
VERTU: NOKIA'S LUXURY MOBILE PHONE FOR THE URBAN RICH

Dr. Ken Kwong-Kay Wong wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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Finland-headquartered Nokia was a global telecommunications equipment manufacturer. It operated a luxury mobile phone brand called Vertu, founded by Frank Nuovo in the late 1990s, which pioneered the luxury mobile phone market by using precious materials such as diamonds, sapphires, titanium and exotic leather for phone production. The company enjoyed impressive growth in almost 70 countries and sold hundreds of thousands of phones in the eight years following its launch. On February 11, 2011, Stephen Elop, the new CEO who had been at the helm at Nokia for only five months, announced a new mobile strategy to adopt Microsoft's new but unproven Windows Phone as its primary smartphone operating system. The market reacted poorly, and the company's share price took a 14 per cent dive on the day of the announcement. How would Vertu respond to this new Nokia mobile strategy? Was Vertu well positioned to take the brand forward under the new Nokia? Would this UK-based wholly owned subsidiary be left alone and continue to be managed at arm's length from Nokia? Changes to Vertu were inevitable—it was not a matter of if, but when.

THE NEW NOKIA UNDER ELOP

Elop admitted the company's problems. In an internal memo to employees, he shared his views on Nokia's shrinking market share and brand preference. Elop cited a lack of accountability, leadership and internal collaboration as key reasons for Nokia's inability to deliver innovative products in a timely manner. To create a sense of urgency, Elop compared Nokia to a man standing on a "burning oil platform," needing to take a bold and brave step quickly to survive.¹ On February 11, 2011, Elop announced that Nokia had entered into a strategic partnership with Microsoft to create a new global mobile ecosystem.² This announcement set off a flood of criticism from existing Nokia users, developers, and industry observers.

¹ GSMarena, "CEO Stephen Elop admits Nokia's poor track record, has a plan," News, February 9, 2011, www.gsmarena.com/ceo_stephen_elo_admits_nokias_poor_track_record_has_a_plan-news-2305.php, accessed March 2011.

² Nokia, "Nokia and Microsoft announce plans for a broad strategic partnership to build a new global ecosystem," Press Release, February 11, 2011, <http://press.nokia.com/2011/02/11/nokia-and-microsoft-announce-plans-for-a-broad-strategic-partnership-to-build-a-new-global-ecosystem>, accessed March 2011.

The investment community reacted poorly: Nokia's American depository shares fell 14 per cent to US\$10.88 on the day of the announcement,³ and were subsequently downgraded by financial analysts.⁴

2010 was a challenging year for Nokia. Despite its earlier success in the market, Nokia's leadership position in smartphone shipment volume was overtaken in Q4 2010 by Android, an open-source mobile operating system developed by Google. Since its launch in 2008, Android had gained tremendous support from handset manufacturers, including LG Electronics, Motorola, Samsung, and Sony Ericsson, which were also the original founding members and supporters of the Symbian Foundation.⁵ In addition to Android, Nokia also faced intense competition from Apple. Originally launched by Steve Jobs in 2007, Apple's iPhone had garnered positive reviews around the world due to its intuitive user interface and huge collection of mobile applications.⁶ For Q4 2010, Nokia achieved only a 36.0 per cent year-on-year growth of smartphone shipment, as compared with the 615.1 per cent and 85.9 per cent of Android and iPhone, respectively.⁷⁻⁸ Nokia also failed to get the attention of American consumers and wireless carriers, with a dismal 7.8 per cent share of the handset market in the United States.⁹

Recognizing these competitive challenges, and observing its stock price dropping 75 per cent since its peak in the fall of 2007, the Finnish telecommunications equipment manufacturer underwent a senior management shakeup in September 2010. Nokia hired Stephen Elop from Microsoft to replace Olli-Pekka Kallasvuo as its new president and CEO.¹⁰ A Canadian-born executive who had previously served as CEO of Macromedia, COO of Juniper Networks and head of Microsoft's Business Division, Elop was given the task of revamping Nokia's business and saving it from the death spiral.¹¹ The reality check was an awakening; Nokia's home-grown Symbian mobile operating system was outdated, and it could no longer match the user experience offered by other mobile operating systems. Nokia's OVI services were found to be mediocre, with a limited selection of applications for download as compared with others.^{12,13,14}

³ Nick Wingfield and Christopher Lawton, "Nokia's Flirtations Put the Fear of Google Into Microsoft," *Wall Street Journal - Technology*, February 18, 2011, <http://online.wsj.com/article/SB10001424052748703561604576150502994792270.html#ixzz1GuPO0n5p>, accessed March 2011.

⁴ Dan Gallagher, "Nokia shares hit by broker downgrades," *MarketWatch — Telecom Stocks*, February 14, 2011, www.marketwatch.com/story/nokia-shares-hit-by-broker-downgrades-2011-02-14, accessed March 2011.

⁵ Nokia, "Nokia to acquire Symbian Limited to enable evolution of the leading open mobile platform," *Press Release*, June 24, 2008, <http://press.nokia.com/2008/06/24/nokia-to-acquire-symbian-limited-to-enable-evolution-of-the-leading-open-mobile-platform>, accessed March 2011.

⁶ Wayne Sutton, "infographic — Apple's iPhone history and specifications," *post on blog "SocialWayne.com,"* <http://socialwayne.com/2010/12/05/infographic-apples-iphone-history-and-specifications>, accessed March 2011.

⁷ Vincent Chang, "Android Overtook Nokia As Top Selling Smartphone OS in Q4 2010," *Cellular-news*, January 31, 2011, www.cellular-news.com/story/47656.php, accessed March 2011.

⁸ Nokia, "Nokia Q4 2010 net sales EUR 12.7 billion, non-IFRS EPS EUR 0.22 (reported EPS EUR 0.20) Nokia 2010 net sales EUR 42.4 billion, non-IFRS EPS EUR 0.61 (reported EPS EUR 0.50)," *Interim Report*, January 27, 2010, <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NzkxMTd8Q2hpbGRJRD0tMXxUeXBIPTM=&t=1>, accessed June 24, 2011.

⁹ David Goldman, "Why Nokia can't crack the U.S. market," *CNNMoney*, September 16, 2010, <http://money.cnn.com/2010/09/16/technology/nokia/index.htm>, accessed March 2011.

¹⁰ Nokia, "Nokia appoints Stephen Elop to President and CEO as of September 21, 2010," *Press Release*, September 10, 2010, <http://press.nokia.com/2010/09/10/nokia-appoints-stephen-elop-to-president-and-ceo-as-of-september-21-2010-2>, accessed March 2011.

¹¹ Jessi Hempel, "Can Stephen Elop Fix Nokia?," *Fortune - Tech*, September 10, 2010, <http://tech.fortune.cnn.com/2010/09/10/can-stephen-elop-fix-nokia/?iid=EL>, accessed March 2011.

¹² Sean Browne, "Nokia's Symbian operating system is outdated compared to Apple's iOS," *post on blog "WealthVest Marketing,"* February 16, 2011, www.wealthvest.com/blog/sean-browne/nokia-s-symbian-operating-system-is-outdated-compared-to-apple-s-ios, accessed March 2011.

¹³ Hendrik Koekkoek, "Distimo Releases Full Year 2010 Report," *post on "Distimo Blog,"* January 10, 2011, www.distimo.com/blog/2011_01_distimo-releases-full-year-2010-report, accessed March 2011.

¹⁴ Nokia, "Form 20-F," *Financial Results*, March 15, 2011, p76, www.nokia.com/NOKIA_COM_1/About_Nokia/Financials/form20-f_10.pdf, accessed March 2011.

Furthermore, the company was unable to launch any MeeGo-based handset or smartphone, despite investing extensive resources in research and development.¹⁵ All of these findings prompted Elop to search for an alternative smartphone mobile operating system to get Nokia back on the right track. Nokia was reported to have held talks with Microsoft and Google in late 2010. The strategic assessment was completed when Elop made his announcement on February 11, 2011: Nokia would gradually phase out Symbian to adopt Microsoft's Windows Phone as its principal smartphone strategy.¹⁶

On a global basis, Nokia was organized into three operating and reportable segments: Devices & Services, NAVTEQ, and Nokia Siemens Networks. In 2010, the Devices & Services segment contributed 68.6 per cent of Nokia's overall sales revenue. Elop's first move after taking the helm at Nokia was to address the problematic Devices & Services segment which had seen its sales revenue shrinking from 35 billion euros (US\$50 billion) in 2008 to 29 billion euros (US\$39 billion) in 2010.¹⁷ In February 2011, Elop and his senior executives spent a great deal of time outlining Nokia's new mobile strategy at the Mobile World Congress 2011 in Barcelona. However, very little was mentioned about Nokia's luxury brand, Vertu, during this critical transition period. Although the luxury mobile market was small and niche, it had grown rapidly in selected countries during the past few years. How would Nokia serve this high-end, high-margin customer segment? Would Nokia continue to operate Vertu at arm's length? What were the implications of Nokia's move to the Windows Phone platform for Vertu? Would the Vertu brand continue to be associated closely with its original creator, Frank Nuovo? These were important questions that Elop and his team would address when developing the new mobile strategy for Nokia.

A BRIEF HISTORY OF THE LUXURY MOBILE PHONE

London jeweller De Grisogono has seen the potential for mixing precious stones and technology and has already made around 20 diamond-encrusted phones for its clients.

—BBC News¹⁸

The luxury mobile phone did not come into existence until 2002 when Vertu launched the world's first-ever luxury phone, the Vertu Signature. The Signature series came in nine different metal finishes and carried a price range of £5,350 (US\$7,549) for the Stainless Steel model to £25,000 (US\$35,275) for the Platinum Diamond.¹⁹ In 2006, Peter Aloisson, an Austrian designer-jeweller, set the bar higher when he debuted a record-breaking US\$1.3 million smartphone for a Russian company.²⁰ Unlike typical mobile phones that were often mass-produced through plastic injection moulding, these luxury phones were famous for their superior craftsmanship, including the use of advanced techniques like computer numerical control (CNC) machining.²¹ They were often made of exclusive materials such as diamonds, gold, ceramic, titanium, aircraft aluminium, exotic hardwood, sapphire, rubies, and stitched leather for production.²²⁻²³

¹⁵ Thomas Ricker, "Intel says no MeeGo phones until first half of 2011, Nokia just shrugs," *Engadget - News*, October 7, 2010, www.engadget.com/2010/10/07/intel-says-no-meego-until-first-half-of-2011-nokia-just-shrugs, accessed March 2011.

¹⁶ Nokia, "Nokia and Microsoft announce plans for a broad strategic partnership to build a new global ecosystem."

¹⁷ Nokia, "Form 20-F," *Financial Results*, March 15, 2011, p. F-25, www.nokia.com/NOKIA_COM_1/About_Nokia/Financials/form20-f_10.pdf, accessed March 2011.

¹⁸ BBC, "When a phone call is a luxury," *BBC News - Sci/Tech*, January 23, 2002, <http://news.bbc.co.uk/2/hi/science/nature/1775496.stm>, accessed March 2011.

¹⁹ Guinness World Records, "Most expensive mobile phone (cell phone) series," *Telecommunications - Mobile phones*, 2002, [www.guinnessworldrecords.com/search/Details/Most-expensive-mobile-phone-\(cell-phone\)-series/63638.htm](http://www.guinnessworldrecords.com/search/Details/Most-expensive-mobile-phone-(cell-phone)-series/63638.htm), accessed March, 2011.

²⁰ Peter Aloisson, "Pictures and Biography," *Peter Aloisson*, 2007, www.aloisson.com/peter+aloisson.html, accessed March 2011.

²¹ Mobiado, "About," *Inside Mobiado*, 2011, www.mobiado.com/Inside_mobiado.htm, accessed March 2011.

²² Vertu, "Pioneering Materials," *Ascent*, 2011, www.vertu.com/in-en/#in-en_ascent/ascent-x, accessed March 2011.

The global luxury mobile phone market was considered a niche, but a fast growing one. In less than a decade, annual sales revenues had grown to US\$11 billion in 2009 and it was estimated to exceed US\$43 billion in 2013 on a global basis.²⁴ Despite the economic downturn, there were still approximately 10 million billionaires around the world in 2009, with the majority located in the United States, Japan, and Germany. Due to rapid economic growth in emerging markets like China and India, the Asia-Pacific became the fastest growing region for luxury mobile phones (see Exhibit 1).²⁵ With these new developments, the luxury mobile phone market looked promising and attracted new market entrants such as Mobiado, GoldVish, and GRESSO. Well-established luxury brands, including Christian Dior, Tag Heuer, Versace and Ulysse Nardin also joined the luxury mobile industry through brand extension initiatives with handset manufacturers (see Exhibit 2).

In an attempt to take advantage of this growing market segment, Nokia introduced an entry-level luxury phone using its own brand. The Nokia-branded 8800 series was launched in 2005, with price set at the 1,075 Euros (US\$1,300) level.²⁶ In 2006, a special edition of Nokia 8800 was introduced with Britain's premium carmaker, Aston Martin,²⁷ followed by a 24-carat gold-plated version called the Nokia 8800 Sirocco Gold the following year.²⁸ The Nokia 8800 Carbon Arte was made of ultra-lightweight carbon fibre and released in 2008.²⁹ Despite these product introductions, Nokia continued to empower its Vertu subsidiary to take the lead in penetrating the high-end luxury mobile phone market.

Although Vertu was a brand with a distinctive identity, the Nokia brand was not. As a brand with more than 100 years of history, "the name Nokia became synonymous with Finnish rubber expertise" to some Finnish people.³⁰ Since the company was founded in 1865, Nokia had transformed itself from a rubber, cable and forestry goods supplier into a multinational corporation in the telecommunications industry.³¹ In addition to making mobile phones, the company also engaged in other related businesses. Nokia formed a joint venture called Nokia Siemens Networks in 2007 to service the business data networking and telecommunications equipment market,³² and acquired a mapping software company called NAVTEQ the year after to provide Geographic Information Systems (GIS) service.³³ With all these different branches, the Nokia brand could mean different things to different people. Although Nokia remained a Top 10

²³ Vertu, "Superior Craftsmanship," *Craft and Innovation*, 2011, www.vertu.com/in-en/#in-en_signature/signature/craft-and-innovation/flash_phone_signature_craftsmanship, accessed March 2011.

²⁴ ABI Research, "Luxury Brands Aim for Multi-Billion Dollar Revenues from the Mobile Handset Market," Press Release, August 5, 2008, www.abiresearch.com/press/2979-Luxury+Brands+Aim+for+Multi-Billion+Dollar+Revenues+from+the+Mobile+Handset+Market, accessed March 2011.

²⁵ Capgemini, "World Wealth Report 2010," *Insights & Resources*, June 18, 2010, p4, www.capgemini.com/insights-and-resources/by-publication/world-wealth-report-2010, accessed March 2011.

²⁶ Nokia, "One millionth customer experiences the excellence, refinement of premium Nokia 8800," Press Release, February 16, 2006, <http://press.nokia.com/2006/02/16/one-millionth-customer-experiences-the-excellence-refinement-of-premium-nokia-8800>, accessed March 2011.

²⁷ Aston Martin, "Nokia 8800 Aston Martin Edition," News, April 10, 2006, www.astonmartin.com/thecompany/news?a=1e0da7ce-1ca2-413b-9478-ef164f04570e, accessed March 2011.

²⁸ Nokia, "Created by nature, perfected by Nokia: The Nokia 8800 Sirocco Gold," Press Release, April 16, 2007, <http://press.nokia.com/2007/04/16/created-by-nature-perfected-by-nokia-the-nokia-8800-sirocco-gold>, accessed March 2011.

²⁹ Nokia, "Nokia 8800 Carbon Arte reflects authenticity and performance," Press Release, August 19, 2008, <http://press.nokia.com/2008/08/19/nokia-8800-carbon-arte-reflects-authenticity-and-performance>, accessed March 2011.

³⁰ Nokian Footwear, "With one hundred years of experience," *Our Story*, www.nokianfootwear.fi/eng/our_story, accessed March 2011.

³¹ Nokia, "Three companies merge to form Nokia Corporation," *Company -Story of Nokia*, www.nokia.com/about-nokia/company/story-of-nokia/nokias-first-century/the-merger, accessed March 2011.

³² Nokia Siemens Networks, "Nokia Siemens Networks: Preparing to Connect the World," Press Release, February, 12, 2007, www.nokiasiemensnetworks.com/news-events/press-room/press-releases/nokia-siemens-networks-preparing-to-connect-the-world, accessed March 2011.

³³ NAVTEQ, "Nokia Completes Its Acquisition of NAVTEQ," Press Release, July 10, 2008, <http://press.navteq.com/index.php?s=4260&item=5137>, accessed March 2011.

Global brand, its position slipped from the fifth in 2007 to the eighth in 2010.³⁴⁻³⁵ As of early 2011, Vertu continued to run independently from Nokia as a wholly owned subsidiary in the United Kingdom.

THE BIRTH OF VERTU

I wanted to take something as unlikely as a communications technology and present it as art.

—Frank Nuovo, Creator of Vertu³⁶

The public launch of the first Vertu phone in 2002 did not happen overnight. Its origin could be traced back to 1995 when Frank Nuovo, the chief designer at Nokia's design organization, became fascinated with the idea of launching a truly luxurious phone while working on the mass-produced Nokia 8800 series — a high-end phone for Nokia at that time. Previously employed as a design director at BMW/DesignerworksUSA, Frank had already demonstrated his design talents in several phone projects with his client, Nokia. With Vertu, he intended to use this luxury mobile phone as an instrument to provide customers with exquisite design, craftsmanship and service. Nuovo designed Vertu to be an icon recognized as the pinnacle of mobile phone excellence. In 1998, Frank turned his vision into action, sketched ideas about Vertu, and presented the business case for establishing a luxury cellphone company to Nokia's president, Pekka Ala-Pietilä.³⁷⁻³⁸ The Vertu project was approved by the board later that year.

Vertu was established in 2000, in a small village called Church Crookham, 40 miles southwest of London, United Kingdom.³⁹ Nokia chose to place Vertu there for several strong reasons. Despite the high manufacturing cost in the United Kingdom, close proximity to the precious metal and precision machining suppliers was important to Vertu.⁴⁰ Furthermore, being a wholly owned subsidiary away from Espoo, Finland meant that Vertu could maintain an arm's length from Nokia. This became essential when Vertu was designed to do things differently, with its own research, manufacturing, sales, marketing and management team (see Exhibit 3).

On January 21, 2002, Vertu debuted the Vertu Signature series at the Museum of Modern Art in Paris.⁴¹ Vogue magazine described the Vertu launch as “the birth of another ultimate item.”⁴² Vertu was hoping that the mobile phone would follow the path of the wristwatch, evolving from a functional timepiece to a prestige jewelry item. Nuovo once made an analogy to a Rolls-Royce when asked about his Vertu phone.⁴³ For affluent consumers, Vertu served as a great alternative to cheap plastic phones when attending parties or business meetings. As such, the brand attracted many celebrities, artists and famous business people as

³⁴ Interbrand, “2007 Rankings,” *Best Global Brands*, www.interbrand.co.uk/en/best-global-brands/best-global-brands-2008/best-global-brands-2007.aspx, accessed March 2011.

³⁵ Interbrand, “2010 Rankings,” *Best Global Brands*, www.interbrand.co.uk/en/best-global-brands/Best-Global-Brands-2010.aspx, accessed March 2011.

³⁶ Mark Levine, “The \$19,450 Phone,” *The New York Times*, December 1, 2002, www.nytimes.com/2002/12/01/magazine/01CELLPHONE.html?ntemail0=&pagewanted=print&position=top, accessed March 2011.

³⁷ Mark Levine, “The \$19,450 Phone.”

³⁸ Vertu, “Vertu History,” *Discover Vertu*, www.vertu.com/in-en/discover-vertu/vertu-history#in-en_discover-vertu/vertu-history, accessed on Mar 3, 2011.

³⁹ Church Crookham Fleet, “Church Crookham,” *Main Page*, www.church-crookham.co.uk, accessed March 2011.

⁴⁰ Mark Levine, “The \$19,450 Phone.”

⁴¹ *Ibid.*

⁴² Vertu, “Vertu History,” *Discover Vertu*, www.vertu.com/in-en/discover-vertu/vertu-history#in-en_discover-vertu/vertu-history, accessed on Mar 3, 2011.

⁴³ Stephen Baker, “And Now, the \$21,000 Cell Phone,” *Businessweek - WRETCHED EXCESS*, February 18, 2002, www.businessweek.com/magazine/content/02_07/c3770013.htm, accessed March 2011.

users even though the phones were deliberately voice centric with a greater focus on the craft and materials.

OVERVIEW OF VERTU PRODUCT PORTFOLIO

Vertu represents creative director Frank Nuovo's vision of the ultimate luxury communication device — an unprecedented fusion of engineering, design and technology. Nothing of this kind has been achieved before, at any price.

—The Vertu Vision as stated in 2004⁴⁴

Following the first order of Vertu in 2002, the company enjoyed impressive growth from 2002 to 2010, hundreds of thousands of phones.⁴⁵ Vertu was made up of three major product lines: the Signature, the Ascent and the Constellation (see Exhibit 4). Positioned as “the phone without equal,”⁴⁶ the Signature was a commanding phone designed to create poise and stature with its tall and slim proportion.⁴⁷ The Ascent, on the other hand, was a car-inspired phone. Introduced in 2004, this phone was designed to bring power, energy and precision together, as in a beautiful car engine.⁴⁸ To reinforce this positioning, a partnership with Ferrari was forged in 2007 to bring special editions of the Ascent Ferrari phone to the market.⁴⁹ Vertu added the Constellation to its portfolio in 2006. Created for the “discerning global citizen,”⁵⁰ the Constellation came in many form factors such as candybar, fold (clam-shell), and QWERTY smartphone (see Exhibit 5).⁵¹

To cater to the feminine mobile phone market, Vertu started to customize its phone with colourful leather and exquisite jewelry designs; the launch of the Ascent Pink in 2005, the Signature Boucheron in 2006, the Signature Pink Diamonds in 2007, and the Constellation Quest Pink in 2011 were great examples.⁵²⁻⁵³ As a luxury mobile phone maker, Vertu delighted its customers with products that showcased technological expertise. A prime example was the Vertu Ascent Motorsport Limited Edition, which was crafted from liquid metal. It was also the world's first use of carbon fibre on a mobile phone. Vertu also impressed the market by forging phones out of titanium and making phones with a ceramic keypad (see Exhibit 6).

THE VERTU EXPERIENCE

Quite simply the Vertu customer expects an experience, which is extraordinary in its delivery of every aspect from performance to service. When you hold a Vertu, you have no doubt about its uniqueness.

—Frank Nuovo, 2007⁵⁴

⁴⁴ Vertu, “Vertu Vision,” archived on “WayBackMachine,” Sep 25, 2004, <http://replay.waybackmachine.org/20050208190237/www.vertu.com/html/about.jsp?section=about>, accessed March 2011.

⁴⁵ Marshall Heyman, “A Cellphone With a \$7,900 Price Tag,” *The Wall Street Journal*, October 22, 2010, <http://online.wsj.com/article/SB10001424052702304023804575566502752294876.html>, accessed March 2011.

⁴⁶ Vertu, “A Phone Without Equal,” *Signature - Craft and Innovation*, www.vertu.com/in-en/home#in-en_signature/signature/craft-and-innovation/flash_phone_signature_equal, accessed March 2011.

⁴⁷ Vertu, “Signature,” *Signature*, www.vertu.com/in-en/home#in-en_signature, accessed March 2011.

⁴⁸ Vertu, “Ascent,” *Ascent*, www.vertu.com/in-en/home#in-en_ascent, accessed March 2011.

⁴⁹ Vertu, “Vertu History.”

⁵⁰ Vertu, “Constellation Ayxta,” *Constellation*, www.vertu.com/in-en/home#in-en_constellation/constellation-ayxta, accessed March 2011.

⁵¹ Vertu, “Constellation,” *Constellation*, www.vertu.com/in-en/home#in-en_constellation/constellation, accessed March 2011.

⁵² Vertu, “Vertu History.”

⁵³ Diana Gdula, “Haute Toys: Vertu Constellation Quest Goes Pink for Valentine's Day,” post on blog “Haute Living,” January 11, 2011, www.hauteliving.com/2011/01/haute-toys-vertu-constellation-quest-goes-pink-for-valentines-day, accessed March 2011.

⁵⁴ Levent Ozler, “Frank Nuovo Interview,” *Dexigner - News*, November 8, 2007, www.dexigner.com/news/12580, accessed March 2011.

“Designed to be admired, and made to be held,” Vertu aimed to be different from the start.⁵⁵ Empowered by Nokia to design such luxury mobile phones, Nuovo and his team created a mobile phone experience that simply could not be matched by the competition. This exceptional experience was made possible by combining a series of unique services and product features as listed below.

Craftsmanship

Unlike a typical mobile phone that had about 50 parts, a Vertu phone had more than 400. Some models included precious pieces such as diamonds and gems that required careful assembly by hand. Due to their delicate nature, each Vertu phone was handcrafted by a single master, usually plucked from the watchmaking and jewelry industries, in Vertu’s Church Crookham factory near London, United Kingdom. “It’s made for one person by one person,”⁵⁶ said Casey Gorman, managing director of Vertu America. The mechanical workings of each Vertu phone took hours to assemble, and this gave a Vertu user emotional gratification when holding a Vertu phone. As Nuovo once pointed out, “even if the Vertu phone were made out of copper, it would still be worth what it’s worth.”⁵⁷

Exquisite Design

A Vertu phone could be appreciated as a piece of art. Each phone element was carefully designed to delight the user. To give exceptional comfort for mobile voice communication, the “ceramic” ear pillow was invented and sound cavities were fine tuned to match the sensitivity of the human ear.⁵⁸ Even the ringing tones and sound alerts were exclusively made — for example the music for the Constellation Quest model was written by musician Benjamin Wallfisch and performed and recorded by the London Symphony Orchestra.⁵⁹ The face of most Vertu models was made with the “Sea of Sapphire” to give excellent “wear and tear” resistance. Each sapphire crystal key was ground and cut using diamond powder and olive oil, while the sapphire crystal screen was specially processed and polished to give a high-resolution display. Stitched leather at the back made holding the phone an enjoyable experience. The form factor was well designed. “There’s a size-to-proportion balance that has a calming effect, like Chinese health balls. It fits perfectly in the hand,” said Nuovo.⁶⁰

Vertu Concierge Service

One of the unique selling points of Vertu was the easy access to a team of independent lifestyle assistants with the touch of a button.⁶¹ The highly personal, tailored, and relevant luxury lifestyle assistance service was multilingual and could be accessed 24/7 globally. It was available in English, along with eight other languages: Italian, French, German, Russian, Cantonese, Mandarin, Japanese and Arabic. “We feel the word time is a key contributor to the definition of luxury,” said Perry Oosting, president of Vertu. “If we

⁵⁵ Vertu, “Constellation Rococo,” *Constellation*, www.vertu.com/in-en/ascent/ascent-ti/craft-and-innovation/flash_phone_ascent-ti_ceramic#in-en_constellation/constellation-rococo, accessed March 2011.

⁵⁶ Marshall Heyman, “A Cellphone with a \$7,900 Price Tag.”

⁵⁷ Mark Levine, “The \$19,450 Phone.”

⁵⁸ Vertu, “Vertu History.”

⁵⁹ Vertu, “Exclusive Ringtones,” *Constellation Quest*,

<http://experience.vertu.com/constellationquest/#/en/experiencethephone/performance/1>, accessed March 2011.

⁶⁰ Mark Levine, “The \$19,450 Phone.”

⁶¹ Vertu, “Vertu Concierge,” *Services*, www.vertu.com/in-en/#in-en_services/concierge, accessed March 2011.

are able to give the customer more time than we have achieved quite a lot," he said.⁶² This personal, one-on-one service was provided free of charge for the first year of a Vertu ownership, with a renewal fee of US\$2,000 per year.⁶³

Value-Added Services

The Vertu experience included a number of unique online services. An exclusive "Vertu.me" e-mail account was provided to each Vertu owner. To provide peace-of-mind protection for personal data, the phone's "Vertu Fortress" software wirelessly backed up important contact and calendar entries to ultra-secure servers.⁶⁴ Designed for busy international travellers, the "Vertu City Brief" application automatically presented dining and entertainment information about around 160 cities on the phone upon arrival, while the "Vertu Select" application delivered exclusive original articles to "inspire, inform, and entertain" the Vertu owner.⁶⁵ In case of technical difficulties, a Vertu user could simply press a key to access the 24/7 "Vertu Remote Assist" service to have the device remotely examined by Vertu's technical support team.⁶⁶

PROMOTING THE VERTU BRAND

Purposefully, my influence was to steer the design and brand elements as far from Nokia as possible when it made sense to do so.

—Frank Nuovo, 2007⁶⁷

As a luxury mobile phone, Vertu was not the kind of phone that was advertised on the flyers of local wireless dealers or office supply stores. The high price tag made it prohibitive for wireless carriers to offer any subsidy on such a luxury phone. Vertu's unique brand positioning did not fit too well with the mass market. As a result, Vertu did not carry out any joint promotion with wireless carriers. Following tactics typically used by luxury wristwatch makers, Vertu made use of famous celebrities, entrepreneurs and professionals to promote its brand around the world. In 2010, pop musician Seal became Vertu's new brand ambassador.⁶⁸ Other exclusive Vertu "friends" included Jean Todt, Michelle Yeoh, Andrea Griminelli, Ma Yansong, Alain Ducasse, and Arkady Novikov.⁶⁹

In terms of branding, Vertu's early slogan "Experience the world of unparalleled communication" clearly described its intention to stand out from the crowd.⁷⁰ To reinforce Vertu's exclusive image, its press materials were accessible only by accredited members of the press.⁷¹ Its product launch events were often

⁶² Claire Ferris-Lay, "Perry Oosting," *CEO Middle East*, December 6, 2010, www.arabianbusiness.com/perry-oosting-365720.html, accessed March 2011.

⁶³ Marshall Heyman, "A Cellphone with a \$7,900 Price Tag."

⁶⁴ Vertu, "Vertu Fortress," *Services*, www.vertu.com/in-en/services/fortress#in-en_services/fortress, accessed March 2011.

⁶⁵ Vertu, "Vertu Select," *Services*, www.vertu.com/in-en/services/fortress#in-en_services/vertu-select, accessed March 2011.

⁶⁶ Vertu, "Vertu Remote Assist," *Experience - Performance*, http://experience.vertu.com/constellationquest/en/per_remote, accessed March 2011.

⁶⁷ Levent Ozler, *Frank Nuovo Interview*, *Dexigner - News*, November 8, 2007, www.dexigner.com/news/12580, accessed March 2011.

⁶⁸ Marshall Heyman, "A Cellphone with a \$7,900 Price Tag."

⁶⁹ Vertu, "Vertu & Friends," *Discover Vertu*, www.vertu.com/in-en/#in-en_discover-vertu/vertu-and-friends, accessed March 2011.

⁷⁰ Vertu, "Vertu web site," archived on "WayBackMachine," April 29, 2002,

<http://replay.waybackmachine.org/20021001073324/www.vertu.com/vertu>, accessed March 2011.

⁷¹ Vertu, "Media Centre," *Corporate*, www.vertu.com/in-en/#in-en_corporate/media-centre, accessed March 2011.

organized as private receptions in art museums or prestigious locations around the world.⁷²⁻⁷³ For example, the Vertu Constellation Quest launch in 2010 took place at the Lancaster House of St. James, where the splendor of the Louis XIV decor and the grandeur of design were “doubtlessly appreciated” by the visitors.⁷⁴⁻⁷⁵ The company also participated regularly in luxury watch and jewelry shows, such as Baselworld, and in fashion events, such as Paris Couture Week and Men’s Fashion Week in Singapore.^{76,77,78}

During the early days of Vertu, the company cleverly built its luxury brand image and exclusivity positioning by promoting its product mainly through its appointment-only Vertu Client Suites.⁷⁹⁻⁸⁰ By 2011, Vertu had expanded its distribution channels to include more than 500 of the finest watch, jewellery and department stores and more than 90 Vertu boutiques in almost 70 countries worldwide.⁸¹⁻⁸² For most people, the best-brand experience could be found when they walk into one of Vertu’s flagship boutiques around the world, such as Singapore’s Mandarin Gallery, or the flagship boutique in Ginza, Tokyo. These boutiques featured architectural display cases, luxurious colour themes, and polished limestone floors to match the attention to detail and sophistication of Vertu phones.⁸³⁻⁸⁴

COMPETITORS OF VERTU

When Vertu first started out with the idea of producing luxury phones, the industry thought it would never take off. Vertu was ahead of the times. But now you can see how successful the industry has become, as more competitors are looking to enter this space.

—Alberto Torres, President of Vertu, 2008⁸⁵

Since pioneering the luxury mobile phone market in the early 2000s, Vertu had attracted others to join this lucrative market. The company competed with companies that could be grouped into three major categories: luxury mobile phone manufacturers, luxury fashion and wristwatch brands, and luxury accessorizers.

⁷² Mark Levine, “The \$19,450 Phone.”

⁷³ Marshall Heyman, “A Cellphone with a \$7,900 Price Tag.”

⁷⁴ Vertu, “Stars Come out for Vertu Constellation Quest Launch,” Press Release, October 13, 2010, www.prnewswire.co.uk/cgi/news/release?id=300572, accessed March 2011.

⁷⁵ Burlington Bertie, “Lancaster House,” Off to London - Out & About Home, www.offtolondon.com/lancasterhouse.html, accessed March 2011.

⁷⁶ Baselworld, “Vertu,” Exhibitors & Floor plans, http://baselcatalog.messe.ch/mch/zoomdetails_search.asp?exhibitor=116054, accessed March 2011.

⁷⁷ Senatus, “Vertu at Men’s Fashion Week 2011,” Magazine - Technology, <http://senatus.net/article/vertu-mens-fashion-week-2011-singapore>, accessed March 2011.

⁷⁸ “The origins of Vertu,” *The Economist, Business & finance - Mobile phones*, February 20, 2003, www.economist.com/node/1596073, accessed March 2011.

⁷⁹ Mark Levine, “The \$19,450 Phone.”

⁸⁰ Vertu, “Vertu continues to dazzle in its fourth year,” Press Release, June 24, 2005, www.vertu.com/downloads/releases/in-en/Vertu_Signature_with_Yellow_Metal_Keys.pdf, accessed March 2011.

⁸¹ Vertu, “Stars Come out for Vertu Constellation Quest Launch.”

⁸² Nokia, “Form 20-F,” Financial results, March 15, 2011, p.47, www.nokia.com/NOKIA_COM_1/About_Nokia/Financials/form20-f_10.pdf, accessed March 2011.

⁸³ Senatus, “Vertu at the Mandarin Gallery Singapore,” Magazine - Dining & Travel, <http://senatus.net/article/vertu-mandarin-gallery-singapore>, accessed March 2011.

⁸⁴ Klein Dytham architecture, “Vertu Flagship Store, Tokyo,” Interior, www.klein-dytham.com/project/interior/vertu-flagship-store-tokyo/1, accessed March 2011.

⁸⁵ Vertu, “Introducing the new Vertu signature a phone without equal,” Press Release, October 16, 2008, www.ameinfo.com/171588.html, accessed March 2011.

Luxury Mobile Phone Manufacturers

The launch of Vertu inspired designers around the world to spin their creativity on mobile phone design. Several companies successfully entered this niche, yet lucrative market, with their innovative products. Mobiado, a Vancouver-based luxury mobile phone maker, introduced the world's first "CNC machined" mobile phone in 2004.⁸⁶ The company was also famous for launching the world's first mobile phone made of exotic wood.⁸⁷ Mobiado's phones had limited distribution, mainly in Europe and Asia. Another company that gained the market's attention was the Geneva-based GoldVish. As confirmed by the Guinness Book of World Records, GoldVish became the maker of the world's most expensive phone in 2006, with the launch of its "Le Million Piece Unique."⁸⁸ This phone was constructed with 18-carat white gold and fully decorated with 120 carats of VVS-1 graded diamonds.⁸⁹ GoldVish also made the world's first mobile phone that incorporated a mechanical chronograph.⁹⁰ The company operated its own GoldVish boutiques in London, Hong Kong, and Vietnam. Its phones were also available in 14 other jewelry shops around the world.⁹¹ On the Internet, a company that successfully explored the online sales channel for luxury phones was the Switzerland-registered brand Gresso. Its popular models included the "Luxor World Time," a phone that featured six independent Swiss clockwork mechanisms.⁹² The latest market entrant was the Copenhagen-based Æsir. Its first mobile phone, Æsir+Y, was designed by Yves Béhar and was presented in Baselworld 2011.⁹³

Luxury Fashion and Wristwatch Brands

In 2006, Prada partnered with LG Electronics to launch a touch-screen smartphone called LG Prada;⁹⁴ more than one million units of this crossover product were eventually sold.⁹⁵ The success of Prada's entry to the high-end mobile market inspired several luxury fashion brands to follow a similar brand extension strategy. Luxury fashion brands collaborated with customized design manufacturers (CDM) to design and manufacture the phones.⁹⁶ ModeLabs, a Paris-based CDM that had previously designed a phone for Levi's in 2007,⁹⁷ was busy working with the luxury fashion brands in recent years; Christian Dior's "My Dior" phone was launched 2008,⁹⁸ followed by Versace's "Unique" smartphone in 2010.⁹⁹ LACOSTE intended

⁸⁶ Mobiado, "Mobiado Launches the professional collection: Unique, Elegant. Advanced," Press Release, December 15, 2004, www.mobiado.com/press_release%20December15th04.pdf, accessed March 2011.

⁸⁷ Mobiado, "About."

⁸⁸ Guinness World Records, "Most expensive mobile phone (cell phone)," Arts and Media - Valuable items - Retail prices, 2006, [www.guinnessworldrecords.com/search/Details/Most-expensive-mobile-phone-\(cell-phone\)/52009.htm](http://www.guinnessworldrecords.com/search/Details/Most-expensive-mobile-phone-(cell-phone)/52009.htm), accessed March 2011.

⁸⁹ "Setting the Bling Tone," Bin Hendi, Issue 3, 2008, p34, www.binhendi.com/v2/downloads/MAGAZINE/BH_issue_3.pdf, accessed March 2011.

⁹⁰ GoldVish, "Revolution," Limited Editions, www.goldvish.com/UK/index.html, accessed March 2011.

⁹¹ GoldVish, "GoldVish Shops & Outlets," Where to buy, www.goldvish.com/UK/index.html, accessed March 2011.

⁹² Gresso, "Luxor World Time," Phones, <http://gresso.com/e-store-luxor-w-t/?50&n=a1&ib=50>, accessed March 2011.

⁹³ Aesir, "About," Æsir + Y Phone — Company, <http://aesir-copenhagen.com/about-aesir/>, accessed March 2011.

⁹⁴ Sascha Segan, "LG Prada KE850," PC Magazine - Product Guides - Cell Phones, June 8, 2007, www.pcmag.com/article2/0,2817,2143607,00.asp, accessed March 2011.

⁹⁵ K. Rob, "LG Prada Watch: Naming of the phone, sales and miscellaneous musings," Mobile Industry Review - News, November 20, 2008, www.mobileindustryreview.com/2008/11/lgradawatch_naming_of_the_phone_sales_and_miscellaneous_musings_.html, accessed March 2011.

⁹⁶ Andreas Constantinou, "Customised Design Manufacturers are Here," post on blog "Vision Mobile," September 21, 2006, www.visionmobile.com/blog/2006/09/customised-design-manufacturers-are-here, accessed March 2011.

⁹⁷ "Téléphones mobiles. ModeLabs Levi's The Original," ZDNet, November 16, 2007, via CNet France — Téléphones mobiles, www.cnetfrance.fr/produits/modelabs-levi-s-the-original-39375524.htm, accessed March 2011.

⁹⁸ Modelabs, "Diorphone," Press Release, 2008, http://pressdior.modelabs.com/download/DiorPhone_Collection2008_UK_PRtext.pdf, accessed March 2011.

to work with ModeLabs to bring out a luxury phone to the market as well.¹⁰⁰ In addition to fashion brands, wristwatch makers also collaborated with CDM to enter the luxury mobile phone market; TAG Heuer Meridiist was introduced to the market in 2008, followed by Ulysse Nardin Chairman in 2009.¹⁰¹⁻¹⁰²

Luxury Accessorizers

Prior to the commercial availability of the luxury mobile phone in the early 2000s, the use of precious materials to customize mobile phones was often performed by designers on an individual basis. Peter Aloisson first made use of diamonds to encrust mobile phones as early as 1998, and he subsequently built a business to customize mobile handsets with gold and diamonds for his clients.¹⁰³ In the United Kingdom, a company called Continental Mobiles entered the luxury accessorizer market in 2006 to sell a wide range of modified handsets from Apple, Nokia and Blackberry. To give consumers confidence in its craftsmanship, Continental Mobiles sought accreditation from the British Jewelers Association and claimed to be appointed by the Royal Family in Saudi Arabia.¹⁰⁴ The company even mimicked Vertu's strategy of a global concierge service available to its customers.¹⁰⁵ Another luxury accessorizer was the Dubai-based Givori. It was famous for using unique materials such as pearl, seashell, Swarovski crystal, vintage glass, and even real elephant ivory from the 1940s to produce one-of-a-kind phones.¹⁰⁶ The market was so lucrative it attracted IceLink, a Geneva-based jewelry and watch maker, to debut a 6-carat diamond decorated BlackBerry in Baselworld 2011.¹⁰⁷⁻¹⁰⁸

UPCOMING CHALLENGES

Vertu products will evolve from its core and will expand over time. First however it needs to grow close to home and continue its quest for excellence in luxury communications products.

— Frank Nuovo, 2007¹⁰⁹

⁹⁹ Modelabs, "Versace teams up with ModeLabs Group to create and distribute its first luxury mobile phone," Press Release, January 19, 2010, http://ww2.modelabs.com/download/ARTICLES/EN/Versace_ModelLabs_UK.pdf, accessed March 2011.

¹⁰⁰ Modelabs, "Signature d'un contrat de licence mondial avec LACOSTE S.A pour le développement d'une gamme de téléphones mobiles," Press Release, June 15, 2009, <http://ww2.modelabs.com/download/ARTICLES/FR/CPAnnoncelicenceLacosteDE.VF.pdf>, accessed March 2011.

¹⁰¹ Modelabs, "MODELABS GROUP ET TAG HEUER SIGNENT UN CONTRAT DE LICENCE MONDIALE EXCLUSIVE POUR LA CREATION ET LA DISTRIBUTION D'UNE GAMME DE TELEPHONES MOBILES SUR MESURE," Press Release, November 26, 2007, www.modelabs.com/download/cp_presse/fr/cp_tagheuer_creation_gamme.pdf, accessed March 2011.

¹⁰² Paul Miller, "Ulysse Nardin Chairman "Hybrid smart phone" unveiled," March 26, 2009, Engadget, www.engadget.com/2009/03/26/ulyse-nardin-chairman-hybrid-smart-phone-unveiled, accessed April 2011.

¹⁰³ Peter Aloisson, "Pictures and Biography."

¹⁰⁴ Continental Mobiles, "About Us," Company, www.continentalmobiles.com/pages/information/company.aspx, accessed March 2011.

¹⁰⁵ Continental Mobiles, "Concierge," Information – Concierge, www.continentalmobiles.com/pages/information/concierge.aspx, accessed March 2011.

¹⁰⁶ Givori, "Nefertiti," Limited Edition, www.givori.com/en/#/collections/limitededition/0, accessed March 2011.

¹⁰⁷ SeriousLuxury, "IceLink's luxurious \$15k BlackBerry Bold to debut at Baselworld 2011," Toys - Mobile Phones, February 18, 2011, www.seriousluxury.com/icelinks-luxurious-15k-blackberry-bold-debut-baselworld-2011, accessed March 2011.

¹⁰⁸ IceLink, "Icelink — Luxurious Gemwatches and Jewelry," Facebook, www.facebook.com/pages/Icelink-Luxurious-Gemwatches-and-Jewelry/133568714453, accessed March 2011.

¹⁰⁹ Levent Ozler, "Frank Nuovo Interview."

Vertu and the New Nokia

After Vertu was officially founded in 1998, the UK-headquartered company benefited from Nokia's financial support, yet was able to operate independently as a wholly owned subsidiary thousand of miles away from Espoo. Since Nokia was under new management with Stephen Elop since late 2010,¹¹⁰ a strategic review of Nokia's various subsidiaries, including Vertu, became inevitable. Would Vertu's strong financial performance satisfy Elop's expectations, and allow Vertu to take a status quo approach to operate at arm's length from Nokia? Would the brand linkage between Vertu and Nokia be strengthened? Would Vertu be spun off like Nokia Footware, or sold to some other entity like Nokia's vehicle tire business in the early days?¹¹¹ The strategic business role of Vertu within the Nokia group had to be defined, reviewed, and supported. Vertu's continued success could help Nokia ease some margin pressures during the transition to embrace Microsoft's Windows Phone ecosystem. Vertu was no longer a short-term pilot project for Nokia; it had evolved to become a viable business with great business potential.

The Shift to Touch-Screen Smartphone

The arrival of Apple's iPhone in 2007 sparked a new era of touch-screen smartphones in the market.¹¹² The product was well received by consumers, and Apple had sold approximately 90 million units by Q1 2011 since its launch.¹¹³ Mobile phone manufacturers around the world had since adopted the thin rectangular form factor of the iPhone, whether they were in the Android, Windows Phone, or other proprietary mobile phone platforms. This trend posed a potential threat to Vertu because the company did not currently have any luxury phones in such form factor design. Vertu's Ascent and Signature collections were all in candybar design, while most of the Constellation handsets were in candybar design, with the exception of Constellation Quest (QWERTY smartphone design) and Constellation Ayxta (fold/clam-shell design). The form factor discussion became important especially when the Windows Phone platform that Nokia intended to adopt was optimized for touch-screen devices. Considering Nokia's prior experience in launching a wide variety of touch-screen models, Vertu considered leveraging existing Nokia knowledge to bring form factor phones to the Vertu world.^{114,115,116}

Value-Added Services

Vertu provided a series of value-added services such as Vertu.me, Vertu City Brief, Vertu Select, and Vertu Remote Assist to complement the Vertu mobile experience (see Exhibit 7). However, the competitive environment had changed significantly in the past few years. Similar online applications could be downloaded easily on competing mobile platforms, and many of them were provided to end-users free of charge. Even the acclaimed global concierge service offered by Vertu now had similar competitors available to the public in many countries.^{117,118,119} All of these developments affected Vertu's value

¹¹⁰ Nokia, "Nokia appoints Stephen Elop to President and CEO as of September 21, 2010."

¹¹¹ Nokia, "Change, survival and the fighting spirit in our DNA," post on blog "Nokia Conversations," April 6, 2011, http://conversations.nokia.com/2011/04/06/change-survival-and-the-fighting-spirit-in-nokias-dna/#disqus_thread, accessed April 2011.

¹¹² Apple, "Apple Reinvents the Phone with iPhone," Press Release, January 9, 2007, www.apple.com/pr/library/2007/01/09iphone.html, accessed March 2011.

¹¹³ Apple, "Apple Reports First Quarter Results," Press Release, January 18, 2011, www.apple.com/pr/library/2011/01/18results.html, accessed March 2011.

¹¹⁴ Nokia, "Nokia N8 Overview," Devices, <http://europe.nokia.com/find-products/devices/nokia-n8>, accessed March 2011.

¹¹⁵ Nokia, "Nokia E7 Overview," Devices, <http://europe.nokia.com/find-products/devices/nokia-e7>, accessed March 2011.

¹¹⁶ Nokia, "Nokia C7 Overview," Devices, <http://europe.nokia.com/find-products/devices/nokia-c7-00>, accessed March 2011.

¹¹⁷ Continental Mobiles, "Concierge."

propositions and made it increasingly difficult for Vertu to differentiate from other competitive offerings. In Japan, the company enriched the Vertu experience by providing a wireless service called “Vertu Club” to its users in 2009, via a mobile virtual network operator (MVNO) model.^{120,121,122} If this service became successful, Vertu could consider rolling it out to other countries to achieve better product differentiation and to enhance its competitive position.

Vertu Counterfeiting

Just like any other luxury brand, Vertu faced the issue of counterfeiting. The market of counterfeit mobile phones had grown rapidly since 2005, when a Taiwanese chipmaker called MediaTek launched a complete solution to help companies assemble a mobile phone easily and inexpensively. This solution not only included integrated chipsets, but also reference designs and a suite of turnkey software solutions. In 2010, MediaTek shipped a total of 500 million chipsets globally, resulting in 228 million Chinese counterfeit phones being shipped to customers worldwide, especially in China, India, Indonesia, Brazil, and Russia where well-established mobile phone manufacturers such as Nokia had a strong market presence.¹²³ These phones were no longer cheap knock-offs that looked embarrassing. It was not uncommon to find Vertu replica phones that featured Swarovski crystals, gold-plating, and even individual IMEI codes to avoid being caught by wireless carriers.¹²⁴ A look-alike Vertu phone could easily be found online and there were even guides and reviews on eBay to help buyers shop for fake Vertu phones.¹²⁵

OPPORTUNITIES FOR VERTU

Brand Positioning in Recession Times

Was Vertu an affordable luxury good or a true luxury product? The answer to this question was critical because the latter was often found to be recession proof and continues to be purchased by the truly rich—those with more than US\$10 million in investable assets. During the economic downturn true luxury brands enjoyed stable growth, while affordable luxury brands observed fluctuating performance depending on the country’s recovery speed from recession. It was suggested aspiring luxury goods consumers disliked luxury goods with mass distribution; they preferred goods that were exclusively distributed in the brand’s glamorous boutiques or in high-end department stores.¹²⁶ Another interesting trend showed men’s luxury purchases, from suits, to briefcases, to watches, doubled during the 2007 to 2010 recession period in the United States. Furthermore, recent research identified the young affluent — 40 years old or younger — as

¹¹⁸ Thirsty Muse Corporation, “TMC Helps Employers Help Their Employees,” Program Overview - Helping Employers, 2010, <https://www.thirstymuse.com/program.html>, accessed March 2011.

¹¹⁹ Quintessentially, “Member Assistance,” *The Service*, 2011, www.quintessentially.com/the-service, accessed April 2011.

¹²⁰ Wireless Watch Japan, “Vertu Club Japan Launched,” Translated article, September 1, 2009, <http://wirelesswatch.jp/2009/09/01/vertu-club-japan-launched>, accessed March 2011.

¹²¹ 坂本純子, “Vertu、年額57万7500円の「VERTU Club」開始—プレミアムなコンシェルジュサービスマ,” *Cnet Japan - Technology*, <http://japan.cnet.com/news/tech/20399191>, accessed March 2011.

¹²² Vertu, “Vertu Club,” Vertu Japan web site, www.vertu.com/jp-jp/services/#jp-jp_services, accessed March 2011.

¹²³ Robin Kwong, “MediaTek breaks out into mobile phones,” *Financial Times*, March 17, 2011, www.ft.com/cms/s/0/6fbf3994-440a-11e0-8f20-00144feab49a.html#axzz1J3d5INQ, accessed April 2011.

¹²⁴ “VERTU Signature Pure gold High Class,” *LuxReplica*, www.artdirect.org/Signature/VERTU-Signature-Pure-Gold-High-Class-441, accessed April 2011.

¹²⁵ “How to spot FAKE VERTU PHONE,” *Home - Buy - Reviews & Guides*, April 5, 2011, http://reviews.ebay.com/How-to-spot-FAKE-VERTU-PHONE_W0QQugidZ10000000014165581, accessed April 2011.

¹²⁶ Aline Sullivan, “Luxury brands covet the recession-proof,” *The New York Times*, March 7, 2008, www.nytimes.com/2008/03/07/style/07iht-mluxe.1.10800096.html, accessed March 2011.

the fastest growing consumer segment of luxury brands.¹²⁷ These findings provided Vertu with some solid direction to evaluate its brand positioning in light of challenging economic times, especially in regions that had not yet fully recovered.

Tapping into High-growth Far Eastern Markets

Bernard Arnault, chairman of the world's largest luxury goods producer LVMH, once predicted that the global spending on luxury goods would increase from US\$220 billion in 2008 to about US\$440 billion in 2013, with up to a third coming from emerging markets like China, Russia and India. His prediction was in line with recent developments of luxury brands; Tiffany, Coach, Cartier, and Burberry were all aggressively setting up new stores in the East.¹²⁸ According to the Federation of the Swiss Watch Industry, the top three markets in Swiss watch export values for 2010 were Hong Kong, the United States, and France. However, the Far Eastern markets recorded growth well above that of other regions, with China, Hong Kong and Russia achieving 57 per cent, 46.9 per cent and 44.5 per cent increases over the previous year, respectively.¹²⁹ The Middle East was a region that Vertu had also focused on in recent years. "The Middle East is an important region, in terms of size and in terms of its potential," said Oosting in an interview with an Arabic business magazine.¹³⁰ Vertu had ongoing retail expansion across the Middle East as it had achieved rapid success in the region.¹³¹ Moreover, the company launched its concierge service also in Arabic to strengthen its product positioning; these developments were not surprising as the gulf region was expected to outperform other global luxury retail markets in 2010.¹³²⁻¹³³

Marketing in Asia

Since the launch of the first Vertu phone in the market, the company had maintained a relatively standardized approach in promoting the brand around the world. The brand was always known as Vertu in English, without any foreign translation. In addition, the Vertu web site and much of its marketing material were produced in black, white, and shades of grey, a colour combination often considered to be inauspicious by the Chinese, Korean and Japanese, as it symbolized mourning in a funeral.¹³⁴⁻¹³⁵ While Vertu had successfully used such standardized approach to build its premium brand positioning in Western markets, the cultural differences in Asia and other emerging markets could not be ignored and were worth further studies. Domaines Barons de Rothschild, the renowned French wine maker, successfully made its Château Lafite Rothschild the most coveted wine maker in Asia. In 2008, it even wrote the Chinese

¹²⁷ Ruchika Tulshyan, "Men's Jewelry: A Recession-Proof Luxury," *Time*, July 27, 2010, www.time.com/time/business/article/0,8599,2006189,00.html, accessed March 2011.

¹²⁸ Jennifer Fishbein, "The People Want Champagne and Watches," *Bloomberg Businessweek*, February 6, 2008, www.businessweek.com/globalbiz/content/feb2008/gb2008026_690656.htm, accessed March 2011.

¹²⁹ Federation of the Swiss Watch Industry FH (2011). *The Swiss and world watchmaking industry in 2010*. www.fhs.ch/statistics/watchmaking_2010.pdf.

¹³⁰ Claire Ferris-Lay, "Perry Oosting."

¹³¹ Rivoli Group, "Vertu from the Rivoli Group unveils aggressive expansion plans in the region," *Press Release*, March 8, 2005, www.ameinfo.com/55363.html, accessed March 2011.

¹³² Vertu, "Vertu uncover new Arabic enabled product offering," *Press Release*, August 21, 2005, www.ameinfo.com/66096.html, accessed March 2011.

¹³³ Shane McGinley, "Luxury mobile maker to launch Arabic concierge service," *Arabian Business - Industries - Technology*, November 13, 2010, www.arabianbusiness.com/luxury-mobile-maker-launch-arabic-concierge-service--361966.html, accessed March 2011.

¹³⁴ Shane Hirschman, "Funerals and the Cultural Emphasis Color," *UCLA school paper*, Spring 2007, <http://classes.dma.ucla.edu/Spring07/21/projects/Shane/funeral.pdf>, accessed March 2011.

¹³⁵ *Funerals-and-flowers.com*, "Chinese Funerals," *In Loving Memory*, www.funerals-and-flowers.com/chinese-funerals.html, accessed March 2011.

character for “8” on every bottle of Lafite 2008 to declare the importance of the Chinese market.¹³⁶⁻¹³⁷ Other luxury goods manufacturers, such as the Italian watch maker Officine Panerai, had adopted similar marketing strategies. In 2010, Officine Panerai launched a Luminor Marina PAM 366 model that had the Chinese character “福”(good fortune) printed on the watch dial to celebrate its fifth anniversary of entering the Chinese market.¹³⁸ The launch of these special editions not only gained the media’s attention, but also built a strong relationship between the brand and the local community, argued as essential when conducting business in Asia, especially China.¹³⁹

Meeting the Local Needs

Another area that Vertu had to consider when entering the Asian market was the importance of phone software localization. Double-byte characters such as Chinese, Japanese, and Korean required special input methods, such as handwriting recognition software, on a phone.¹⁴⁰ Since the current build of Windows Phone 7 only supported English, French, Italian, German, and Spanish,¹⁴¹ Vertu would have to take a cautious approach when adopting the new mobile operating system to ensure proper inputting methods were available. Vertu also had to pay attention to the services and software applications that were relevant to the local markets. For example, Japanese mobile phones were often filled with a rich collection of graphical emoticons for SMS communication, and were equipped with infrared capability for easy exchange of personal contact information.¹⁴² In Korea and Japan, many handsets had wireless near field communication (NFC) capability to enable e-wallet payment functionality.^{143,144,145} Meanwhile, mobile users in China were used to enjoying analogue TV reception on their mobile phone, and a dual-SIM card slot design was an essential basic feature required by frequent business travellers in the region. These unique features might have been foreign to Vertu, but certainly not to the Asian consumers who had been using them for years.¹⁴⁶ A solid understanding of local needs would definitely help Vertu develop relevant products, which was a prerequisite for the brand’s success outside of its home base in Europe.

¹³⁶ Lucas, “Lafite in China — The 8 Strategy,” *Zhongguo Wine (Wine & China)*, November 11, 2010, www.zhongguo-wine.com/2010/11/11/lafite-in-china, accessed March 2011.

¹³⁷ Amy Ma, “Why the Chinese Love Lafite,” *The Wall Street Journal - The China Real Time Report*, September 17, 2010, <http://blogs.wsj.com/chinarealtime/2010/09/17/why-the-chinese-love-lafite>, accessed March 2011.

¹³⁸ *Finest Watches*, “Panerai Luminor Marina PAM 366 ‘Fu’ China,” post on the blog “Finest Watches,” August 14, 2010, www.finestwatches.com/blog/archives/160-Panerai-Luminor-Marina-PAM-366-Fu-China.html, accessed March 2011.

¹³⁹ Steve Lovett, Lee C. Simmons and Raja Kali, “Guanxi Versus the Market: Ethics and Efficiency,” *Journal of International Business Studies* 30, (1999): 2, pp. 231-247. doi:10.1057/palgrave.jibs.8490068, accessed March 2011.

¹⁴⁰ Arnold Kim, “Apple Includes Chinese Handwriting Recognition in iPhone 2.0 Beta,” *MacRumors*, May 5, 2008, www.macrumors.com/2008/05/05/apple-includes-chinese-handwriting-recognition-in-iphone-2-0-beta, accessed March 2011.

¹⁴¹ Aaron Woodman, “Windows Phone 7 — Getting Connected,” post on blog “Microsoft - Windows Phone Blog,” July 13, 2010, http://windowsteamblog.com/windows_phone/b/windowsphone/archive/2010/07/13/windows-phone-7-getting-connected.aspx, accessed March 2011.

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¹⁴³ Mobizen, “E-Wallet 예만 머무는 국내 Mobile Payment,” *모바일컨텐츠 이야기*, February 23, 2011; <http://mobizen.pe.kr/1059&usg=ALkJrhHls3MUKRpil4eANGLBEsStk8Xj3A>, accessed March 2011.

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¹⁴⁵ *Mobile Youth.Asia*, “Interview with La Carmina, youth trends expert from Japan,” *mobileYouth Asia Expert Series*, n.d., www.mobileyouth.asia/mobileyouth-asia-expert-series-interview-with-la-carmina-youth-trends-expert-from-japan, accessed March 2011.

¹⁴⁶ Reuben Lee, “China-branded phones that almost do it all,” *Cnet Asia - CRAVE*, December 3, 2007, <http://asia.cnet.com/crave/china-branded-phones-that-almost-do-it-all-62102421.htm>, accessed March 2011.

Creating Synergies With Other Luxury Brands

A good way to create product stickiness and awareness was to partner with well-established brands in the market. Vertu understood this concept and had partnered with the Italian sportscar maker, Ferrari, to launch a series of specialized models since 2007.¹⁴⁷ This kind of “cross-over” strategy seemed to get market traction in recent years. ODMs such as the French ModeLabs benefited from this kind of collaboration with major luxury brands like Christian Dior, Versace and TAG Heuer as described earlier in this case. In 2011, the Canadian Mobiado followed Nokia’s step to launch an Aston Martin edition phone to benefit from this quickly growing luxury mobile phone market.^{148,149,150} Did Vertu’s partnership with Ferrari add good value to portfolio? Thinking out of the box, Vertu possibly considered creating synergies with other luxury brands not only in the motorsports sector, but also in fashion, wristwatch and other luxury consumer product categories as well.

THE ROAD AHEAD

Survival is in our DNA. The fighting spirit is in our DNA. Transformation is in our DNA.

— Arja Suominen, Senior Vice-president, Communications, Nokia¹⁵¹

The Nokia Strategy 2011 consisted of three pillars: smartphones, the next billion, and future disruptions.¹⁵² When he unveiled the new strategy with Microsoft’s Steve Ballmer in February 2011, Elop said, “We will create opportunities beyond anything that currently exists.”¹⁵³ This was a positive sign, revealing Nokia was willing to embrace change to take the company forward.

As a valuable asset of Nokia, the luxury brand Vertu was gaining importance within the Nokia group as more and more affluent customers around the world appreciated the Vertu experience. Elop could pursue many strategies for Vertu in the near future, including a status quo strategy to keep Vertu at arm’s length, an integration strategy to bring Vertu home for better collaboration, or a spin-off strategy to realize short-term financial benefits from this Vertu project. The transition from Symbian to Windows Phone was a major move for Nokia, and it could take close to two years to build a successful “Third Ecosystem” with Microsoft.¹⁵⁴ Was Vertu a distraction to Nokia when implementing its new mobile strategy, or was it a key investment that should not be disturbed? It was the right time for Elop and his team to assess Vertu.

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¹⁴⁷ Vertu, “Vertu History.”

¹⁴⁸ Aston Martin, “Nokia 8800 Aston Martin Edition.”

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¹⁵⁰ Aston Martin, “Mobiado Brand Licence Agreement,” Press Release, www.astonmartin.com/thecompany/news?a=57fd0e4e-50fc-42a0-90a2-d0a01afe8c08, accessed April 2011.

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¹⁵² Nokia, “Nokia Strategy 2011,” post on blog “Nokia Conversations,” February 11, 2011, <http://conversations.nokia.com/nokia-strategy-2011>, accessed March 2011.

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Exhibit 1

GLOBAL MILLIONAIRES DISTRIBUTION

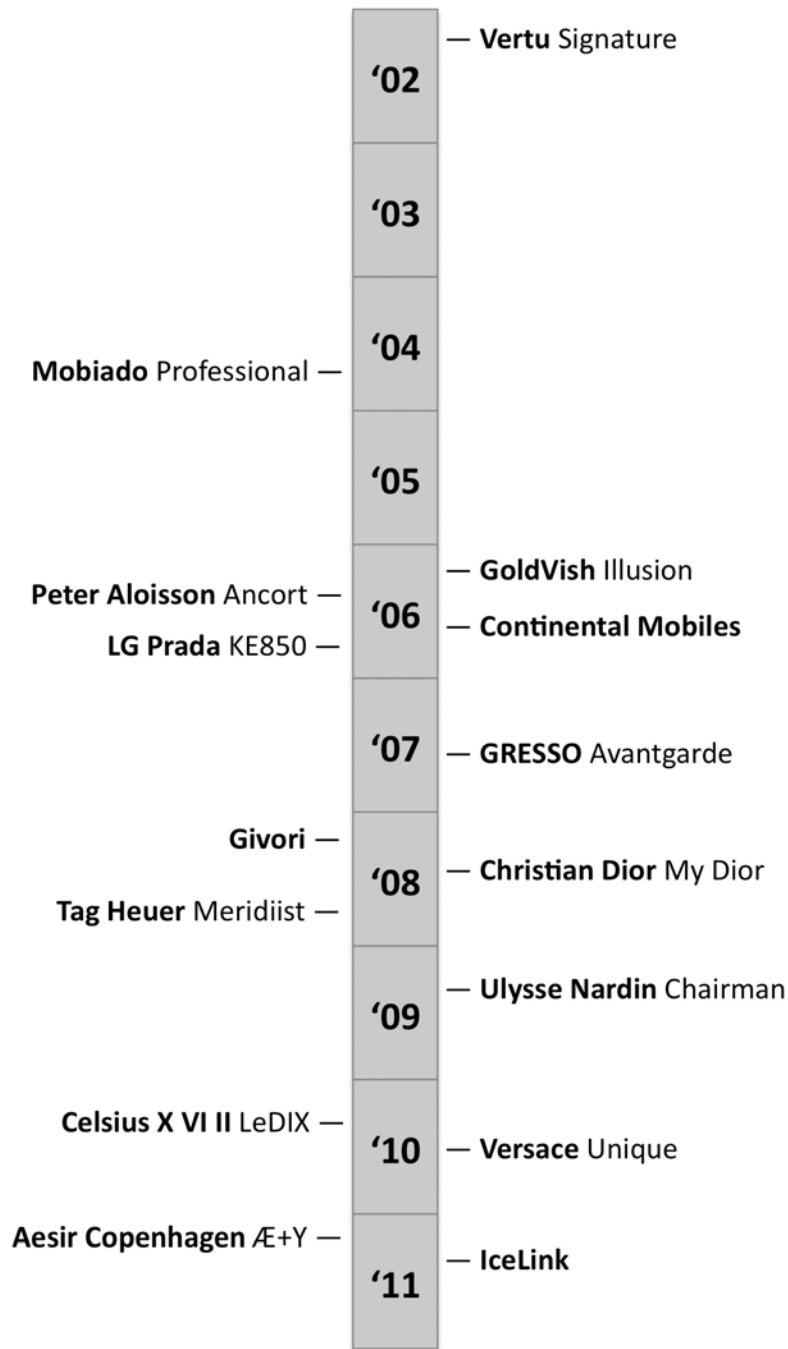
High Net Worth Individual (HNWI)* in 2009		
Rank	Country	Number
—	World	10,000,000
1	United States	2,886,200
2	Japan	1,650,000
3	Germany	861,500
4	China	477,400
5	UK	448,100
6	France	383,000
7	Canada	251,300
8	Switzerland	222,000
9	Italy	179,000
10	Australia	173,600
11	Brazil	146,700
12	Spain	143,000
13	India	139,835

* HNWIs are defined as those having investable assets of US\$1 million or more, excluding primary residence, collectibles, consumables and consumer durables.

Source: Capgemini (2010). World Wealth Report 2010, www.capgemini.com/insights-and-resources/by-publication/world-wealth-report-2010/.

Exhibit 2

TIMELINE OF LUXURY MOBILE PHONE LAUNCHES



Source: Created for this study.

Exhibit 3

VERTU MANAGEMENT BIOGRAPHIES

Casey Gorman has served as the managing director of Vertu Americas since December 2009, overseeing sales, marketing and distribution in the America region. Prior to Vertu, Casey was the CEO of British accessory designer Lulu Guinness and previously worked as head of sales in the company. Casey has also held a senior role at luxury brand Escada.¹⁵⁵

Nigel Litchfield, Vertu's first president and formerly Nokia's senior vice-president for Asia-Pacific operations.¹⁵⁶

Frank Nuovo is the Principle Designer and one of the key brand spokespersons of Vertu. Prior to joining Nokia, he was the designer director at BMW/DesignerworksUSA. As a talented designer, he established Nokia's design organization in 1995 and acted as its chief designer. His design leadership resulted in many award-winning phones for Nokia. Frank sketched ideas about Vertu in 1998 and subsequently founded it as a wholly owned subsidiary of Nokia. He stepped down as Nokia's Chief of Design in 2006 to dedicate time for his own projects at Design Studio Nuovo, in addition to his work at Vertu. Frank continues to be a visionary force behind Vertu.¹⁵⁷

Perry Oosting is the president of Vertu. Prior to joining Vertu in 2009, Dutchman Oosting was the senior vice-president Global Commercial Operations at Escada. He also served as vice-president for the US American fashion company Liz Claiborne, and held senior roles at several luxury brands including Bulgari, Prada, and Gucci.¹⁵⁸

Arnaud de Schyutter is the general manager of Vertu Asia Pacific. He joined Vertu in 2002 and previously served as managing director of Vertu Americas. Arnaud has also worked for Vertu in Europe and the Middle East.¹⁵⁹

Alberto Torres was Vertu's president from 2005 to 2009 until he was appointed senior vice-president of Global Product Portfolio and Product Management at Nokia. Alberto subsequently left Nokia in Feb 2011 during a re-organization. Before working in the Vertu subsidiary, Alberto served as Nokia's vice-president of Corporate Strategy. Prior to Nokia, Alberto was a partner at McKinsey & Co.¹⁶⁰⁻¹⁶¹

¹⁵⁵ Vertu, "Vertu Announces New Managing Director of Vertu Americas" Press release, December 1, 2009, <http://mob.watchprosite.com/?show=forumpost&fi=686&ti=577456&pi=3589561&s=0>, accessed March 15, 2011.

¹⁵⁶ Liquavista, "Liquavista appoints mobile industry leader as Chairman," Press Release. May 15, 2008, www.liquavista.com/pr/getRelease.aspx?ReleaseID=24, accessed April 2011.

¹⁵⁷ Nuovo, Frank, "Frank Nuovo Biography."

¹⁵⁸ Elite Traveler, "ESCADA strengthens key management positions," News, September 27, 2007, www.elitetraveler.com/news_detail.html?nid=42, accessed March, 2011.

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¹⁶¹ Nokia, "Alberto Torres, b.1965," Biograpy, http://press.nokia.com/wp-content/uploads/mediaplugin/doc/1-alberto_torres-cv.pdf, accessed March 2011.

Exhibit 4


VERTU PRODUCT PORTFOLIO

Vertu Signature Collection	Vertu Ascent Collection	Vertu Constellation Collection
Signature Signature Diamonds	Ascent Ascent Ferrari GT Ascent Ti Ascent Ti Ferrari Ascent Ti Neon Ascent Ti Carbon Fibre Ascent Ti ICM	Constellation Constellation Quest Constellation Ayxta Constellation Pure Constellation Exotic Constellation Vivre Constellation Monogram Constellation Rococo Constellation Diamonds

Source: Adapted from Vertu "Ascent," "Constellation," and "Signature" sections on Vertu.com, www.vertu.com, accessed on Mar 15, 2011 and other sources.

Exhibit 5

EXAMPLES OF DIFFERENT VERTU FORM FACTOR

Candybar	Fold (Clam-shell)	QWERTY Smartphone
 <p>Model: Constellation Monogram</p>	 <p>Model: Constellation Ayxta</p>	 <p>Model: Constellation Quest</p>

Source: Adapted from Vertu "Constellation," www.vertu.com/in-en/#in-en_constellation, accessed on Mar 15, 2011 and other sources.

Exhibit 6

VERTU COMPANY TIMELINE

Feb 1998	Chief Designer Frank Nuovo sketches ideas about Vertu.
Oct 1998	Vertu is founded by Nokia.
Jul 2000	Company headquarters is established in England.
Jan 2002	The first ever luxury phone, the Vertu Signature, is launched in Paris.
Jan 2004	The Vertu Ascent Collection is launched.
Apr 2005	The 10,000th Vertu Concierge request is fulfilled.
Apr 2005	The Vertu Ascent Pink is launched - a trend for feminine mobile phone is set.
Aug 2005	The Vertu Ascent Motorsport Limited Edition is launched. It is the world's first use of carbon fibre on a phone and is crafted from Liquidmetal.
Dec 2005	The Vertu Signature Diamond Collection is launched.
Feb 2006	The Vertu Ascent Racetrack Legend Series Collection is launched.
Jun 2006	The Vertu Constellation is launched.
Jul 2006	The Vertu Signature Boucheron is launched.
Apr 2007	The first ever phones to be forged out of Titanium is launched.
Jun 2007	Vertu partners with Ferrari.
July 2007	The Vertu Signature Pink Diamonds is launched.
Dec 2007	Vertu Fortress is launched.
Oct 2008	New Vertu Signature is launched.
Nov 2008	Ascent Ti Ferrari collection is launched.
Feb 2009	The Vertu Constellation Pure is launched. It has a ceramic keyboard.
Sep 2009	The Vertu Constellation Ayxta is launched. It is Vertu's first fold (clam-shell) phone.
Sep 2009	The Vertu Club, a MVNO service, is launched in Japan.
Oct 2010	The Vertu Constellation Quest is launched. It is Vertu's first smartphone that has a full QWERTY keyboard.
Feb 2011	Nokia announces new mobile strategy.

Source: Adapted from Vertu "A History of Vertu," www.vertu.com/in-en/discover-vertu/vertu-history#in-en_discover-vertu/vertu-history accessed on March 3, 2011 and other sources.

Exhibit 7

OVERVIEW OF COMPARABLE VERTU SERVICES

Vertu Services:	Service Description:	Example of Comparable Service:
Vertu.me	Personal Information Management system with secure contact, calendar synchronization and online storage.	- Apple's MobileMe - GMail, Google Calendar and Google Sync
Vertu City Brief	An independently written series of guides, each carefully selected and automatically presented on arrival.	- Lonely planet iPhone City Guides
Vertu Select	A service that creates bespoke content designed to appeal to Vertu handset owners. These are selected to inspire, inform and entertain based on user's region, preferences and passions.	N/A
Vertu Remote Assist	24/7 access to the Vertu technical support team who will be able to remotely access the phone for trouble shooting.	- LogMeIn Rescue Service
Vertu Concierge	A personal independent lifestyle assistance service available globally 24/7 in user's preferred language at home or away.	- Continental Mobiles Concierge - Quintessentially - Thirsty Muse

Source: Adapted from Vertu "Services," www.vertu.com/in-en/#in-en_services, accessed on March 5, 2011 and other sources.