Harvard Business Review

Creating a Customer-Centered Organization

A Harvard Business Review Insight Center Report

The HBR Insight Center is an interactive resource that highlights the emerging thinking around today's most important issues. In this installment of the series, *Harvard Business Review* focused on how managers are turning their companies into customer-focused organizations.

The growing obsession with customer excellence is driven, in part, by technology. Today customers can obtain and exchange more information about the good and bad of their encounters with companies than ever before. That gives companies a great incentive to work harder to make customers happy — before, during, and after their purchases.

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HBR.ORG INSIGHT CENTER BLOG

Why Nokia's Collapse Should Scare Apple

by Patrick Barwise and Seán Meehan

Nokia's inability to field a credible response to the launch of the iPhone in 2007 and Google's Android operating system in 2008 has precipitated a freefall in its share price. Today, Apple is riding high, making this the perfect time for it — and every successful company — to reflect on Nokia's fall and ensure that they don't suffer the same fate.

Not so long ago, Nokia was the disrupter. In 1994, the dominant global provider of mobile handsets was Motorola: its shares were trading at an all-time high and it was seen as an outstanding innovator and even described by a senior consultant at A. T. Kearney as "the best-managed company in the world" — not so different from Apple today. By 2000, Motorola's global market share had collapsed from 45% to 15%, while Nokia's had grown to a market-leading 31%. Nokia had won by promising, communicating, consistently delivering, and relentlessly improving straightforward, relevant customer benefits, in line with its easily understood brand promise, "connecting people."

Although Nokia introduced few radical new products, in the 1990s it was a bold, innovative company in broader business terms — more than most people realize. Previously a straggling and struggling conglomerate, it bravely focused 100% on mobile communications, was an early adopter and driver of 2G technology, and quickly became a recognized world leader in both supply chain management and brand-building. It was the first handset manufacturer to target the bottom two-thirds of the global income pyramid as well as the top one-third and among the first to understand the importance of ease of use, aesthetic product design, and that handsets were as much lifestyle as technology products.

Motorola missed most of these market trends, was slow to invest in digital (it was a classic victim of the innovator's dilemma), and dissipated its efforts on a bewildering array of technologies, product designs, and brand messages. As the failures piled up, so did the stories of mounting bureaucracy, backstabbing, and top management "living in a different world." Effective execution became harder and harder, creating a vicious cycle of falling behind in the market, losing money, canceling projects, and shedding staff, all of which further damaged its ability to execute. Motorola is finally

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attempting a comeback with handsets using Google's Android operating system, but is now only a minor player.

Over time and with success, Nokia too lost some of its ability to stay in touch with, and adapt early to, market trends. In particular, just as Motorola missed the switch to digital, Nokia failed to see that the long-heralded mobile Internet was now, at last, a practical option. In 2004, three years before the iPhone, it rejected a proposal to develop a Nokia online applications store.

Finally, after a wholesale change of top management, Nokia is now responding vigorously to Apple's and Google's challenge. It is phasing out investment in its own Symbian operating system and collaborating with Microsoft to try to create a powerful "third force" in smartphones. Making this work will be hard, not only for technology and marketing reasons — although the challenges here are huge — but also because of the disparity in size and culture between Nokia and Microsoft.

Why should Nokia's problems scare Apple, the world's most admired company with a stellar record of product innovation, design, branding, customer satisfaction, and business performance ever since Steve Jobs rejoined it in 1997?

The immediate answer — of which Apple is well aware — is that a host of handset manufacturers using Google's Android operating system are outpacing it in the smartphone market, threatening to make Android the dominant standard for application developers, network operators, and consumers.

Less obviously, Apple's success may have left it less open, less sensitive, less flexible, and less responsive. The signs are there. When iPhone 4 users complained of poor signal strength, a normally highly tuned-in Steve Jobs responded in a manner many regarded as ungracious, advising customers to hold the device properly and offering a very non-Apple "patch" (a form of a rubber band) to anyone who asked for one.

There was also widespread shock and disappointment when Jobs announced that Apple would take a whopping 30% cut of content owners' sales through the iStore (Google takes 10%). Apple also insisted that the iStore must be able to offer any deal publishers offer elsewhere. Further, Apple will not share customer data with content providers (Google does share these data). Such is Apple's market power that, for now, most publishers have accepted its terms, but they are not happy and will continue to search for a better alternative.

Part of Apple's brand appeal has always been that it was a plucky challenger, first against IBM, then against Microsoft. But in smartphones, the challenger was Google and — maybe — Apple is the new Nokia. If so, this could be the start of a bigger change in terms of whose platform will dominate the wider Internet. Apple should indeed be scared. As Intel's Andy Grove famously noted, only the paranoid survive.

FEATURED COMMENT

"Brand loyalty, like political party affiliation, is no longer a lifelong love affair. The world is now working on 140-character sound bites, and I don't see that improving and neither should the Apples or Googles of today, for they can be the Motorola, MySpace, and Nokia of tomorrow." — Wayne Spivak