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Kevin McCullagh says Nokia's fall is Samsung's gain

HOW THE MIGHTY HAVE fallen. Nokia shares plummeted 25% in April, following news of falling market share and missed targets. While most of its competitors have capitalized on Nokia's lack of form, Samsung has been the main beneficiary. It now boasts a bigger market capitalization than either Nokia or Sony and is snapping at Motorola's heels for the No. 2 slot.

How can we account for the fall of the once invincible high-tech champion? And how has Samsung, considered a me-too brand only a matter of years ago, managed to emerge as Nokia's most dynamic competitor?

How Nokia dropped the ball

Nokia both ruled the GSM age and redefined mobile phones as style statements. It earned its stellar status by producing good-looking and easy-to-use phones for the masses – the 3310, 6210 and 8210 being three iconic examples. The company capitalized on its success by reaping massive economies of scale, honing its distribution to perfection and making impressive margins. In 2001, it stood on the edge of Microsoft-like dominance of the industry, with a killer combination of must-have phones, a no-brainer user interface (UI) and standards-setting muscle.

At about the same time that operators began to make plans to combat its influence, Nokia began to pursue a highly segmented, fashion-based approach to the design of its range. It started sponsoring fashion shows and designing phones it hoped would define a new high-margin, high-turnover paradigm. As Nokia broke away from its established design language, eyebrows began to rise among the product-design community. Form began to take priority over function, which is possible to pull off as long as the form is irresistible – but Nokia's new models were not.

In addition, Nokia threw away an opportunity to become the default UI of choice. In sacrificing ease of use for superficial stylistic novelty, it has thrown the baby out with the bath water. As well as playing around with keypad configurations, it overcomplicated the screen interface. Nokia, which had developed the definitive voice and text UI, stumbled in the transition to a multimedia UI.

In preparation for the era of mobile multimedia, Nokia diversified into services such as games and got engaged in standoffs with Microsoft and the big operators. In doing so, it took its eye off the ball and lost design leadership. Nokia simply stopped making must-have phones. What's more, its position is likely to continue to slide based on the quality of its current product range.

How Samsung picked it up

In the past few years, Samsung has emerged from the pack to become Motorola's main challenger for the No. 2 spot. It has achieved this position through

a number of parallel strategies. The most obvious driver of the surge has been its huge brand-communications spend in the past three years. Samsung has been the fastest-growing global brand in the past two annual "Top 100 Best Brands" scoreboards, compiled by *Business Week* and Interbrand.

The company has also bent over backward to work with operators, which are eager to source non-Nokia handsets with interfaces customized to suit their services. Samsung also offers a huge scattergun range of models for operators to choose from. On the technology front, Samsung was first on the block with polyphonic ring tones and good color screens. It has also improved the design sophistication of its products and benefited from the American taste for clamshell phones.

Who will take the crown?

As the GSM era approaches its twilight, who will rule the next stage in mobile handset development? To begin with a reality check, Nokia still sells twice as many phones as its closest competitor, and Samsung only has a 10% share of the global market. But Nokia is facing increasingly stiff competition from both manufacturer and operator brands, which will inevitably drive down market share and margins.

The trick for manufacturers will be to manage the competing demands of operators and consumers. Operators will push for new service-enabling technology, which will tend to add bulk and complexity to the user experience. Outside Japan and South Korea, the majority of consumers will continue to look for the small, sleek and simple.

Nokia's winning insight still stands: Mobiles are cultural objects first and telecoms equipment second. The mobile industry still has to absorb this. Just as in the hype years, when the mobile industry viewed the future of phones as little more than networked pocket PCs, it still insists on calling phones "terminals" and talking up the next big technology story. Tomorrow's winners will learn more from the past lessons of the consumer electronics industry than from future technology. High-functionality products often lose out and consumers tend to pay more for status and self-expression than features. In short, anthropology comes before technology.

The future king of mobiles will build on Nokia's cultural-centric approach and will humanize future services, anticipate design trends and execute flawlessly. It will produce cultivated products of an iPod ilk, rather than the techno-centric dreams on offer today. It might well prove to be a reinvigorated Nokia. **GM**

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