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# Nokia's Stephen Elop: 'Strategically, we have an opening'

Chief executive of handset maker says new Lumia phones running Windows Phone offer a 'third ecosystem' to carriers

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Stephen Elop launches Nokia's new Lumia 1020 smartphone in New York. Photograph: Richard Drew/AP

Stephen Elop almost bounded into the room, a picture of enthusiasm. "Well, let me start with a question!" the Nokia chief executive said to the small group of journalists. "You were all in the audience. Did you see things that surprised you?"

The journalists looked blank. They had just seen Elop take the stage in Manhattan to show off a new Lumia smartphone with a 41 megapixel camera that records as much detail as a professional SLR – three times more than the best smartphone rivals. It will allow you to zoom in on detail after you've taken the picture and capture perfect still images in near-darkness – but it wasn't a surprise.

Nokia had been using the number "41" for months leading up to the announcement at Pier 82 in New York, and Elop had shown off a phone in March 2012 with the same 41-megapixel capability – although that ran on Nokia's now-dead Symbian operating system, whereas the new one uses Microsoft's Windows Phone. What is more, hours before Elop unveiled the device to journalists and analysts, all the phone's specifications had been leaked and written up online.

For some the only surprise is that Nokia itself, former darling of the mobile industry, is still alive. Revenues at its mobile business peaked more than four years ago in the first quarter of 2008 at €9.2bn. Since then they have slumped to just €2.9bn (£2.5bn) in the first three months of this year.

The company reveals second-quarter results on Thursday and analysts reckon the mobile division might squeak a 1% operating profit, while it could make a 7% margin on the half of mobile broadband joint venture Nokia Siemens Networks (NSN) that it already owned (it has since paid €1.7bn for the other half).

"It's very challenging," admits Elop. "Because [with Windows Phone] we are starting as a challenger." The key rivals are Apple's iPhone and Google's Android software, which together control over 90% of the global smartphone market; Apple and Samsung alone rake in 95% of mobile handset profits. Nokia is still the world's second-largest handset maker, producing nearly 80m every quarter – but the majority are low-end "feature phones" with wafer-thin profit margins. The money is in smartphones.

The key plank of Elop's strategy is to beat BlackBerry to become the "third ecosystem" for smartphone apps, behind Apple and Google. Even that is a serious challenge: Apple's App Store is five years old, Google's only a little younger; each boasts more than half a million apps. Windows Phone is half that age and has about 130,000 apps. Crucially, it lacks native versions of a number of key apps popular with younger users, such as Snapchat's self-deleting message service and filter-infused photo favourite Instagram, which has hundreds of millions of users. Isn't that more important than super-detailed pictures?

Elop is quick to point to a Snapchat-compatible app called Swapchat; and as for Instagram, he says, the specialist photo app Hipstamatic now comes in a Windows Phone version that can upload pictures to Instagram (although to interact on the network you need another app, called Instance).

"But you're right," he says. "On applications, we have to do a lot of work, and keep pushing. But critical mass is building, and you're seeing more and more unique work being done on our platform.

"It's hard, it's a challenge. But there's no doubt we're making progress."

Analysts, meanwhile, do not think the new Lumia 1020 will set the world on fire.

"Despite the quality of the device, I have some serious doubts about whether it will change Nokia's fortunes, and it risks becoming a niche product," says IDC's Francisco Jeronimo. And Ian Fogg at IHS ScreenDigest suggested the 1020's camera makes it a "halo product", something to light up the brand.

"Alone, it won't ship enough units to turn around Nokia's fortunes, because it's premium-priced," he says. "But its significance will be greater than unit shipments. Nokia's goal is to put the name Nokia into people's minds."

But another key to overtaking BlackBerry is simply shipping more handsets. If Nokia hits the guidance of 7.1m Lumias shipped in the quarter just finished, it will have for the first time outdone its Canadian rival, which shipped 6.8m in the three months to the end of May. Compared with Apple or Android, which move scores of millions, this is still small beer, but it all counts.

Elop insists he's completely satisfied not to be using Android. On arriving at Nokia in September 2010 from Microsoft, he led a top-level analysis of its problems. Symbian, it was decided, was defunct. The iPhone and Android were on the rise. Windows Phone hadn't been launched.

"What we were worried about was the very high risk that one hardware manufacturer could come to dominate Android. We had a suspicion of who it might be, because of the resources available, the vertical integration," Elop says. Samsung already had in-house screen and memory-chip makers for its touchscreen phones. "We were respectful of the fact that we were quite late in making [a] decision – many others were in that space already.

"Fast forward to today and examine the Android ecosystem, and there's a lot of good devices from many different companies, but one company now has essentially become the dominant player."

He argues that being on Windows Phone helps in crucial negotiations with carriers. "The first step in the conversation is the recognition that we're not Apple, we're not Samsung/Android – we're a third alternative. And when an operator wants to keep pressure on [handset makers] and have a lot of options, he wants a third alternative. So, strategically, we have an opening because we've taken that path as the third ecosystem."

Nokia looked a corporate basket case for a while. Elop, a Canadian, has had to cut thousands of jobs and restructure the business. That naturally made him unpopular – and he still pronounces the company name as "Know-kee-ya" rather than the "Nock-ee-ya" that Finns prefer.

Nokia said last week that its net cash position at the end of the second quarter was

between €3.7bn and €4.2bn, meaning it burned through as much as €800m in three months. "The device business is a business where we're making some hefty investments," Elop says calmly.

Nokia is still not out of the woods – its debt rating was cut to junk a year ago and rumours have swirled that Microsoft might want to buy it. NSN, the world's third-biggest infrastructure provider for mobile networks, generates safe if unexciting profits; it could be a defence against takeover.

For Elop, the picture seems to be getting clearer: Nokia can survive, one way or another. In the mobile phone business these days, that counts as success.

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## RISE AND FALL

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**1987** Nokia, formerly a paper miller and rubber producer, introduces a handheld phone following its takeover of Salora Oy in 1984. Soviet leader Mikhail Gorbachev is pictured using one

**1998** Nokia becomes world's largest maker of mobiles, ahead of Motorola

**2003** Nokia 1100 introduced, becoming best-selling handset of all time, with over 200m shipped

**Jan-Mar 2008** Nokia mobile revenues peak at €9.2bn for the quarter

**2009** First phones running Google's Android software released

**Aug 2010** under sustained pressure, Olli-Pekka Kallasvuo departs as chief executive, to be replaced by Stephen Elop, formerly head of Microsoft's Business division

**Oct-Dec 2010** Android phones comprise 31% of smartphone sales – just edged out by Symbian's 32%. Apple has 16% of the market

**2011** Elop says Symbian is a "burning platform" and Nokia must abandon it He announces tie-up with Microsoft

**Oct 2011** First Lumia phones go on sale in Europe

**2012** Samsung dethrones Nokia as the world's largest maker of mobile phones

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