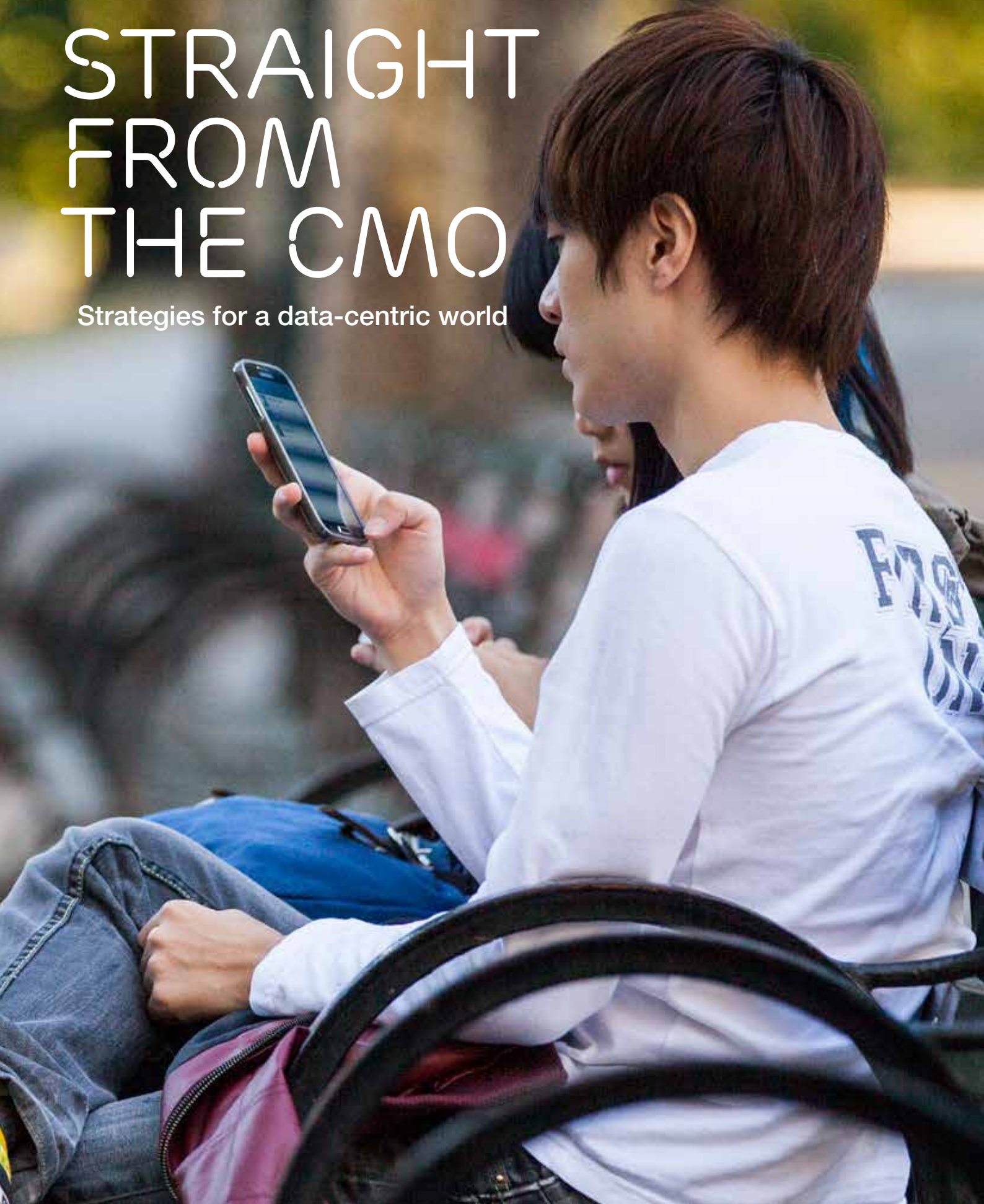




ERICSSON

STRAIGHT FROM THE CMO

Strategies for a data-centric world



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ABOUT THE STUDY

Smartphones are everywhere. They are well on the way to becoming a part of daily life – the key to countless services and creative ways of connecting with each other.



In the eyes of the consumer, there is a change in their perceived value of telecommunications services. Look around you and count how many people are interacting with their device and its applications.

While this phenomenon translates into endless opportunities for telecom operators, it also presents major challenges.

In the resulting telecom industry shift to a data-centric business model, operators' strategy and marketing functions are showing and leading the way.

What is their perspective on this transformation? What are the main challenges they face? What kind of strategies are working for them? What would they like to do? In 2013, Ericsson conducted a study of 19 operators in

17 countries spanning the globe – in markets of high, medium and low data maturity. The Straight from the CMO study examined how product, marketing and strategy executives view their challenges and what strategies they are adopting.

In face-to-face interviews, executives discussed their market situation and their strategy in depth.

The conversations started with the question:

“What are the most important challenges for you in growing your business in the next three years and what strategies do you have to address these challenges?” In the pages that follow, you can read some of the highlights of these interviews.

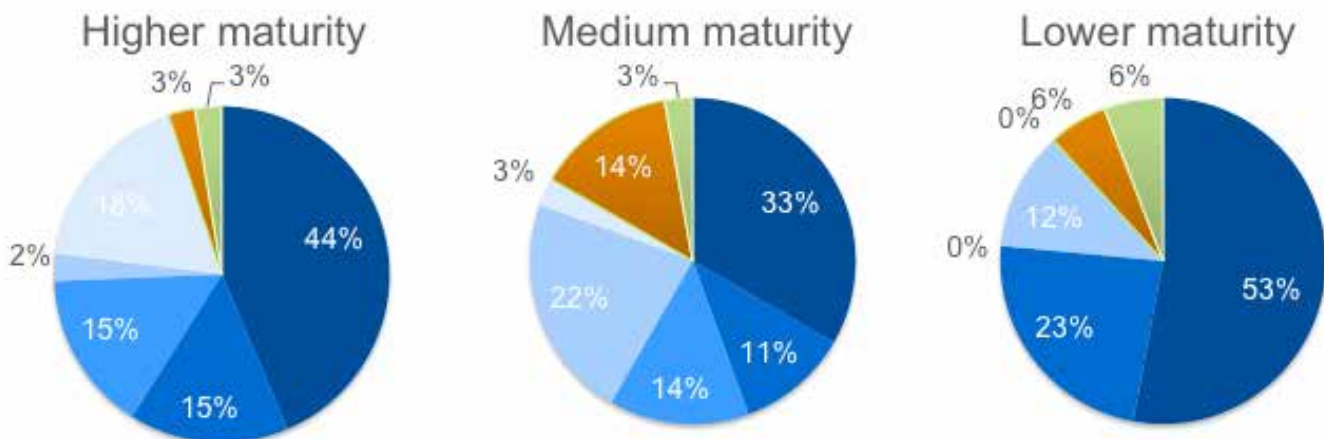
MATURITY LEVELS

Some aspects of monetizing mobile broadband matter more – or less – to an operator, depending on their respective markets’ maturity level, or smartphone penetration. It is for this reason that we sought operators in markets with all levels of maturity: low, medium and high.

Operators in low- and medium-developed markets, for example, express more concern about the changing value proposition of mobile data than their counterparts in a more mature market. In the most mature markets, operators stress the need for innovation, the changing nature of competition and the entrance of new players.

Based on what our interviewees told us, we compiled a list of the top seven challenges and ranked them in order of overall importance.

1. Sustain growth and protect profitability in a data-centric world.
2. Create excellent customer experience as a key differentiator.
3. Respond to the changing nature of competition and new players.
4. Redefine and communicate the data service value proposition.
5. Foster innovation for long-term growth.
6. Realign organization and culture to be successful.
7. The changing role of external stakeholders in a data-centric world.



■ Profitable Growth
 ■ Customer Experience
 ■ Changing competition
 ■ Value proposition
 ■ Innovation
 ■ Organization & culture
 ■ External takeholders

- > Profitable growth seen as a challenge in all markets;
- > Medium developed markets more concerned about changing value proposition;
- > Developed markets see changing nature of competition & new players as more prominent concern;
- > Innovation for long term growth most mentioned in developed markets.

GROWING PROFITABLY

In their assessment of the mobile data opportunity, our interviewees reveal a number of interesting similarities and differences; but one thing they all share is anxiety about the future of voice and data revenues.

Data traffic, usage and devices are growing fast, which drives capacity improvements. And yet, upgrades continue even though subscribers may not fully appreciate – or understand – how they benefit from the capacity and efficiency these investments bring. The speed of change exposes bigger operators to disruptive price plays by contenders.

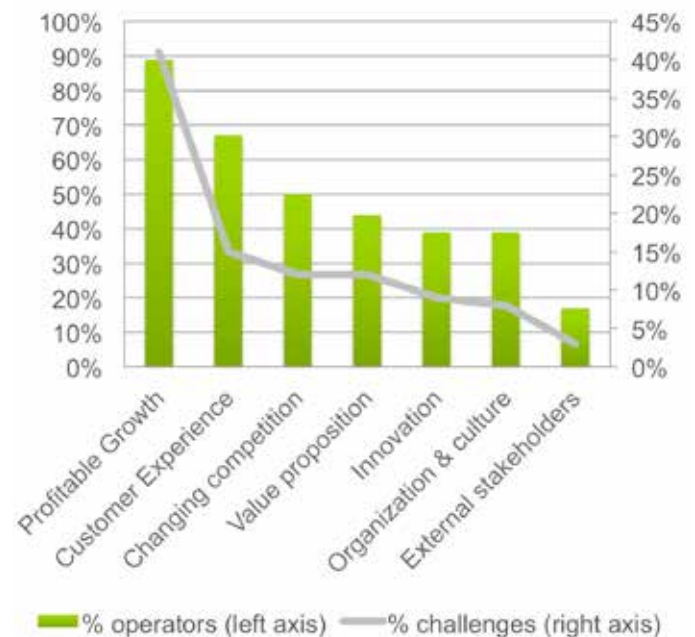
The fear of price wars lingers in most markets. Some of our respondents say that price plays have been dealt with by resistance to playing along and instead focusing on value. “You have to break it,” says one operator of a price meltdown in his medium-maturity market. “What we are trying to do actually is not to go to their level of price reduction. We are trying to inject a lot of value-added services and customer experiences just to mitigate the gap.”

In order to balance traffic, revenue and investments, operators must eventually come to terms with the fact that in the near future more than half of the bytes flowing through their networks will be devoted to video. But evidence suggests that when data use grows, the providers who historically kept their networks up-to-date experienced a better capex-to-revenue balance than those who underinvest. A superior performing network results in greater customer satisfaction, lower churn, and sets the stage for successful value-added services such as video and music.

Mobile broadband is largely viewed as a ripe opportunity for growing revenue. Getting devices on the network is seen as a top priority, while in developing markets it can actually present a challenge. Our respondents report that users in those markets often purchase smartphones with no data plan attached. With an eye on the lower spending segments, operators are moving in on the distribution channels for devices and putting forward offerings with restrictions in time, speed and data volume.

Educating users about the value of higher speeds remains a challenge across the board. As one operator puts it, the trick is to make data as difficult to miss as voice.

Challenges mentioned in interviews



“Being voice-centric changing to data-centric means that there’s a whole change in culture and the business model, but I think that there is only one big challenge and it is the investment that we need to make up for.”

Head of Marketing, Latin America



I am not the one to attract the people to use data. It's the services."

Marketing Director, Central Europe

REDEFINING AND COMMUNICATING DATA SERVICE VALUE

It's widely understood that the value proposition for data service is different to voice. But our study suggests that it is quite another thing to connect the data service proposition with the consumer's perception of value.

Failure to communicate this value leads one dangerously close to the commodity trap, and a price war becomes unavoidable. In low- to medium-maturity markets, where mobile connectivity remains somewhat of a novelty to many people, the value proposition issue looms larger.

Operators are focusing on apps and bundling devices with service while placing more emphasis on explaining the benefits of mobile data connectivity. Complex data offerings require a level of trustworthiness and transparency that operators admittedly have not cultivated. There's also more pressure from the public for transparency in telecommunications. Our interviewees explain how they are exploring ways to build this through such channels as on-device feedback apps and social networks.

On this point, the need for more consumer-centric thinking is raised. One interviewee says: **"Data is the future, and if we are not consumer centric, we are not going to be a part of the future with the developments that we want."**

Some have found success in stepping up consumer engagement already at point-of-sale, and through customer support functions, where the messages emphasize utility of the services and how they make life more productive, simpler and more fun.

Selling technology, rather than utility, is seen as a tougher pitch since it's hard to translate such features as higher speed and lower latency into consumer value. Our interviewees mostly agree that consumers generally don't understand the deeper technological aspects behind using a smartphone, so reducing the proposition to incomprehensible values of megabytes or gigabytes can be counterproductive. It actually opens the door for others to take the more effective position of marketing value on top of what then could become a commoditized product.

"It's not only a matter of building these kind of services, but of building a new positioning for our company... we need time but I don't know that we will have time, because every week or 10 days, our competitors are reducing prices."

CMO, Southern Europe

Segmenting the market for more effective pricing and packaging is seen as a critical step toward value differentiation. Real-time usage statistics are proving useful in understanding customer preference and support more targeted pricing models.

CUSTOMER EXPERIENCE AS KEY DIFFERENTIATOR

The consumer's experience is seen across all markets as a great opportunity for operators to assert their unique qualities. Value pricing depends on this differentiation. Consumer experience, being human, is broader than simply network performance. "I think it is our job to facilitate the consumer journey into the data world," says one operator.

Consistency of experience is key, and has to be supported by verifiable network performance. That, our interviewees suggest, represents a challenge. Some of the ways our interviewees have addressed that challenge are to enlist greater involvement of network engineers, invest in quality and to offer consumers preinstalled smart apps.

Interviewees speak with admiration about how businesses such as Apple and Zappos make the most of the sales and support processes, from end-to-end. "They don't try to sell you what you don't need," says one interviewee.

Focusing on the consumer experience, and expanding it to include the entire lifecycle, requires understanding the needs of the consumer and crafting proposals and products that meet them. It also means undergoing internal transformation, implementing structures for Customer Experience Management across the organization. That, one operator explains, means commitment and long-term investment in one's organization, with the understanding that payback times will be long.

"There is a disconnection between our data pitch and what our customers will get, and what they are really willing to get."

CMO, Latin America



I think that it is my job to make it warm, to make it friendly, to make it simple, because I don't think that apps will do it; I don't think that a smartphone will do it."

CMO, Latin America





Because our market is 100 percent penetrated on smartphones, it has become even more important that we figure out a way to differentiate ourselves in the market.”

CMO, North America



INNOVATING FOR LONG-TERM GROWTH

Beyond redefining value propositions and creating consumer experience, operators will have to become truly innovative to sustain long-term profitable growth and differentiation in a market saturated by smartphones.

But our respondents acknowledge that the telecom industry has not cultivated a strong record of innovation. From their perspective, innovation involves large, risky investments with partners.

Yet if nothing is done, apps and devices will continue to determine the operator's fate.

Some operators are finding success with in-house development, as well as with open innovation models, which offer external players a pathway to the market for their services. **"We will build a platform whereby young people can sell diverse virtual goods such as content and software to the global market without bearing market entry costs,"** says one interviewee.

Innovation on the user interface appears to have a positive impact. Other operators see brand repositioning as a critical step toward shaping the consumer's perception of other offerings beyond access, such as TV or music. **"It's not only a matter of building these kinds of services, but it's also a matter of building a new positioning for our company,"** says one.

"This industry hasn't been innovative, I think in many, many years... the biggest changes in this industry have been caused by external factors such as smartphones and applications. So when is this industry going to assume the lead when it comes to innovation? I think we are far away from that. We are just victims of innovation."

CMO, Latin America

RESPONDING TO MARKET CHANGES

The data-centric business is one where the operator is no longer challenged solely by its telecom counterparts. The revenue growth opportunities here are up for grabs, and operators find themselves simultaneously challenged by device manufacturers, OTT services and new business models and technology schemes.

Device manufacturers are seen as exercising great influence over the introduction of new technologies, such as Near Field Communications (NFC) for mobile wallet. They also distort competition with exclusive deals for popular devices, our respondents say. Some operators have pushed back successfully with diversified device offers, including more brands and price points. Creative subsidies and bundling of services with content also appear to be working.

Operators say OTT and content providers gain the upper hand as consumers perceive value in what the smartphone enables them to do. As OTT players fill the network up with more traffic, offering their users value for nothing in return, the question is raised among our interviewees – whether to respond with increased or less collaboration. A variety of options cross the table here, such as: offering one’s own content and services; bundling OTT content with connectivity; and managing or optimizing OTT traffic.

One argument against increased collaboration is that the cloud lowers entry barriers further, opening the way for more players and therefore reducing OTT bargaining power.

Those in favor contend that more powerful players are emerging in OTT, thanks to consolidation. Also, concerns are raised about net neutrality, and operators express wariness about how regulators may interpret it. Spectrum needs also are shaping the competition. Operators need more capacity for growth, as mobile data traffic grows. “Speed and latency has become increasingly important,” says one.

Some have taken to using unlicensed (Wi-Fi) spectrum to complement the network; deploying technology that maximizes efficient use of spectrum; or working with regulators toward proper spectrum policies.

“I am counting on OTT to come to me and say, ‘Why don’t I put it on your bill and you will take a cut and everybody will be happy?’”

CMO, Central Europe

ENGAGING WITH EXTERNAL STAKEHOLDERS



Regulators have the potential to be friend or foe to the operator. Managing the impact of new regulations and involving the government in data business development are two primary challenges our respondents identify.

But in a data-centric world, operators have to be more responsive to a widening field of external stakeholders. There is general agreement that better engagement and communications is needed with such stakeholders as education, public services and consumer interest groups.

Operators point to the importance of cultivating transparency and trust. Technology has shattered information asymmetry. Today's consumer groups, governments and enterprises have access to much more information than before, prompting operators to engage their stakeholders in a different way.

One operator defined its stakeholders rather widely, including municipalities, press, consumer rights groups, and those people living in close proximity to its radio network towers. Some operators are discovering the value of new communication channels, such as social media.

“Operators are concerned that if they make a wrong move, they would have regulators step heavier... so they want to move gingerly.”

Head of Marketing, North America

RE-ALIGNING ORGANIZATION AND CULTURE TO BE SUCCESSFUL

While we find many commonalities, which are expressed in our study, operators are hardly equal in the market. There is a certain group that outperforms its peers worldwide. In comparison to most other operators, they are clearly in the lead. They're turning data growth into strong revenue growth. We call these operators the "Frontrunners," and in our analysis, we have identified a set of Six Codes to Growth that set them apart from their competition.







Respondents say the majority of people in our industry are still living in a voice world. Nevertheless, there's a need to speed up decision-making, become more agile, and to close the loop between finance, technology, marketing and IT. And some point to collaboration with vendors, such as handset manufacturers, to retrain sales people.

"From a voice selling team to a data selling team, you need a different level of comfort, a different level of training."

CMO, Africa

"We need to educate our own staff to sell and support data products. And then we have to enable them with the systems to understand what is going on in the network and act upon that – proactively if possible."

CMO, South East Asia

 <p>GAP MINDING – Visionary Investing – Betting on large gaps of experience, rather than small gaps of price</p>	 <p>STREETWISE METRICS – Experience-centric KPIs – Optimize user experience rather than technical metrics</p>	 <p>SHOWCASING – Quality-led Marketing – Use superior performance as a differentiator with creative marketing</p>
 <p>CO-PARTNERING – Visionary Collaboration – Develop strategic partnerships to share insights, incentives and roadmaps</p>	 <p>ECOSYSTEMATIC – Open-ended Innovation – Bundle offers with third party brands to deliver new value and experiences</p>	 <p>UNBOXING – Redefine Subscription – Blow the packages to rebuild segmented offerings</p>



We are a world leader in the rapidly-changing environment of communications technology – providing equipment, software and services to mobile and fixed network operators all over the globe.

Some 40 percent of global mobile traffic runs through networks we have supplied, and we manage networks that serve more than 1 billion subscribers globally every day. With more than 35,000 granted patents, we have one of the industry's strongest patent portfolios.

Our vision is to be the prime driver in an all-communicating world. By using innovation to empower people, business and society, we are enabling the Networked Society, in which everything that can be connected is connected.

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