12 BINE

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30/10/12

Institute of Management Technology

Business and Innovation in Networked Economy

End Term Exam, Term-V, Batch: 2012-14 (Sec. – S1 + S2)

Open book/notes, open laptop, open internet

Max Marks : 40

Max Time : 1hour 15 mins

LEGACY BUSINESS — DISRUPTER

Handheld GPS — **Cell Phone GPS**

WHAT JOBS DO CUSTOMERS WANT THIS PRODUCT TO PERFORM?

"Get me to my meeting on time"

"Get me home safely"

In case of emergency, people still value the reliability of a rugged, waterproof GPS device with a long battery life, so creating durable devices with even longer-lasting batteries may help secure this niche. But disrupters may overcome new-technology barriers to making these improvements.

EASY TO DISRUPT

ADVANTAGES

GPS apps are included in the smartphone price

GPS data are easily integrated with information from other apps, such as restaurant reviews and reservation systems

DISADVANTAGES

Phones are fragile

Phones must be small enough to fit into a pocket, restricting their size and weight

Batteries must be recharged more frequently because the phones are used for other tasks

LEGACY BUSINESS — DISRUPTER

Auto Sales — **Car Sharing**

WHAT JOBS DO CUSTOMERS WANT THIS PRODUCT TO PERFORM?

"Get my kids safely to school"

"Help me get where I need to go when I need to go there"

"Provide a mobile office"

Drivers who work in their cars value the ability to store and optimally arrange papers, laptops, luggage, and other items. Moving them from car to car would be highly inconvenient and time-consuming, so car sharing is unlikely to overcome this business-model barrier anytime soon.

HARD TO DISRUPT

ADVANTAGES

More cost-effective than ownership for infrequent drivers

No need for insurance

Parking is included

Users can drive a variety of makes and models

DISADVANTAGES

Less cost-effective than ownership for frequent and long-distance drivers

Cars aren't always available when needed

LEGACY BUSINESS • **DISRUPTER**

Railroads | **Cars, Trucks, and Planes**

WHAT JOBS DO CUSTOMERS WANT THIS SERVICE TO PERFORM?

"Help me get home for the holidays" | "Get my products to my customers quickly" | "Help me operate my business efficiently"

Manufacturers value rail's far lower cost so much that they locate factories on a rail line. For many customers this business model advantage currently outweighs both the speed advantage of airplanes and the flexibility advantage of trucks. So standardized rail containers, which can be stacked and easily transferred to ships or trucks, create a powerful ecosystem barrier to disruption.

HARD TO DISRUPT

ADVANTAGES

Roads connect far more places than rail lines do

Trucks can more easily deliver items from any factory to any destination on a road

Airplanes can move people and cargo much faster than rail can

Airplanes can move people and cargo overseas

DISADVANTAGES

Higher variable costs

Higher labor costs

To quote from one HBR Article in December 2012,

"Disruptive innovations are like missiles launched at your business. For 20 years we've described missile after missile that took aim and annihilated its target:Napster, Amazon, and the Apple Store devastatedTower Records and Musicland; tiny, underpoweredpersonal computers grew to replace minicomputersand mainframes; digital photography made filmpractically obsolete.And all along we've prescribed a single response to ensure that when the dust settles, you'll still have a viable business: Develop a disruption of your own before it's too late to reap the rewards of participation in new, high-growth markets—as Procter & Gamble did with Swiffer, Dow Corning with Xiameter, and Apple with the iPod, iTunes, the iPad, and(most spectacularly) the iPhone. That prescription is,if anything, even more imperative in an increasingly volatile world.

But it is also incomplete."

1. Can you create two more panels like the ones shown here? 10

2. What 'Networked Economy' has done to the event(s) of such disruptive innovations? 10

3. Can you propose a systematic way to chart the path and pace of disruption so that you can fashion a more complete and strategic response? 10

4. Discuss the role of 'prosumers' in the above panels. 10

12 BINE

INSTITUTE OF MANAGEMENT TECHNOLOGY (IMT)

END TERM EXAM – BATCH : 2012- 14, TERM –III (SEC. – S3 + S4 + S5+ S6 + S7)

Business & Innovation in Networked Economy (BIN)

Note: Open Book & Laptop Exam

M.MARKS 40 TIME: 75 Minutes

Following is an excerpt from an article published recently in *Journal of Business Market Management*. Read the piece carefully before you attempt to answer the questions.

"In order to explain how and why business networks and service systems have expanded to dominate the modern economy, we need to sort out the kinds of fundamental challenges business developers confront in their actual work. To embark on this, we depart from a dual characterization of innovation processes in between physical and economic rigidities and mental, creative flexibilities.

The resulting interaction processes are typically located within business environments quite similar to a complex rain forest - such as depicted by Håkansson et al (2009), where both overview and visibility are limited and variable due to the relatedness, dynamics and variety of phenomena where interactions are fundamentally complex and complementary of nature. The basic logic of this business landscape will be formulated in a number of propositions.

If you view a rain forest from an airplane, it looks rather homogeneous; just green, dense forest. If you experience it from a car travelling through it on a road built through dense wooded areas, it shows a much more dramatic variation of trees, flowers, animals and typography. But still, it is rather easy to grasp. If you look at it while trying to walk through a not yet explored part of it, you may discover an incredible variety of plants, animals and modes of life. Finally, if you do the same during night-time, you will experience other animals and activities.

To us, innovation processes have an interesting duality – almost like a Janus-face. On the one hand, they are the results of new ideas, for instance about new uses of materials, new combinations of resources, new ways to solve complex problems and so forth. They are the results of multifaceted creative processes containing substantial elements of exploration into the unknown, into the unexpected and quite often also into the impossible, the irrational and the apparently unlimited imaginativeness of creative entrepreneurs. On the other hand, they must also be the results of material and social interactions with numerous elements of their environments that are actually there doing whatever they do. These second kinds of processes are obviously constrained by whatever is actually given in the real world. In order to be economically viable, new innovations have to be systematically combined with already existing resources, activities and actors. In order to reach some kind of positive economic result, they even have to be systematically "built into" existing economic systems through numerous interactions."

Questions:

1. Can you cite example of a bundle of innovations done in networked economy th resembles a rain forest?

15 mark

2. Considering the duality of innovation process, can you identify the factors dominating innovation management process in business landscape?

12 marks

3. What role has the 'Network' played in smoothening or burdening the innovation process?

13 marks

Business and Innovation in Networked Economy

Class Evaluation

Section S6

Max Marks : 20 | Max Time : 40 mins

1. **State true or false** 5

   a. Value co creation is not required by the organizations ( )

   b. Information Technology deployment essentially leads to innovations ( )

   c. Loosely connected systems are more possible due to information technology intervention ( )

   d. Innovation economy is the outcome of Information Technology ( )

   e. Disruptive innovation shrinks the market for the traditional products ( )

2. **Answer the following questions on the basis of the enclosed situation** 5*3

   i. What business models are being referred to in the situation? Discuss any two disruptive innovations you know of in the mentioned industry

   ii. What is the implication of the term "value network" in this situation

   iii. On the basis of the situation given to you identify three methods through which disruptive innovations can be introduced in the market

Journalism institutions play a vital role in the democratic process and we are rooting for their survival. But only the organizations themselves can make the changes required to adapt to these new realities. This search for new business models remains elusive for most. Executives interviewed in that Pew report confirmed that closing the revenue gap remains a struggle. "There might be a 90 percent chance you'll accelerate the decline if you gamble and a 10 percent chance you might find the new model," one executive explained in the report. "No one is willing to take that chance."

But pursue it they must, or their organizations will be deemed irrelevant New entrants are already leaving their mark on journalism—stealing audiences and revenues away from legacy organizations. This has happened before. Eighty-nine years ago, Henry Luce started Time as a weekly magazine summarizing the news. All 28 pages of the black-and-white weekly were filled with advertisements and aggregation. This wasn't just rewrites of the week's news; it was rip-and-read copy from the day's major publications—The Atlantic Monthly, The Christian Science Monitor, and the New York World, to name a few.

Today Time, with its print and online properties, confronts the challenges posed by the digital age, but reaches a global audience of 25 million. With history as our guide, it shouldn't be a surprise when new entrants like The Huffington Post and BuzzFeed, which began life as news aggregators, begin their march up the value network. They may have started by collecting cute pictures of cats but they are now expanding into politics, transforming from aggregators into generators of original content, and even, in the case of The Huffington Post, winning a Pulitzer Prize for its reporting.

They are classic disruptors.

Disruption theory argues that a consistent pattern repeats itself from industry to industry. New entrants to a field establish a foothold at the low end and move up the value network—eating away at the customer base of incumbents—by using a scalable advantage and typically entering the market with a lower-margin profit formula.

It happened with Japanese automakers: They started with cheap subcompacts that were widely considered a joke. Now they make Lexuses that challenge the best of what Europe can offer.

It happened in the steel industry, where minimills began as a cheap, lower-quality alternative to established integrated mills, then moved their way up, pushing aside the industry's giants.

In the news business, newcomers are doing the same thing: delivering a product that is faster and more personalized than that provided by the bigger, more established news organizations. The newcomers aren't burdened by the expensive overheads of legacy organizations that are a function of life in the old world. Instead, they've invested in only those resources critical to survival in the new world. All the while, they have created new market demand by engaging new audiences"

IS BINE

Institute of Management Technology Ghaziabad

Business and Innovation in Network Economy

End Term Examination, End Term III, Batch: 2015-17, Exam Date: 31.12.2015

Max. Marks: 40 SECTION: ALL Time Allowed: 90 minutes

Faculty : Prof. S. K. Batra / Prof. Reema Khurana / Prof. Susmi Routray / Prof. C. R. Jena

Open Book and Open Notes

Laptop Not Allowed

- **Please read the enclosed case of Music-juice.net and answer the following questions:**

1. What evidence if any do you see in the case of Musicjuice.net of the phenomenon of Creative Destruction? Please elaborate (10 marks)

2. What were the key features of the business model of Musicjuice.net? Was this business model effective or ineffective? Please give your reasons. What in your opinion should the company do to make its business model work? (20 marks)

3. What is prosumerism? Do you find an evidence of prosumerism in the case of musicjuice.net? Is prosumerism good or bad for the music industry? (10 marks)

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IVEY

910A13

MUSICJUICE.NET: THE CHALLENGE OF STARTING UP A NEW INTERNET VENTURE

In August 2008, Rocky Lui, the co-founder and chief executive officer (CEO) of MusicJuice Inc., based in Toronto, Ontario, faced a difficult decision. The company had been losing money month after month since its inception, revenue had not been close to expectations and the co-founders were having difficulty working with each other. Lui wondered what had gone wrong with the business model he had imported from Europe, where it seemed to have been very successful. He needed to decide what could be done to save MusicJuice.net or whether he should close the business for good.

THE ENTREPRENEURS

In 2005, upon graduation from the Richard Ivey School of Business at The University of Western Ontario with an HBA, Lui worked for a start-up company in the dental software industry. After a year, he moved on to IBM, where he worked as a marketing consultant, advising clients in IBM's server business. In the early 2007, Lui had talked with his long-time high-school friend John Wong, who graduated from the University of Waterloo in 2006 with a computer science degree. Wong was working at a programming company where he did the coding for programs and websites. The two friends discussed new trends in the online world and wanted to get into the Internet business together but did not know where to start. They looked around and noticed some interesting Internet business models that had popped up. After evaluating several of them, in July 2007 they founded MusicJuice Inc.

IDEA CREATION

While looking around on the Internet, Lui and Wong had noticed one concept that sparked their interest. A Dutch company called Sellaband.com had created a platform on which musicians and fans could interact, and fans could raise money for the musicians. The musicians used the funds raised to record a CD, and profits from the sales of the CD were then shared with the fans who had contributed to the fund.

The idea was that musicians joined the website, created a profile and through the profile allowed the public to listen to their music for free. Users who liked the music and believed in the musician's potential could invest a minimum of $10 or as much as they liked. Once the musician had raised the fund target of $50,000, the musician could go on to record a CD. The funds raised covered the costs of making the CD, marketing and distribution. The profits generated from the sales of the CDs were split three ways: a third to the musician, a third to the website company and a third to the user (investor) pool. The investor's pool were then further divided by 5,000 because each investment unit was divided into $10 denominations. The more units the user invested, the bigger the portion the investor would receive from the CD's profits. This action of pooling money from users was termed *crowd-sourcing*. A portion of the funds raised were used to pay a local producer, depending on the location of the musician. The marketing and branding would be conducted by Media-Star Inc., which had extensive experience working with independent musicians.
Lui believed he and Wong could import the idea, which was currently targeting the European market, and apply it to North America. Lui would add more features to differentiate and improve the solution they provided to the users. According to the U.S. Bureau of Labor Statistics for 2008, the potential market size was approximately 240,000 musicians.

THE TRADITIONAL MUSIC INDUSTRY MODEL

Four "major labels" dominated recorded music — Sony Music Entertainment, Universal Music Group, Warner Music Group and EMI — each of which consisted of many smaller companies and labels serving different regions and markets.

Musicians signed with record labels, which were the companies that financed the recording process in return for part or full share of the rights to the recording. Record label companies managed brands and trademarks in the course of marketing the recordings, and they could also oversee the production of videos for broadcast or retail sale. The share the musicians received depended entirely on the deal they agreed to with the label. Typically, labels offered artists a royalty rate between 10 and 20 per cent[1] of the wholesale (distributor) price, which they had to split among themselves, although this amount was negotiable.

One way for musicians to gain a bigger share of the profits, at least in the early stages of their career, was to release their music themselves (through a distributor), either alone, or in partnership with another act. That way, the musicians could just split the profits. Profit-sharing deals were also common with smaller independent labels, which typically had less money to spend on flashy recording studios. Although the bigger labels offered the opportunity for better studios and greater exposure, they usually also wanted a larger share of the profits in return.

According to interim physical retail sales, in 2005, the industry was a US$4,783.2 million market in the United States alone. Album sales had been on a steady decline of approximately 5.3 per cent over the past five years. On the other hand, digital music sales had been on the rise. According to Nielsen SoundScan, sales were up 2.1 per cent in 2008 from 2007, with consumers snagging 1.16 million digital tracks (an 8.3 per cent increase from 2007) and 76.4 million digital albums (a 16.1 per cent increase over the same time period). In fact, 40 per cent of all music purchases in 2008 had been digital. The entire music industry was moving toward a digital sales format through avenues such as iTunes and Amazon.com. Digital music sales now generated approximately $2 billion in revenue.[2]

[1] "What about Royalties? A Sound Guide for Musicians," VentureNavigator, November 200 http://www.venturenavigator.co.uk/content/499, accessed April 1, 2010.
[2] http://en.wikipedia.org/wiki/Music_download

THE MUSICJUICE.NET DIFFERENCE

The idea Lui wanted to import from Europe was the core business model used by Sellaband.com, whereby musicians created a profile and were linked to fans willing to invest in their music. MusicJuice.net included some features that differed from the offering at Sellaband.com. In addition to raising funds for CD creation, MusicJuice.net offered a tour creation feature, which enabled musicians to raise money not only to record their CDs but also to pay the expenses to fund a tour. The tour creation feature provided MusicJuice.net with more cash flow coming into the business and was an opportunity not offered by its competitors. In addition, if fans were willing to pay $10 more, the site offered an added experience that would last until the CD or tour was completed: the fan would become a premium member, which included an invitation to private group chats with the musician and receiving both a signed version of the CD and previews of new unreleased music. Lui believed that these two features differentiated the company from any of its current competitors. In addition, these features provided added value for the users and enabled MusicJuice.net to be the market leader.

What Happened to MusicJuice.net?

Lui and Wong sought several website developers that could deliver on their idea. In the end, they choose a Toronto-based developer in May 2007, and the creation of site began. To the surprise of the co-founders, a new competitor, Slicethepie.com, was launched one month after MusicJuice.net began its development. This competitor's idea was not identical but shared the idea of helping musicians to raise money on the Internet. Slicethepie.com's launch was backed by a large Internet blast campaign to bring awareness to its website. This unwelcome news shocked Lui and Wong, who wondered whether this small sub-industry within the music industry was big enough to handle three competitors.

The development of the website was not without issues. As first-time bosses, Lui and Wong had not been very good at setting out the contract details with the website developers, which had led to numerous delays and additional costs to the project. Because of Lui's lack of knowledge on the coding aspects, he was frustrated and impatient with the slow progress of the website. On the other hand, Wong lacked the business skills in understanding how the business model would actually work. The combination of these factors caused the relationship between the founders to deteriorate. The months dragged on as the site was built, and the two first-time entrepreneurs did not enjoy the ride together. Finally, in March 2008, the site had been completed and fully tested. The site was delivered three months later than anticipated and was 40 per cent over budget. The two entrepreneurs engaged in much finger-pointing over why the project had faced so many issues.

With $5,000 left in the company's bank account after paying off the website developers, Lui and Wong started to conduct their marketing for the website (see Exhibit 1). Most of the marketing decisions were made by Lui; however, marketing the website was a learning process because he did not have much experience with Internet marketing. The site had been able to generate some buzz; a few music blogs wrote stories about the website. The site was able to sign up 180 musicians after four months of operation (see Exhibit 2).

How MusicJuice.Net Planned to Make Money

The entrepreneurs planned several revenue models for the site:

1. The 33.3 per cent share of the profit generated from both CD and tours sales. After the musicians raised the target funding through the fans' network, the CDs would be sold by the musicians at their shows, on online portals such as Amazon and iTunes and on the MusicJuice.net website.
2. The premium member sales, whereby the company would make $10 per premium membership
3. Google Ads revenue from the clicking of the ads by users on the website
4. The interest generated from the money raised by all the musicians on the website but not yet used

COMPETITION IN THE CROWD-SOURCING FOR MUSICIANS INDUSTRY

Sellaband.com

MusicJuice.net's competitor, Sellaband.com, was set up in August 2006 by Johan Vosmeijer (formerly with Sony/BMG), Pim Betist (formerly with Shell) and Dagmar Heijmans (formerly with Sony/BMG). The company was located in Amsterdam, Netherlands, and employed a staff of 25. In December 2007, Sellaband formed a partnership with Amazon.com for the U.K. region. By April 8, 2008, the company had raised US$5 million in its series A round of financing, led by Prime Technology Ventures. Sellaband.com worked on a business model very similar to that of MusicJuice.net — by raising crowd-source funding for musicians from fans. The target was set at US$50,000, and the minimum investment was US$10. The company had held three concert events in Europe that featured musicians from its website.

- To date, Sellaband.com had successfully funded the recording of CDs for 18 musicians.
- Sellaband currently had 2,000 musicians signed up.

Slicethepie.com

Launched in June 2007, in Berkshire, England, by its CEO and founder, David Courtier-Dutton, Slicethepie.com was a similar business model that raised crowd-source funding for musicians through fans. The target goal was set lower at only €15,000,[1] and investments could be as low as €1. The company created a stock market-like set-up for the shares invested, whereby fans could buy or sell the shares they own.

Musicians were only able to raise funds if they received the most votes from the users of the website. Each month, the winning musician or musical group joined the showcase group, which was qualified to receive investments from fans and music financiers. Musicians who failed to raise €15,000 in six months were dropped from the showcase, and all investments in those musicians were refunded.

- To date, Slicethepie.com had successfully funded the recording of CDs for 13 musicians.
- The number of musicians signed up by Slicethepie.com was unknown.

CURRENT RESULTS OF MUSICJUICE.NET

Since the launch of the MusicJuice.net website in April 2008, no artist had yet reached the fundraising goal. No premium members had been signed up. Thus, two of the four revenue streams had netted no revenues for the company. The third revenue stream, Google Ads, had generated only $233 over the past four months. The average revenue from each click was roughly US$0.37. The fourth revenue stream, the

[1] €1 = US$1.34 in June 2007

interest generated from the funds raised, was minimal as the funds were kept in a bank deposit account that generated interest revenue at a very low rate.

Market Research

After seeing the poor results, Lui asked users and friends where the website had gone wrong. He wanted to learn the answers to the following questions:

- Why do you not visit the site more?
- Why did you not invest in the musicians?
- Why did you not become a premium member?
- What do you want to see from MusicJuice.net?

The results painted a grim picture for the co-founders. Some of the common responses included the following:

- The site is boring. I do not wake up every day looking to invest in unknown musicians.
- I do not trust the website with my money.
- I do not know these musicians.
- None of my friends are using this site.
- I am not interested in paying to chat with musicians I am not a fan of.
- Give me more things to do on the site.
- Make some competition between the musicians on the site.

DECISION

Because of the numerous problems, Lui knew he needed to act fast and decide what to do to save the company. The issues facing him were trouble with the revenue stream, the lack of interest in the website, the stiff competition and the deteriorating relationship with his partner.

Both he and his partner did not want to invest more money if the business was not viable. As Lui started to plan their next meeting, several options presented themselves:

- Boost marketing (online and possibly by trying an offline strategy).
- Build additional revenue streams into the website.
- Expand the crowd-sourcing platform beyond the music industry (e.g. movies, novels.).
- Create more activities for users to supplement the core platform (e.g. blogs, videos, music contests).
- Identify and recruit investors to provide the capital needed to keep pace with competitors; however, a viable revenue model would first need to be in place.

Lui and Wong had invested a lot of time and effort into the business. They did not want to see the company closed down. MusicJuice.net was their first start-up, and they were emotionally attached to the website. Time and money were both running out. Which of the options, if any, should MusicJuice.net pursue?

Exhibit 1

MUSICJUICE.NET'S 2008 MARKETING EXPENSES BY MONTH
(IN CDN$)

April	May	June	July
$400	$700	$1,000	$1,500

Note: The majority of MusicJuice.net's marketing expenses were for ads in Google AdSense. These ads were shown on a network of websites. The advertiser paid a set fee per click on the ad, which took the user to the destination page set by the advertiser. A company's ads were shown if it bid the highest for the selected keyword. The cost per click varied, depending on the competition for the keyword. For example, the bid prices for highly competitive keywords could range from $0.50 to $0.90 per user click.

Source: Company files.

Exhibit 2

MUSICJUICE.NET'S 2008 SELECTED STATISTICS BY MONTH

	April	May	June	July
New Musicians Signed Up	20	40	50	70
Total Website Visits	859	2,400	3,632	7,784
Total Web Page Views	2,984	7,300	11,893	22,231
Total Money Raised (Cdn$)	$100	$500	$1,000	$1,200

3 times

multiples

Source: Company files.

End Term Examination

BINE

PGDM – FT (Term – III)

Max. Marks: 40 Time Allowed 90 Minutes

<u>Only Bound Reading Material of BINE is allowed</u>

The Case of Nokia

Nokia once was synonymous with the mobile industry, and has churned out many a fantastic phone over the years, up until Apple disrupted the business with the first mass-appeal smartphone.

A couple of years ago, Microsoft reached a deal to acquire Nokia's struggling devices and services business. It's true that Nokia had terrible last five years, but this doesn't take away the fact that it was this very company that effectively defined the mobile industry for over a decade prior, and gave us some of the most memorable phones. A brief overview of the evolution of its product line is given below:

<u>The Rise</u>

In 1992, the company's first hand-held GSM phone Nokia 1011 was launched. Product innovation

A couple of years later, the company launched its 2100 series of phones, which were also the first to feature the iconic Nokia Tune ringtone. While Nokia projected to sell 400,000 units, the series turned out to be a blockbuster with around 20 million handsets sold worldwide.

In 1996, Nokia 9000 Communicator was launched. The all-in-one phone, which carried a price tag of $800, allowed users to send emails, fax, and browse web, besides offering word processing and spreadsheet capabilities. incremental

In the same year, the company also launched the Nokia 8110 slider phone. Nicknamed "banana phone", the device featured in the popular 1999 science fiction action film The Matrix.

The spectacular success of Nokia's 6100 series - the company sold nearly 41 million cellular phones in 1998 - helped the company surpass Motorola and become the world's top cellular phone maker in that year.

The year 1998 also saw the company launching the Nokia 8810, its first phone without an external antenna.

The next year saw the company launching the Nokia 3210. It was a solid handset that came in six colour variants and had a talk time of the impressive for the time 4- 5 hours.

Nokia's net sales increased over 50% year-on-year, operating profits shot up nearly 75%, and stock price sky-rocketed a whopping 220%, resulting in an increase of market capitalization from nearly $21 billion to around $70 billion.

<u>The Challenges</u>

Although Nokia was the world leader in the mobile phones market, the 2000 decade brought along a new set of challenges for the company. The wireless and internet technologies were converging, and the 3rd generation of wireless technology - that promised enhanced multimedia capability - was evolving.

Responding to the changes, the Finnish company started churning out both sophisticated multimedia handsets as well as low-end devices. In 2002, the company launched Nokia 3650, the first Symbian based device. In 2003, the company launched the Nokia 1100, a budget-friendly phone that sold around a whopping 250 million units, making it the bestselling phone. It was also the company's billionth phone sold later in 2005.

The Fall

With Apple launching its first-generation iPhone in 2007 and the growing popularity of touch-screen phones, Nokia brought out its first all touch smartphone in 2008. The device was also the first to run the touch-driven Symbian v9.4 (S60 5th Edition). It was decently successful as the company managed to sell around 8 million units of the device, but it didn't manage to create die-hard following as it touch-experience was sub-par.

It was the year 2001, when Nokia's profits first crumbled after becoming the top phone maker in the world. Another hiccup came in 2007, when the company had to recall a whopping 46 million faulty cell-phone batteries. In 2008 - the same year when the Android version 1.0 was launched - Nokia's Q3 profits nosedived 30%, while sales decreased 3.1%. On the other hand, iPhone sales sky-rocketed by around 330% during the same period. The year 2009 saw Nokia laying off 1,700 employees worldwide. Later in the year, the company finally acknowledged that it was slow to react to the change in the market. The following year, Stephen Elop - who was previously head of Microsoft's business software division - was appointed as Nokia's new CEO. Elop became famous for a speech that he delivered to Nokia employees in early 2011, wherein he compared the company's market position to a man standing on a "burning platform."

Desperate to come out of the ongoing crisis, Nokia announced a strategic partnership with Microsoft to make the latter's Windows Phone its primary mobile OS. Despite decent sales, the new Windows Phone devices couldn't do much for Nokia in Q1, 2012, when the company suffered an operating loss of a whopping €1.3 billion.

In September that year, Nokia announced it's selling its Devices & Services division to Microsoft.

Nokia's new CEO Rajeev Suri recently mapped out the future of the Finnish telecommunications giant after its phone business got acquired by Microsoft, and, sadly, Nokia doesn't plan on making phones anymore. "We are not looking to a direct consumer return to handsets per se," were his actual words. Still, there is a silver lining, and it is that there is an extremely high interest in licensing the brand, he added, so at some point in the longer term the Nokia name "will return to the consumer world".

Questions

1. What went wrong on the part of Nokia in maintaining the balance between operational excellence and innovation? Can we claim that Nokia as a company met the fate of creative destruction? Please give reasons for your answer. (20 marks)
2. If you were appointed as the new CEO of Nokia and were given the mandate to revitalize its business, how would you adopt the design thinking approach in doing so? (20 marks)