Will Nokia Kill the Operator?

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Nokiaâ€™s announcements this week have delivered final notice that it sees itself as more than just the #1 handset manufacturer in the mobile world. Confirmation that its latest acquisitions and partnerships were part of a grander strategy was delivered with the launch of Nokiaâ€™s own online music store, a gaming service and its own Internet services portal. The question is what does this mean in the wider scheme of things and what will be the longer term impact on the mobile operators?

â€œThis move shouldnâ€™t come as such a big surprise,â€• said John Devlin, head of IMS Researchâ€™s Mobile Technologie
â€œThe first steps out of the box were taken a year or more ago with the devolution of the infrastructure business into Nokia Siemens and then the announcement that it was outsourcing its chip activities. This increased customer focus started with the release of Nokiaâ€™s Internet Tablet and then its first PND and the shift in emphasis has ramped up now with the moves into services and accessories. Nokia is now in a position to offer not just handsets but GPS modules, maps, headsets, car-kits, games, downloads and other services such as social networking too.â€•

As a company that follows these markets closely, IMS Research believes that whilst it is possible that these moves are purely designed to sell more phones it is more likely that Nokia is looking to leverage its brand and become more than a hardware provider. It has looked ahead and seen the increasing pressures on pricing, efficient production and supply chain management and found a way of differentiating itself from the other big suppliers, which are each chasing their own sections of the market. By moving beyond this Nokia is allowing itself to get inside the paying customers minds and usage habits, pushing its brand, tying people into its products and gaining new revenue streams.

However, does it risk alienating a share of its route to market in this way? To date, operators have been very protective of their own service revenues and have fought hard to protect these with the â€œwalled gardenâ€• approach for which the industry has been known. Direct to market third-party services have not been well promoted or received with very few exceptions, one being where potential tie-ins with a strong brand has been found to be beneficial in generating customer adds. Examples of this would be Appleâ€™s iTunes, Yahoo! Mail, Windows Live Messenger or Google Maps. Now Nokia is challenging this status quo, not by providing a white label service for operators to use but by placing its own brand ahead of theirs. Will the operators welcome such a move? Whilst the promotion of any data services is welcomed the operators will not want to reduce their slice of the pie.

Devlin added, â€œDoes Nokia feel it has sufficient brand power that it no longer has to worry about the operatorsâ€™ preferences? Thatâ€™s an interesting question. It is being reported that Apple has been negotiating for a 10% cut of revenues from any iphone users and perhaps Nokia feels it is equal to this. It certainly has the market position to challenge but it will be interesting to see how this develops. Perhaps it will offer the operators a slice of the action in return for cross promotion because at the end of the day it still needs them to act as a service provider, even if only in a â€œdumb pipeâ€• capacity but someone has to take care of billing, SIM provision, etc. The fact that Nokia has also announced phones tailored to maximise these services may appeal to operators as well; it shows strong support and should help drive uptake and level of use.â€•

If you would like an interview with an expert in this area, please contact Alison Bogle, Marketing Manager, at Alison.Bogle@imsresearch-usa.com or +1 412-441-1888.