

Microsoft in bold, risky bet on mobile with Nokia deal

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Microsoft CEO Steve Ballmer speaks during the press conference of the Finnish mobile manufacturer Nokia in Espoo on September 3, 2013.

With its deal for Nokia's handset business, Microsoft is making a bold, risky bet to gain traction in the smartphone market after missing the tech sector's shift to mobile.

The deal worth \$7.2 billion (5.44 billion euros) gives Microsoft Nokia's

mobile phone operations along with an array of patents and licenses to help compete with rival platforms from Google and Apple, and manufacturers such as Samsung.

The deal "is transformational," said Microsoft chief executive Steve Ballmer in a conference call, arguing that Microsoft needs to make up lost ground in the mobile space.

"We are trying to accelerate our phone [market](#) share," Ballmer said. "We know we need to accelerate, we are not confused about that."

Ballmer said in an email to Microsoft employees that the deal with Finland-based Nokia is "a bold step into the future and the next big phase of the transformation we announced on July 11" when the company unveiled a [reorganization](#) to concentrate on "devices and services."

The deal also moves Nokia chief executive Stephen Elop, who was hired from Microsoft in 2010 to turn the company around, back to his former firm, and makes him a likely candidate to succeed Ballmer when he retires.

But analysts were divided over whether Microsoft's move would have the intended effect.

Ross MacMillan, analyst at Jefferies, said he was generally positive on the deal, which gives Microsoft expertise in manufacturing and the supply chain, as well as an important [mapping service](#).

MacMillan said Microsoft sees "better economics owning the hardware" and should make a profit of \$40 per unit as the owner, up from \$10 per unit, allowing the deal to pay off with annual smartphone sales of 50 million.

Walter Pritchard at Citi said the deal casts doubt on speculation that Microsoft might split up the company to concentrate on different segments, which some analysts had hoped for after Ballmer's announcement that he would retire within a year.



A Nokia Lumia 925 mobile telephone at the flagship Nokia store in Helsinki on August 15, 2013. With its deal for Nokia's handset business, Microsoft is making a bold, risky bet to gain traction in the smartphone market after missing the tech sector's shift to mobile.

"This acquisition really does lock the successor into the current strategy," Pritchard said.

Others were more skeptical.

"I am not sure in the long run that buying Nokia will achieve the goal of

making Microsoft a leader in mobility," said Jack Gold, analyst with J. Gold Associates, who argued that Microsoft risks "alienating" other manufacturers.

"I think they could have achieved the same thing through a strategic partnership with Nokia (which they already had in place) and by simply 'staking' Nokia to the funds it needed."

Trip Chowdhry at Global Equities Research said the acquisition was "nothing to get excited about" and doubted whether Microsoft can be an important player in the smartphone segment.

"Winners in the smartphone market are already declared, 95 percent of the market is going to remain with Google Android and Apple," he said.

"There is no third player. Microsoft, Blackberry etc. will play in the 'others' category... had Microsoft acquired Nokia in 2005, we would have thought that to be ground breaking, not in 2013, when the smartphone industry is already well defined."

Windows-based smartphones saw a 78 percent jump in the past year, but still only held just 3.7 percent of the global market in the second quarter, according to research firm IDC, which estimated Google's Android with 79.3 percent and Apple's iOS with 13.2 percent.

Microsoft indicated it is aiming for a 15 percent share in smartphones by 2018, in a market estimated at 1.7 billion unit sales.

Shares in Microsoft slid 5.6 percent to \$31.5, while Nokia surged 31 percent \$5.1 on the news in late morning trade.

Ted Schadler at Forrester Research said the deal indicates Microsoft is finally making a transition to a multi-dimensional company.

"This acquisition is a clear stepping stone in Microsoft's transition from a software company to a software-led multiproduct company," Schadler said.

"Apple pioneered the model of vertical integration in devices: device+software+services. Google quickly mastered it. Microsoft has now proven that it is willing and able to make the tough decisions to make a vertically integrated product a cornerstone of its business model."

Schadler said he sees a positive outcome from the tie-up.

"Microsoft will become a significant third player in the mobile mind shift, still behind Google and Apple in [market share](#), but a very vital competitor and supplier," he said.

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