MSFT.

Are Nokia's competitors cheering?

For Nokia's competition, this offers a way to infiltrate the Symbian smart phone market which it was less likely to do before Nokia essentially told all its users that they will have to migrate to a new OS. It means that marginal share WP7 providers (e.g., Dell, HP, Sony Ericsson, Samsung) may decide to discontinue WP7 devices and go with an Android-only strategy (or WebOS in the case of HP). HTC, the largest current WP7 smartphone maker, could move away from WP7 even further than it has already and focus exclusively on Android (a rapidly expanding market for HTC).

Bottom Line: This as a high risk move for Nokia. It is an attempt to recover from rapid customer defections due to massive encroachment from iPhone, Android (and BlackBerry) into its previously loyal user base. This alliance signals a marriage of convenience for two companies that are rapidly losing share to more nimble competitors, and frankly is a sign of their weakness. For Nokia this is a life or death struggle (less so for Microsoft who has other businesses to fall back on). For users, and especially for businesses, this provides an additional choice, but one we're not convinced many current Symbian customers will make. And unless businesses were already looking at deploying WP7 devices (which is a very limited number at this point according to our research), we don't expect there to be any real advantage in this alliance for Nokia WP7 devices making headway into the enterprise.

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For more in-depth comments or analysis on this or other subjects, feel free to contact us.

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