

CASE STUDY: ACQUISITION OF NOKIA'S DEVICES BUSINESS BY MICROSOFT CORPORATION

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ABSTRACT

Microsoft announced that it is acquiring Nokia Devices & Services for \$7.2 billion, a bold move by the software giant aimed at strengthening the position of Windows Phone in a smart phone market that continues to be dominated by devices running Android and iOS. This deal is expected to close in Q1 2014 subject to shareholder and regulatory approval. In this analysis, we look at the strategic rationale for the acquisition, focusing on the next wave of mobile growth driven by demand for data services in fast-growing markets, and assess how well Microsoft-Nokia is positioned to benefit from it. The Companies are very excited about the proposal to bring the best mobile device efforts of Microsoft and Nokia together. Our Windows Phone partnership over the past two and half years has yielded incredible work - the stunning Lumia 1020 is a great example. Our partnership has also yielded incredible growth. In fact, Nokia Windows Phones are the fastest-growing phones in the smart phone market.

Keywords : Merger, Acquisitions, Nokia Devices, Microsoft Corporation.

INTRODUCTION

Amalgamation in simple sense is the blending of multiple entities into one single entity. A bundle of legal provisions are followed that differs from country to country to form a new amalgamated or merged company. Amalgamation and merger both conveys almost same meaning with a difference that in a merger one or more entities (not all of them) lost their identity and get themselves absorbed in a single entity while in amalgamation all entities lost their identity and form a new entity. Concept of merger and amalgamation has been using from mid nineties as a tool of growth, opportunity exploitation, expansion, restructuring and for overcoming out of financial crisis in case of sick companies. Top 10 worldwide mergers & amalgamation deals from 1985 to January 2012 are as follows in below chart 1:-

Chart 1:- Top 10 Mergers and Amalgamations deals worldwide

| Year | Acquirer | Target | Transaction Value | |
|------|--------------------------|------------------------------|----------------------|----------------------|
| | | | USD (in billions) | EUR (in billions) |
| 1999 | Vodafone Air Touch PLC | Mannesmann AG | 202.8 | 204.8 |
| 2000 | America Online Inc | Time Warner | 164.7 | 160.7 |
| 2007 | Shareholders | Philip Morris Intl Inc | 107.6 | 68.1 |
| 2007 | RFS Holdings BV | ABN-AMRO Holding NV | 98.2 | 71.3 |
| 1999 | Pfizer Inc | Warner-Lambert Co | 89.2 | 84.9 |
| 1998 | Exxon Corp | Mobil Corp | 78.9 | 68.4 |
| 2000 | Glaxo Wellcome PLC | SmithKline Beecham PLC | 76.0 | 74.9 |
| 2004 | Royal Dutch Petroleum Co | Shell Transport & Trading Co | 74.6 | 58.5 |
| 2006 | AT&T Inc | BellSouth Corp | 72.7 | 60.2 |
| 1998 | Travelers Group Inc | Citicorp | 72.6 | 67.2 |

Source: Wikipedia

In recent past 2013 major M&A deals were Microsoft Corporation purchased Nokia Handset & Services Business for an amount of 7,200,000,000 USD Dollars, Softbank purchased Sprint Corporation for 21,600,000,000 USD Dollars and Berkshire Hathaway purchased H.J.Heinz Company for 28,000,000,000 USD Dollars. Numerous factors are there which propel entities to go for M&A and reap the benefits of (not an exclusive list of M&A benefits):-

- Cost reductions, thereby profits increases of combined (merged/amalgamated) entity.
- Increased market share and global clientele in cross border mergers.
- Reduction of tax liability if Profit making entity acquires Loss making entity, whereby both the parties get benefitted.
- Strategic advantages if an entity acquires its competing entity.
- Synergy of combined managerial, human resources, financial, marketing and production economies and diversification of risk.

This is not an easy task to blend multiple entities into a single entity and if blended then after the combination lots of cultural and working factors create obstacles to the success path of merged entity and number of obstructions increases more in case of conglomerate mergers wherein entities belongs to different industries merge together.

We will limit our study in this paper upto the merger of Nokia and Microsoft entities.

FUNDAMENTAL REASONS BEHIND NOKIA-MICROSOFT MERGER

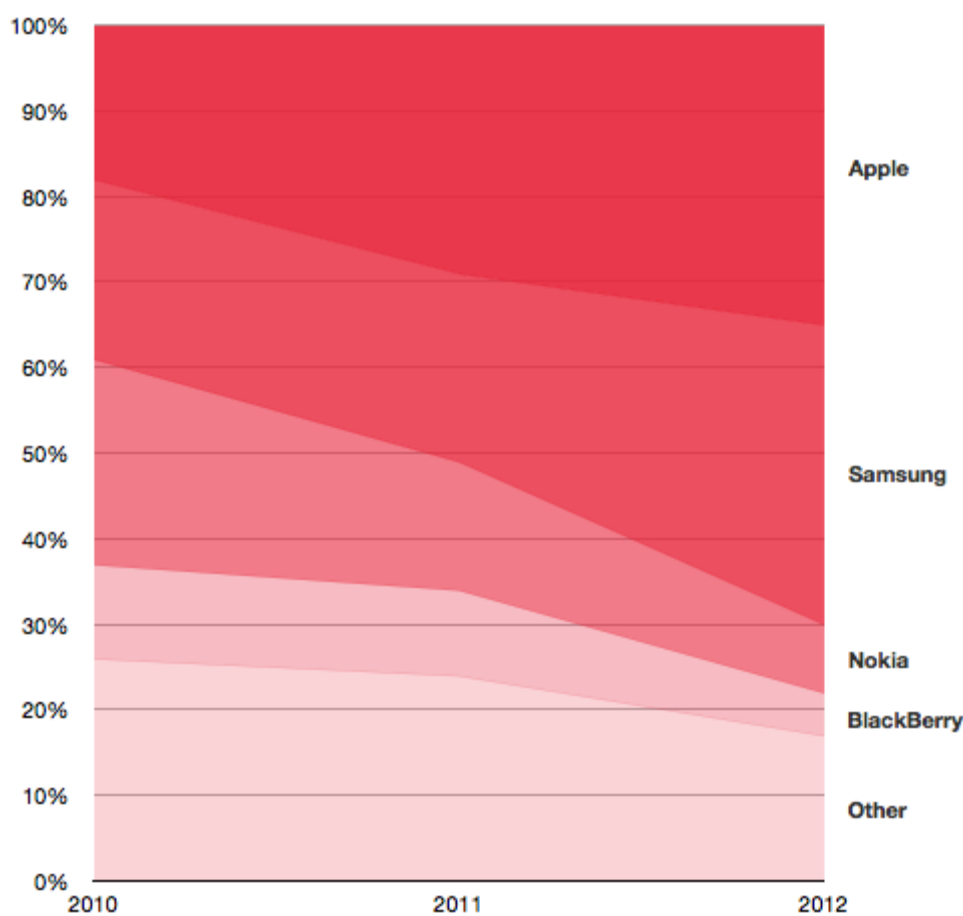
Rationale behind this deal can be discussed from two angles, first is from Microsoft point of view and second from the side of Nokia.

Microsoft came forward for this deal to strengthen its position in fields of mobile markets; windows phone launched by Nokia is current example of joint efforts of Nokia and Microsoft in this arena. Another reason could be to expand its presence in emerging markets.

Nokia was not able to retain its present market share and on the other side it was not innovative as alike other Smartphone companies.

Strategy behind Nokia-Microsoft deal was to follow '*high volume - low price*' principle to grow and sustain.

It does have a chance to get close to its 15% market share target of an anticipated 1.7 billion smartphone market in 2018.

Table 2: Revenue share by handset manufacturer

Source: GSMA Intelligence

As it is clear from the above mentioned table 2 that Nokia share was very low in the world market and it could be more lowest if it would not have gone to merge with Microsoft.

CONCLUSION

In this analysis, we look at the strategic rationale for the acquisition, focusing on the next wave of mobile growth driven by demand for data services in fast-growing markets, and assess how well Microsoft-Nokia is positioned to benefit from it. Risk is infinite because Microsoft is going to enter in entirely new market of Mobile phones and this risk could be mitigate by

- Pre integration planning

- Due diligence and compliances
- Solutions to overcome out of cultural barriers
- Retention

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