



ERICSSON

GROWTH CODES

How operators drive profitable revenue growth in a data centric world.

UNCOVERING THE SECRETS OF REVENUE GROWTH

In 2009 mobile communications reached a significant milestone: data traffic overtook voice traffic for the first time. Since this inflection point, certain operators have moved ahead of the pack. They have been able to turn data growth into consistent, profitable revenue growth. Why is this? Is it down to local market conditions, efficient business processes, or good fortune? Or is there more to it? Have these operators uncovered the ‘secrets’ to revenue growth that their peers have not?

It’s an increasingly important question as subscriber growth in mature markets plateaus, or tails off. In these conditions, increasing

revenue per subscriber is key to maintaining healthy top-line growth.

Ericsson decided to dig a little deeper into the issue to get a real understanding of what lies behind the success of the operators with market-leading revenue growth and profitability.

There is no single recipe for success across the industry. But we found that the operators who have most successfully turned the extraordinary data traffic growth of the past few years into profitable revenue growth – the mobile broadband frontrunners – show remarkably similar behaviors in six key areas.

We call these six common traits Growth Codes. Rather than specify a single ‘recipe’ for success, they represent a consistent approach taken by frontrunners to generating profitable data growth in their own markets:

- **Gap minding** – making visionary, proactive investments to inspire new demand and differentiate using large gaps of superior quality, experience and value rather than small gaps of price
- **Streetwise metrics** – using experience-centric KPIs, actively gathered and aggregated from market, network and system feedback loops, to focus attention where it matters most
- **Showcasing** – using quality-led marketing that creatively shows superior performance in contexts that people can relate to, highlighting why the difference is worth paying for
- **Unboxing** – deconstructing packages and rebuilding cleverly segmented offerings that boost revenue and loyalty
- **Ecosystematic** – bundling offerings with third-party brands to deliver a synergetic experience, with open platforms for value creation based on customer relations as assets
- **Co-partnering** – working collaboratively with partners, empowered by shared incentives, insights and roadmaps, with a ‘we’re in this together’ mentality.



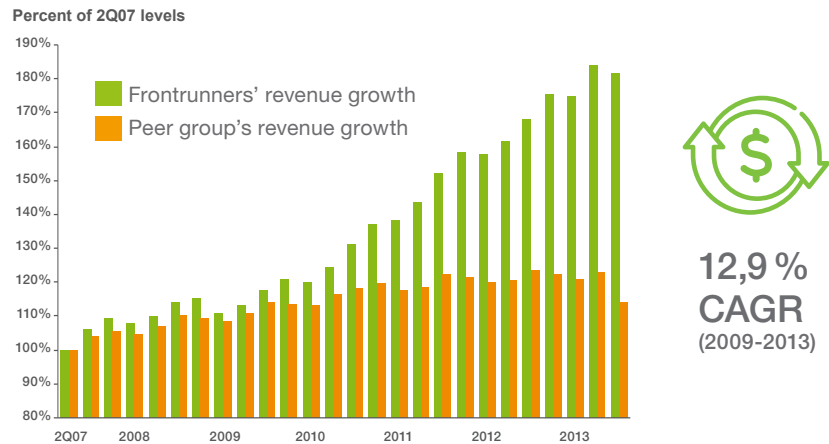


Figure 1. Average revenue growth of frontrunner operators versus peer group operators in each market. (Source: Strategy Analytics and Ericsson Analysis).

Frontrunners have succeeded through a combined focus on technology and go-to-market strategy across all six Growth Codes in parallel. Before we examine these codes in more detail, let's look at how we identified the world's mobile broadband frontrunners.

What makes a frontrunner?

Since late 2009 – when the volume of mobile data first overtook the volume of voice traffic carried over the world's mobile networks – mobile data has roughly doubled in volume every year. This spectacular growth has been driven mainly by the arrival of smartphones and tablets, and the rise of the mobile applications and cloud-based services. And it is continuing (please see the latest Ericsson Mobility Report for details.)

While this growth has been consistent and broad-based, certain operators have been able to capitalize on the mobile data explosion more successfully than others. They have consistently outperformed the market.

In our analysis, Ericsson identified these frontrunners as those who have achieved very strong revenue growth in their mobile operations since the 2009 inflection point and have done it in a profitable way.

As the chart in Figure 1 shows, on average these operators were able to achieve almost 13 percent compound annual growth in revenues over the period 2009 – 2013 in concert with rising data volumes.

These frontrunner operators have not only been able to drive top-line revenue, they have also done it very profitably. An increasing share of reported revenue comes from data. Ericsson estimates that in markets with high data maturity, data revenue will reach 50 percent during 2014. For the identified frontrunners this has already happened.

These frontrunners each have quite different starting points. They may be leaders or challengers in their own markets. They may be active in markets with different levels of maturity. And they may be focused on mobile-only or multi-play offerings.

What they all have in common, however, is a mindset that challenges convention and enables them to see growth potential from making connectivity more relevant to people, business and society. They see opportunities for growth through innovation, market and technology synergies, and treating connectivity as a differentiator.

Specifically, we have found that frontrunners work proactively across all six Growth Codes. They balance superior network performance with innovative go-to-market strategies to achieve profitable revenue growth. They have rethought mobile broadband, their organizations, and their own roles as operators. They are not afraid to take bold decisions.

Now there's an opportunity for every operator to be inspired by and learn from these pioneers, and apply the six Growth Codes to their own businesses.

GAP MINDING – VISIONARY INVESTING

It's something of an irony, but competing on price is an expensive strategy. Fighting for market share in a saturated market with generic offerings can only result in a price war. The outcome is compromised user experience and profitability.

As mobile broadband becomes woven into people's everyday lives, their expectations of speed, quality and availability keep rising. Network performance becomes extremely relevant.

Furthermore, with intensifying competition, it is increasingly

important for operators to create differentiators that are hard to copy in order to get one step ahead of the competition.

History shows that operators, like other businesses, can build an advantage by being the first mover into a new technology. People often don't know they want something until they are offered it: who knew how much we would come to rely on smartphones before the arrival of the iPhone in 2007?

Frontrunners don't just dare to go first: leading from the front is

ingrained in their culture. They understand that the risk of standing still is greater than the risk of moving forward.

This is why frontrunners invest differently. They align network, marketing and device strategies, and invest their money in creating large gaps of competitive advantage that will make a big difference to the bottom line.

Gap minding also means staying in control of the roadmap by avoiding quick fixes that contribute to lasting complexity.



Gap minding – making visionary, proactive investments to inspire new demand and differentiate using large gaps of superior quality, experience and value rather than small gaps of price

Differentiators that count

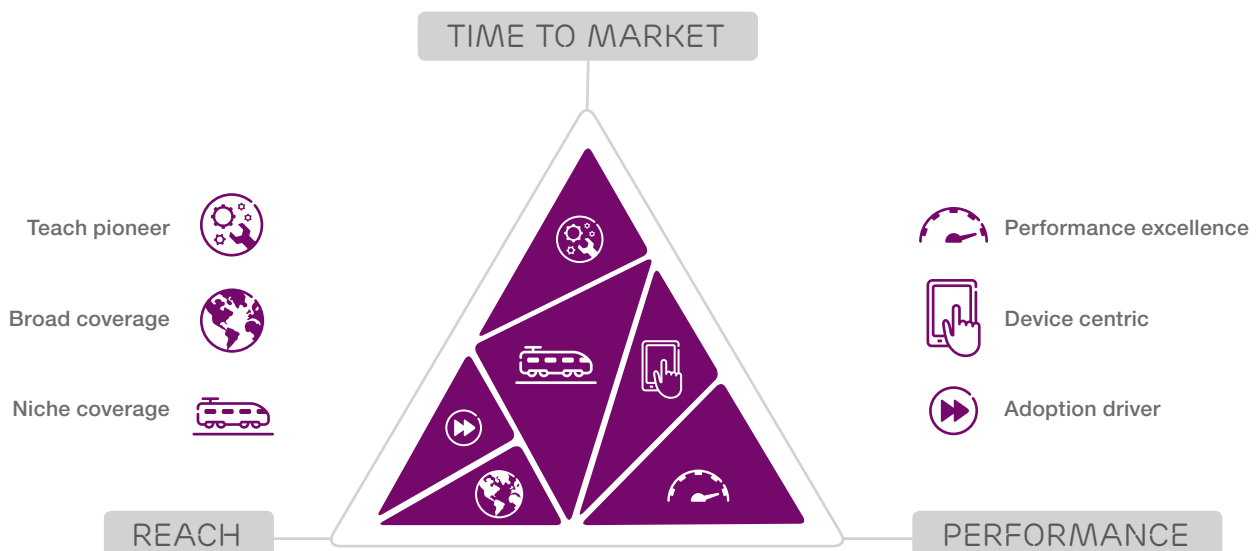
An Ericsson Consumer Lab study of smartphone users in Western Europe found that half of all mobile users experience service quality issues every week, while subscribers with a high satisfaction rating are 50 percent more likely to stay with their operator than those with an average satisfaction rating.

What the frontrunners have realized is that it makes sense to differentiate on quality, experience and value, rather than price, by behaving in some or all of these ways:

- Being a **tech pioneer** – taking market share by being first to introduce a new technology or service, such as an iconic smartphone or broad 4G coverage. Often such moves have appealed first to tech leaders, before filtering down to the wider market, enhancing both reputation and revenue.
- Offering **broad coverage** – attracting new customers and improving existing customers' experience by extending the reach of their network

or service coverage beyond their competitors', for example by being first to extend coverage outside cities to towns and into rural areas.

- Providing **niche coverage** – extending coverage to targeted niche locations with high demand and revenue potential, such as railways, malls, subways, sports venues and mountain resorts.
- Focusing on **performance excellence** – investing to ensure their networks offer consistently good performance and quality (not simply the highest headline data rates).
- Being **device-centric** – for many customers, it's all about the device, and many frontrunners have tailored offerings around the most popular devices, triggering greater demand for connectivity.
- Becoming an **adoption driver** – frontrunners are adept at proactively driving take-up of new services and capabilities through smart packaging and upgrades to more effective data platforms.



STREETWISE METRICS – EXPERIENCE-CENTRIC KPI'S

As the pioneering business thinker Peter Drucker said, “What gets measured gets managed”. Implicit in this saying is that the right things need to be measured: improving KPI scores is only meaningful if the right KPIs are being monitored. In mobile broadband, what really counts is the quality of the user experience and this cannot be measured in the lab.

While mobile users have never really been a homogeneous group, the rise of the smartphone and mobile apps mean people are more diverse and individual in their mobile behavior than ever before. What is a great experience for one person may not be so good for another.

Frontrunners understand that they need to optimize according to user experience, and base their decisions on what customers are actually telling them, not purely on technical metrics. That is why they are moving their KPIs down to street level; creating proactive feedback loops between user experience and network optimization to focus attention where it matters most, and understand what makes the difference.

It's all about understanding and acting upon customers' needs. Knowing what is important to a specific user is key to providing superior user experience and value.

With this knowledge, operators can see how user experience is influenced by network, device and app performance, and set, adjust and measure KPIs accordingly.

Metrics that matter

An Ericsson ConsumerLab report ‘Global network performance study 2013’ found that network performance is the key driver of loyalty among mobile subscribers (measured by relative impact on net promoter score). Network performance was twice as important (20 percent) as price (10 percent) and four times as important as loyalty rewards (5 percent).

The rising penetration of increasingly powerful smartphones and tablets means that it is not just peak data rates that are important; it's good-quality 1 Mbps-plus (often 10 Mbps-plus) performance everywhere that is important. Operators increasingly need to think in terms of app coverage – that is, delivering true mobile broadband capacity, latency and data rates for all apps in the device like music streaming and HD video streaming – when planning and upgrading their networks.

Ericsson recommends 95 percent probability of getting speeds above 1 Mbps in order to provide a good user experience.

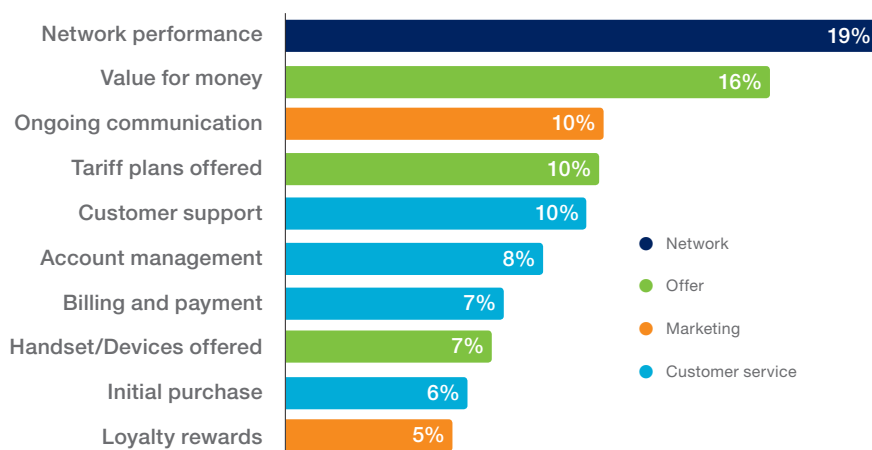


Figure 2. Regression analysis showing the relative impact of each driver on net promoter score. (Source: Ericsson Consumer Lab)

Streetwise metrics – using experience-centric KPIs, actively gathered and aggregated from market, network and system feedback loops, to focus attention where it matters most

Knowing where and when to improve app coverage means having a clear idea of how good the customer experience is at any given place and time. Frontrunners have understood this and are continually working to improve user experience in four key ways.

They **keep their ears close to the ground** by getting input directly from their customers so that they can quickly adapt and adjust to trends and changes.

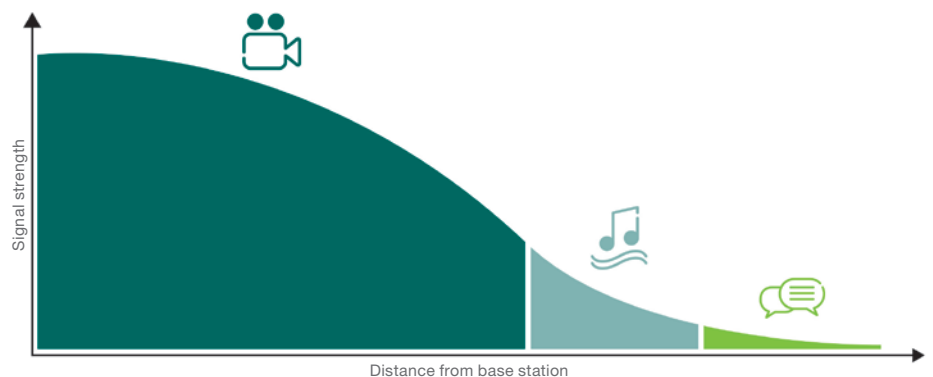
This can be done in several ways. One example we have seen is a CEO that regularly engages with users on Twitter. Another example is to use freely downloadable apps where users easily can provide feedback.

They **monitor (new) data KPIs** so that they can constantly adapt their business and KPIs to shifting customer demands and behaviors. Frontrunners avoid the trap of performing well against outdated criteria and constantly challenge the current KPI list to ensure they measure up against what really matters to the customer today.

They focus on creating great customer experience based on long-term strategies instead of quick fixes.

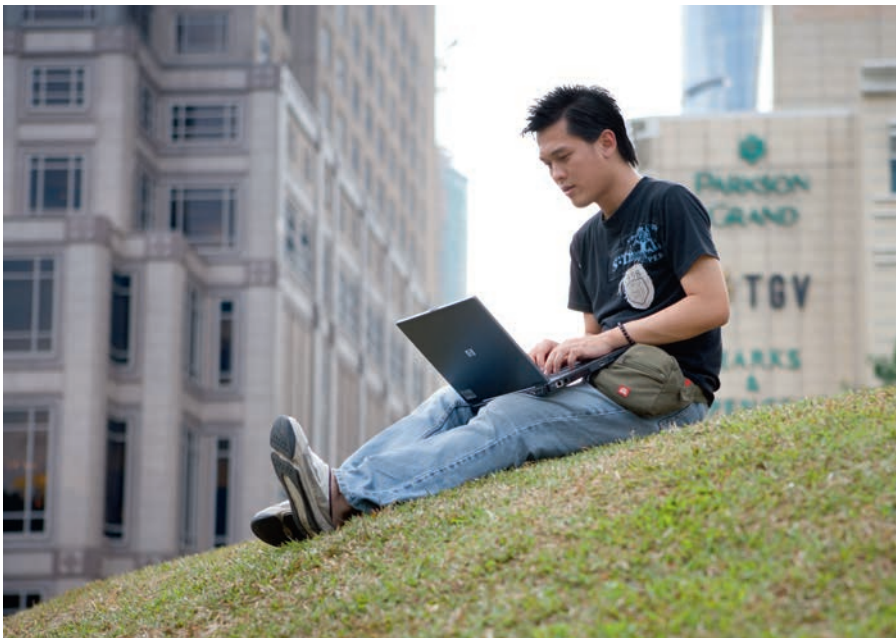
They **break internal silos** to close the gaps between decision-makers and customers, so decisions are customer-centric. Frontrunners spend time with real customers and steer network optimization through regular forums where CTO, CMO and CIO come together and build a holistic understanding of their customers' needs and desires.

They **react and adjust criteria** in response to real customer needs. Frontrunners do this by establishing a direct link between their management and user experience, so that they identify problems early and react to them immediately. Customer feedback is captured, reviewed and responded to directly.



App coverage – the area where my app works as expected. Frontrunners are continuously working with improving user experience by expanding the area where apps like HD video streaming works satisfactorily (dark green area in graph).

SHOWCASING – QUALITY-LED MARKETING



In today's always-on, connected world, a broadband experience should be one in which customers don't notice the connection. Good-quality connectivity is becoming expected everywhere: customers only really notice when things do not work so well.

If a customer's application, site or chosen content doesn't run smoothly, he or she is out of coverage, whatever the promised peak data rate, any small savings on the monthly subscription start to become irrelevant.

For mobile broadband users, the difference between coverage and no coverage is worth paying, staying or leaving for ... and telling their friends about.

This is why frontrunners don't just invest in superior quality: they put their brand on the line to prove it. They creatively and transparently illustrate and compare performance in ways that people understand and value – rather than highlighting theoretical performance at the lowest price.

Show, not tell

Superior network quality is becoming a key selling point and source of difference, as people spend more time online and expect to be able to access services anywhere, anytime. As understanding of mobile broadband matures, people tend to value superior experience over small differences in price.

Frontrunners understand this. They actively encourage comparisons of products, services and customer experience, and deliver quality-led marketing in four key ways.

Frontrunners **take the user perspective** when they communicate because they realize that a great network improves their customers' everyday lives. They focus on what services enable customers to do in a real-world setting – stream movies, play online games, video-call friends and family, for instance – rather than rely on metrics and technical reports.

Frontrunners don't simply claim to be better or faster: they **visualize the difference** in terms of what sets them apart in an easily understandable, comparable and provable way. This may be through online visualization of their superior coverage, via advertising campaigns or through easy-to-understand videos. Frontrunners are not only experts at delivering quality, they also know how to communicate their performance.

Frontrunners **interact with users** because they understand that communication is a two-way street, and that the most credible testimonials come from real users. So instead of communicating the results of technical field tests, frontrunners actively seek user involvement in, for example, speed tests, new service road-testing or

Showcasing – using quality-led marketing that creatively shows superior performance in contexts that people can relate to, highlighting why the difference is worth paying for

crowd-sourcing ideas at the development stage. Not only does this create an opportunity for interaction, it also proves network performance in a real-world setting. Ultimately, it enables consumers to become advocates of the service.

Frontrunner executives **take a personal stake** in their network performance, making it their stated mission to deliver great service and being accountable for doing so. This lifts performance to another level of importance and demonstrates true commitment. Such commitment and transparency strengthen the company's image and demonstrate that brand promises are taken seriously.



UNBOXING – REDEFINING SUBSCRIPTION

With mobile broadband, it's more obvious than ever that one size does not fit all. Consumers have the freedom to customize the way they use devices, services and apps to their individual needs and tastes.

People increasingly have multiple devices, and want to be able to connect them with each other and with their friends' devices. While these devices complement each other, they are also competing for a share of users' time. Operators need to cater for these multiple devices while ensuring the user experience is consistent across all of them.

As applications, devices and behaviors continue to expand and diversify, mobile data connectivity, price models, and the systems and processes that support them need to evolve to keep pace.

Operators are now better able than ever to differentiate their mobile broadband offerings to cater more precisely to different users' needs. However, slicing and dicing subscription packages into ever-finer offerings should not mean adding complexity – for the consumer or the operator.

This is why frontrunners have deconstructed their traditional subscription packages and remodeled them into cleverly segmented offerings which give consumers simple choices and increase revenue and loyalty



Unboxing – deconstructing packages and rebuilding cleverly segmented offerings that boost revenue and loyalty

over time. The balance of data allowance, connection speed, number of devices and scope of applications can be adjusted to whatever makes most sense to the customer.

Sophisticated segmentation

Frontrunners are using increasingly sophisticated levels of segmentation to meet the increasingly sophisticated needs of mobile users. They are going beyond traditional price plans to introduce smart tiering, value add-ons, shared data plans and mobile broadband identities.

Through **smart tiering** frontrunner operators offer their customers a choice of bundles at different price-points, varied in a number of dimensions (such as additional services, time, volume, devices and speed). As the mobile market evolves, pricing is increasingly used as a tool to manage and monetize mobile data by adapting to changing usage patterns and moving away from ‘all you can eat’ data bundles.

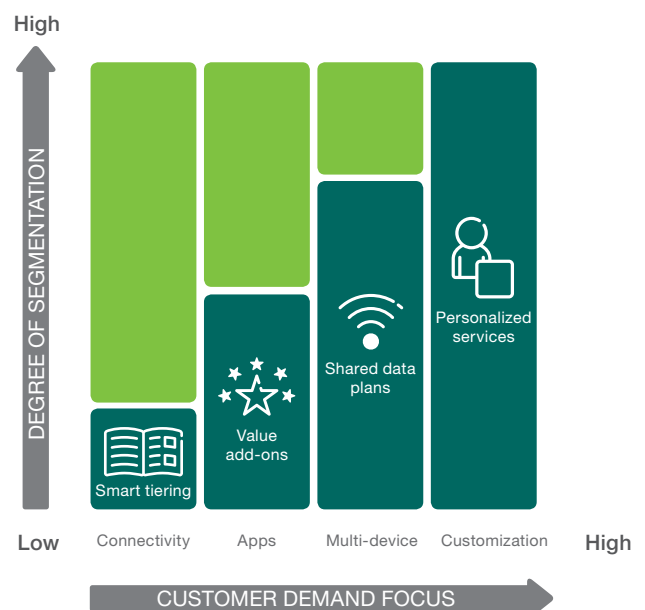
Smart tiering can be used to encourage customers to trade up to the next level, especially if the extra value is available for only a small price increase. Often the potentially high value gained by users comes at a low marginal cost for the operator.

Frontrunners use **value add-ons** as a way to offer valuable additional features or enhanced performance in ways that will appeal to specific customer groups, increasing ARPU in the process. These targeted add-ons could be content such as newspapers, market data, books, music or video, or services such as cloud storage, video calling or parental controls. By offering users flexibility in their selection of services, and when they can opt out, frontrunners reduce potential barriers to adoption.

By shifting the revenue focus away from mobile access on to devices, **shared data plans** encourage users to

connect more devices – tablets, laptops, dongles and mobile hotspots – and expand their mobile broadband experience. Frontrunners make it easy and cost-effective for users or households to include multiple devices in their plans. They are also introducing additional services that enhance the shared data offer and experience; for example, enabling call switching between devices and ‘one number’ access to all devices in the plan.

Frontrunners have created different **mobile broadband identities** as a way of personalizing services through aspirational branding that customers can identify with. This more sophisticated segmentation recognizes that customers not only have different habits and needs, but also see themselves differently from others. People are attracted by an offering that appears to be specifically made for them.



ECOSYSTEMATIC – OPEN-ENDED INNOVATION

While today's increasingly interconnected world brings complexity, it is also brings a multitude of emerging opportunities for those who are ready to grab them. Operators have a unique set of assets which can be put to work in new ways to ensure mobility is at the center of value in this new environment.

Instead of existing in isolation, operators have an opportunity to become the focal point of what is a burgeoning ecosystem, and join forces with third parties to drive mobile broadband innovation.

In effect, frontrunners have turned themselves into open 'platforms' for value creation, systematically inviting third-party brands to create synergetic experiences and business models.

However, it's not enough simply to bundle services together. Frontrunners innovate by adding layers of service and integration to augment user value, based on their greatest assets: high-performance connectivity, close customer relationships and high levels of trust.

The operators who have profited most from this approach have opened up to adjacent industries and captured emerging opportunities through collaboration and increased agility in ways that minimize risk and maximize service reach.

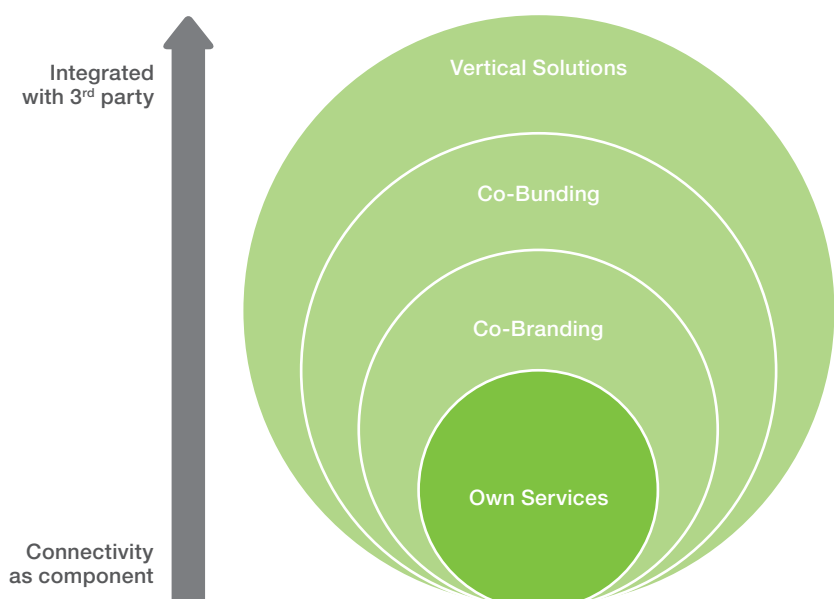
Three ways to leverage the ecosystem

Frontrunner operators have been able to leverage the new ecosystem in three key ways (as shown in the diagram below). How best to address each customer segment depends on the level of business offer diversity, and the depth of technical integration and business relationship required.

For consumer segments, there is generally no need for operators to 'reinvent the wheel' and co-branding and co-bundling with

established 'killer' third parties, perhaps on an exclusive basis, is the smartest way to create attractive, segmented packages with tailored connectivity. The operator provides the connectivity and owns the customer relationship. By tapping into the exploding use of content and applications via mobile broadband, operators are able to access new revenue streams and increase appeal. Partnering in this way speeds up market entry and reduces risk through the use of market-tested offerings.

The multiple ways of Ecosystematic



Ecosystematic – bundling offerings with third-party brands to deliver a synergetic experience, with open platforms for value creation based on customer relations as assets

When it comes to the enterprise segment, there is more of a need for operators to develop and integrate with third-party offerings, such as well-recognized, credible cloud services, to create attractive 'bundle-to-business' offerings. This expands the range of services operators offer to enterprise clients, helping to both attract new customers and encouraging existing ones to upgrade. Partnering in this way reduces the up-front investment required.

Finally, for particular vertical markets and specialist segments, operators have an opportunity to leverage partners to create highly targeted, value-adding vertical offers which require greater levels of integration and relationship building. Connectivity sits at the heart of these solutions, but a variety of other elements can be bundled in, including cloud software and storage services, content provision and security.



CO-PARTNERING – VISIONARY COLLABORATION

Staying on top of your game in mobile broadband requires teamwork: not just throughout the operator organization, but also with key partners. A short-term, cost-focused procurement approach commoditizes technology, diverts energy to negotiations rather than solution creation, and ultimately fails to deliver competitive advantage.

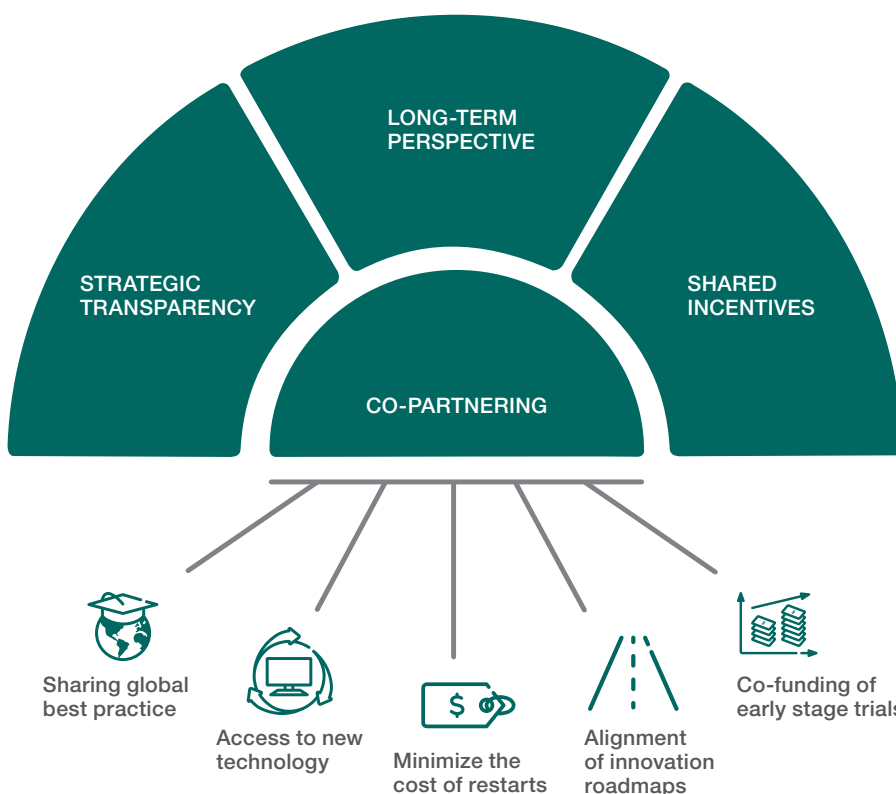
This is why frontrunners keep their technology partners close and collaborate with them intelligently

– gaining early access to new technology before it goes mainstream, sharing global insights, incentives and roadmaps, and minimizing the cost of restarts in the process.

In these partnerships, exclusivity is not the point; it's transparency and foresight that count. The aim is to create a 'we're in this together' culture that inspires bold moves towards a common vision ... and shares in the rewards.

The three pillars of co-partnering, strategic transparency, long-term perspective and shared incentives are underpinned by five key attributes:

- **Sharing global best practice** – drawing on the combined experience and expertise of both parties by sharing and collectively generating best practice at a global level, for example through discussion forums and joint research.
- **Access to new technology** – taking a long-term perspective and aligning incentives for both parties to jointly bring new technology to market ahead of the competition, helping to build the operator's reputation as a technology leader.
- **Minimize the cost of restarts** – maintaining a long-term, closely aligned partnership enables both parties to avoid the costs inherent in moving to new providers. It removes the need to replicate complex customized technologies and services, and to establish new working relationships. Both sides are free to adapt technology and service arrangements that are mutually beneficial.



Co-partnering – working collaboratively with partners, empowered by shared incentives, insights and roadmaps, with a ‘we’re in this together’ mentality

- Alignment of innovation roadmaps – building partnerships that share and align innovation roadmaps to identify and realize synergies and opportunities from combined efforts. This helps both parties plan for the future with more certainty.
- Co-funding of early stage trials – collaborating to reduce the risk of investing in new technologies, where the result is likely to be of mutual benefit, by sharing research and development costs and enabling the scope of the trial to be broadened.

By working across all six Growth Codes, frontrunner operators have led the way in proving how rapid growth in mobile data can be turned into sustainable, profitable, revenue growth. They have employed bold, visionary and explorative mobile broadband strategies, underlined by superior network performance, in order to stand out from the competition.

We believe that the whole industry can learn and be inspired by these pioneers, and apply the six Growth Codes to their businesses to deliver profitable growth from mobile broadband. Let us together explore your codes.



Ericsson is a world-leading provider of telecommunications equipment and services to mobile and fixed network operators. Over 1,000 networks in more than 180 countries use our network equipment, and more than 40 percent of the world's mobile traffic passes through Ericsson networks.

We are one of the few companies worldwide that can offer end-to-end solutions for all major mobile communication standards. Our networks, telecom services and multimedia solutions make it easier for people, across the world, to communicate.

And as communication changes the way we live and work, Ericsson is playing a key role in this evolution. Using innovation to empower people, business and society, we are working towards the Networked Society, in which everything that can benefit from a connection will have one.

Our vision is to be the prime driver in an all-communicating world.