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CONSUMERLAB

EXPERIENCE SHAPES MOBILE CUSTOMER LOYALTY

Understanding the impact of connectivity experience on smartphone user's loyalty to their operator

An Ericsson Consumer and Industry Insight Report
August 2016

CONTENTS

METHODOLOGY

This study included both qualitative and quantitative research, as well as on-device measurements.

Qualitative research: A total of 30 smartphone users from South Korea, the US and the UK participated in in-depth, face-to-face interviews.

Quantitative research: In February 2016, 1,000 smartphone users in 14 markets globally participated in an online survey (except India, in which 2,000 users participated). A total of 15,000 iPhone and Android smartphone users aged between 18 and 69 took part in the survey across Brazil, China, Germany, India, Indonesia, Ireland, Oman, Poland, Russia, Sweden, South Korea, Ukraine, the US, and the UK. All smartphone users surveyed used apps over mobile broadband at least weekly.

The views expressed in the survey are representative of 650 million smartphone users across 14 markets.

On-device measurements: On-device meter panels were used on 11,500 Android smartphones in South Korea and the US to record every interaction users had with their smartphones (data collected by Nielsen in October 2015).

THE VOICE OF THE CONSUMER

Ericsson ConsumerLab has more than 20 years' experience studying people's behaviors and values, including the way they act and think about ICT products and services. Ericsson ConsumerLab provides unique insights on market and consumer trends.

Ericsson ConsumerLab gains its knowledge through a global consumer research program based on interviews with 100,000 individuals each year, in more than 40 countries – statistically representing the views of 1.1 billion people.

Both quantitative and qualitative methods are used, and hundreds of hours are spent with consumers from different cultures. Ericsson ConsumerLab has representatives throughout Ericsson's global presence, developing an international understanding of the ICT market and business models.

All reports can be found at: www.ericsson.com/consumerlab

THE CHANGING FACE OF CUSTOMER LOYALTY

Network performance plays a crucial role in driving smartphone user loyalty towards operators. However, as apps continue to evolve and increasingly incorporate video, there's been a shift in both usage behavior and a rise in expectations, leading to changing consumer loyalty.

Loyalty is a notoriously difficult metric to measure within the telecommunications industry, yet it is essential in understanding consumers' reasons for choosing – or staying with – a particular operator. Many businesses rely on the Net Promoter Score (NPS), a simple metric to gauge consumer satisfaction and loyalty, based on whether or not consumers would recommend them. NPS may be helpful at a high level but it tells only a small part of the story. When consumers consider using a brand's services or products, they often compare the alternatives available. They may highly recommend one operator, but be equally as positive about many others as well. This illustrates the need to understand consumer loyalty in the full competitive context.

This report looks at how connectivity experience impacts a smartphone user's perception and loyalty to their operator.

KEY FINDINGS

1. No reduction in smartphone issues since 2013

- While cellular networks have improved over time, smartphone users are still facing issues as frequently as they did in 2013. Among smartphone users globally, 2 in 5 face more than 11 issues at least weekly
- Smartphone users who face a high number of issues, i.e. 11+ per week, are approximately twice as likely to contemplate switching operators compared with those who don't face issues

2. New emerging video app usage is causing smartphone issues

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- One third of South Korean smartphone users from the survey say they watch live streamed videos broadcasted by others; in the US, 14 percent have started to use live streaming apps
- Video-centric smartphone app users face more issues than others. New video streaming behavior is placing different demands on a network's expected performance

3. As smartphone usage evolves, users have devised their own mental indices to judge connectivity experience

- Web page loading times, buffering issues on video streaming apps and social media picture upload delays are all factors that consumers consider when judging their experience
- Millennials expect operators to communicate how social and video streaming apps perform, rather than just talk about network coverage

4. Net Promoter Scores are no longer enough to gauge smartphone user loyalty

- One fifth of smartphone users who are promoters of their current operators, despite being satisfied and willing to recommend them, do not necessarily prefer them over other operators. They are also twice as likely to switch compared to those who prefer their operator

5. Loyalty motives and sources of dissatisfaction differ among smartphone users

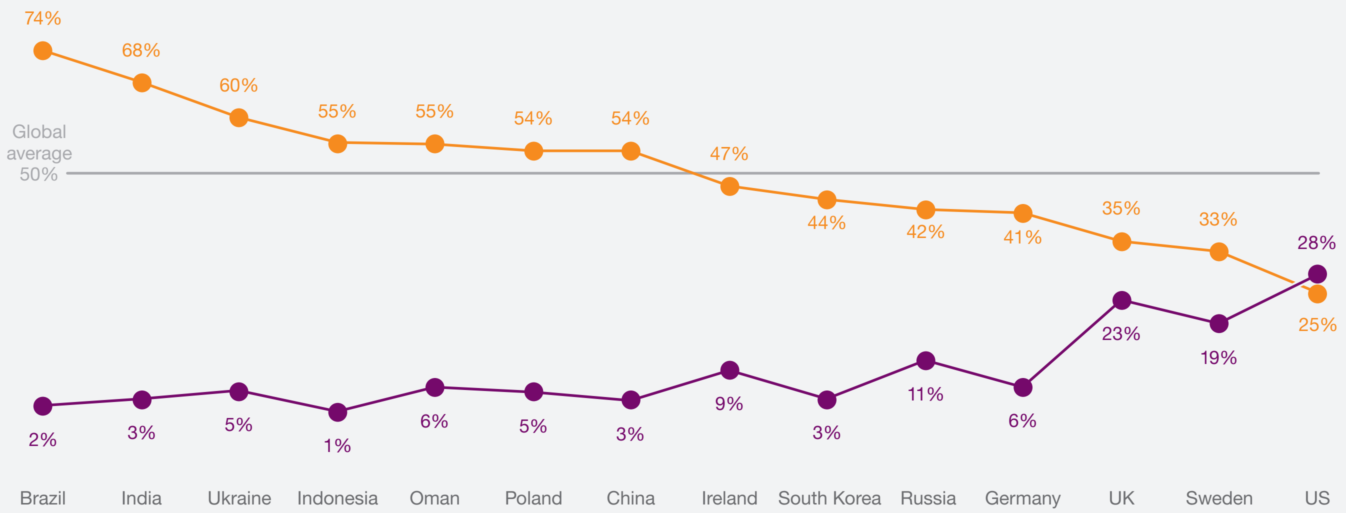
- Smartphone users exhibit six different loyalty attitudes based on their underlying motives, tendency to recommend and preference for their operator
- Mobile broadband experience emerges as the principal driver of smartphone user loyalty towards operators, however it's also a source of dissatisfaction among 73 percent of users globally

STATE OF CONNECTIVITY EXPERIENCE

Figure 1: Percentage of smartphone users facing issues

Face at least one issue daily
Never face issues

On average globally, half of all smartphone users surveyed face at least one issue daily



Source: Ericsson ConsumerLab, Experience shapes mobile customer loyalty, 2016
Base: Smartphone users across 14 markets globally using apps weekly over mobile broadband

Over time, cellular networks have improved, offering higher mobile broadband speeds and coverage. According to the Ericsson Mobility Report, at the end of 2013, mobile broadband networks with 3G technology covered approximately 60 percent of the world's population, while 4G LTE coverage was 20 percent. In 2015, this increased to 75 percent and 50 percent respectively. In order to understand whether this progress has also led to an improvement in perception of connectivity experience (and in turn loyalty towards operators) one needs to look at how smartphone users experience connectivity today.

A comparison with the 2013 Ericsson ConsumerLab study titled "Keeping smartphone users loyal", suggests there is no reduction in the frequency of issues faced by smartphone users in the 8 markets surveyed in 2013 and 2016 (i.e. Brazil, China, Indonesia, Russia, South Korea, Sweden, the US and the UK).

2 in every 5 smartphone users claim they face more than 11 issues at least weekly, with video streaming glitches now more common

Half of all smartphone users surveyed still face at least 1 issue daily across the 14 markets surveyed in 2016; however, experiences vary between markets. For example, in Brazil, 74 percent report facing issues daily, compared to 25 percent in the US.

Overall, 2 in 5 smartphone users claim they face more than 11 issues at least weekly. Issues range from lack of signal or coverage, slow loading web pages and video content on streaming apps to slow upload and download of content on social media websites. However, when compared to 2013, the issues faced by smartphone users have changed. In 2013, slow and failed content upload/download was the most common issue, while today video streaming issues are more common.

Globally, 26 percent of smartphone users say they face video streaming issues daily, increasing to over one third in markets like Brazil, India and Indonesia. While mobile broadband coverage has improved, the ever-evolving nature of apps and new video streaming behavior is placing different demands on a network's expected performance.

KEEPING UP WITH VIDEO USAGE

The shift towards live video streaming

Over the past two years, many new mobile video apps have been launched, and existing apps have been enriched with new features, such as live video streaming. While live streaming has been available for some time in markets like South Korea and China, the uptake of new apps like Periscope and Meerkat have increased this behavior in other markets, such as the US. The possibility to watch live broadcasts of user generated content as well as professional content on existing apps (like Facebook) has also increased the appeal of live streaming. In South Korea, one in three smartphone users surveyed use live video streaming apps, while in the US, 14 percent have started to use them.

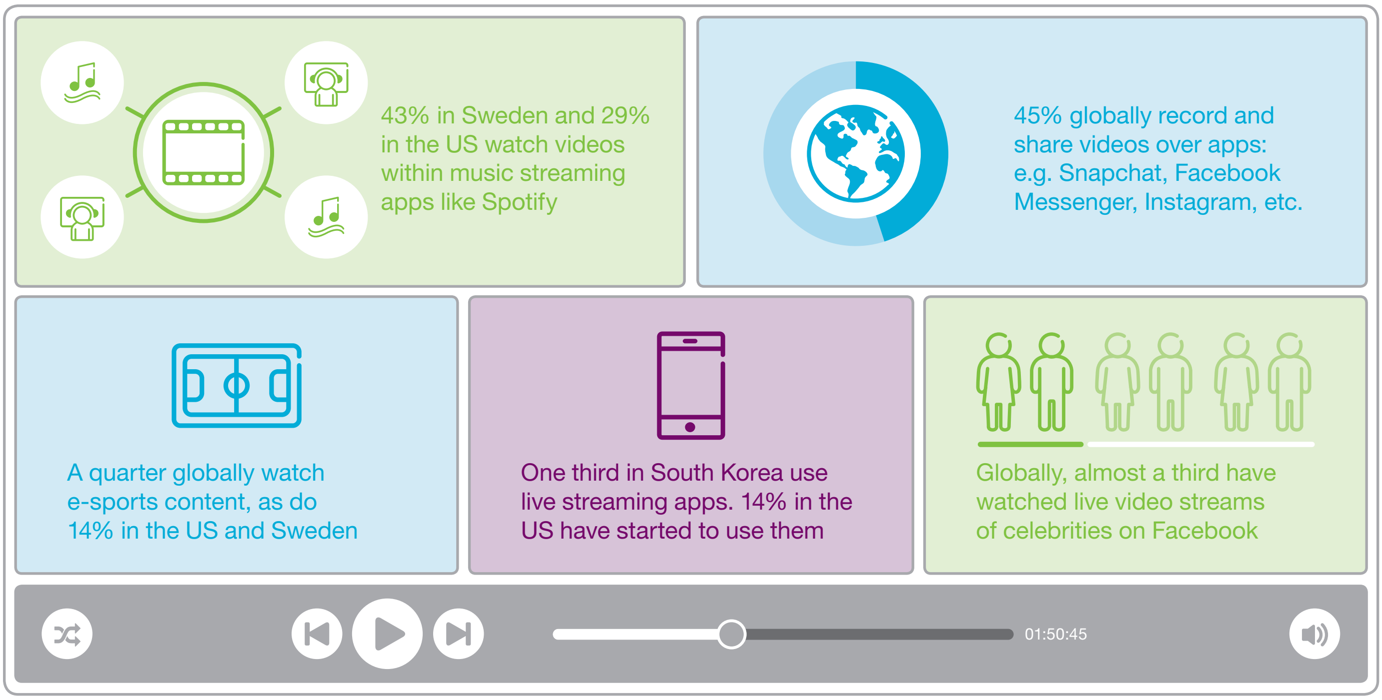
To gain a better understanding of users' video streaming habits, Ericsson ConsumerLab conducted on-device measurement analysis among a panel of smartphone users in South Korea and the US. The results indicated that South Korean users watch 10 hours of live streaming video a month (using AfreecaTV – a popular live streaming app) compared to 1 hour 43 minutes in the US (via Periscope – another popular app). Almost a third of smartphone users across 14 markets in the online survey say they have watched live video streams of celebrities on Facebook, while around a quarter of smartphone users watch video game streaming and e-sports competitions.

On average, smartphone users in South Korea who use live video streaming apps watch 10 hours of video a month, compared to 1 hour 43 minutes in the US

Evolving demands raise user expectations

As consumers not only download and watch videos but also increasingly upload and share video content from their mobile devices, their expectations of mobile networks change. In markets such as the US, the UK, Sweden and South Korea, 1/10 smartphone users claim they use between 5/7 video-centric activities. Some of these include watching video podcasts on music streaming apps like Spotify, sharing videos on apps like Instagram and Snapchat, and streaming live video on social media platforms like Facebook. These early adopters of new video-centric app features are 8 times more likely to face a high number of issues (11 or more, at least weekly) and therefore seem more willing to invest in improving the experience, compared to those who do not use these new apps or features. This indicates that these users have high expectations of network performance.

Figure 2: The emerging video app behaviors of smartphone users



Source: Ericsson ConsumerLab, Experience shapes mobile customer loyalty, 2016
Base: Smartphone users who use certain apps across 14 markets using mobile broadband at least weekly

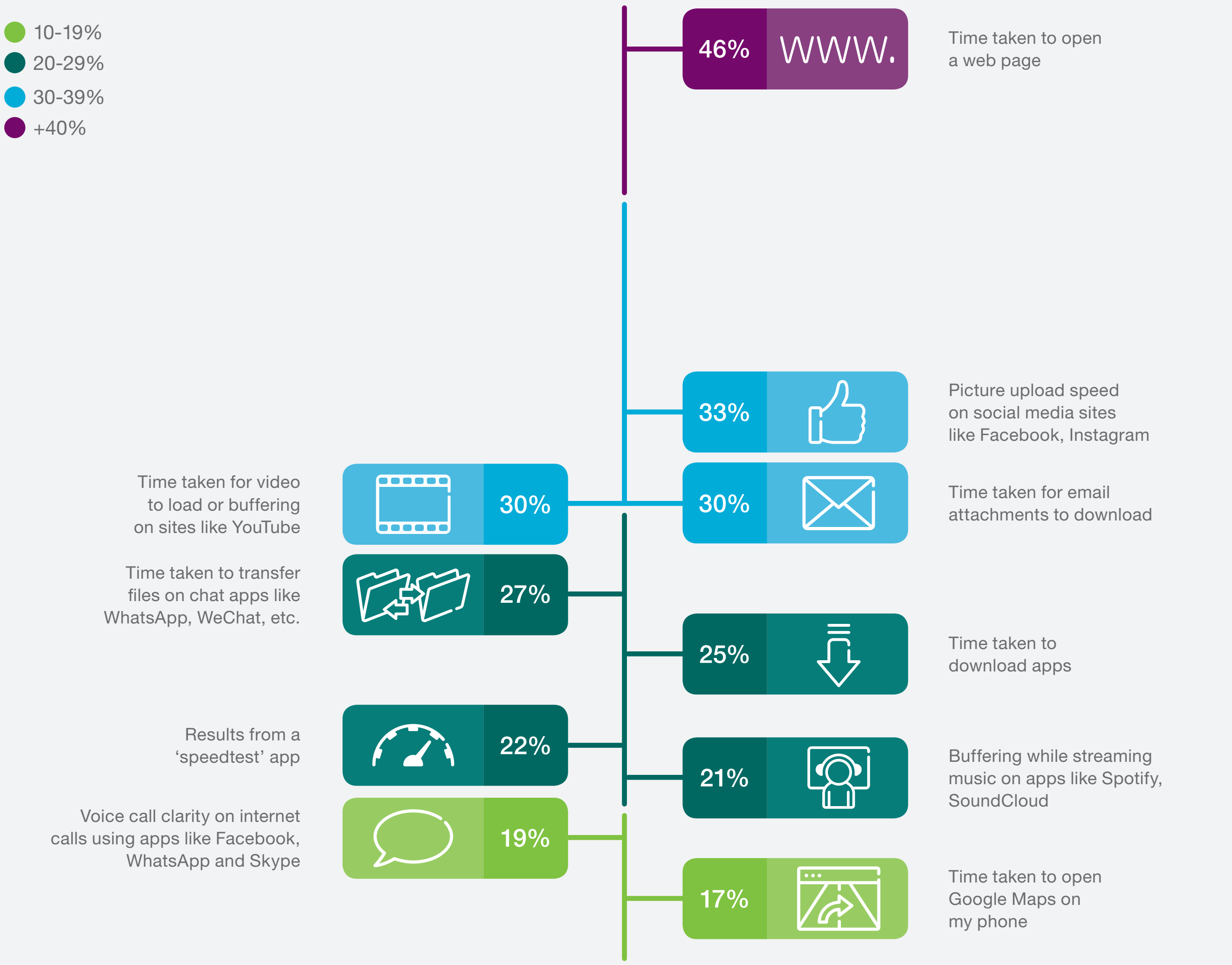
THE NEW MENTAL INDEX

Measuring network performance

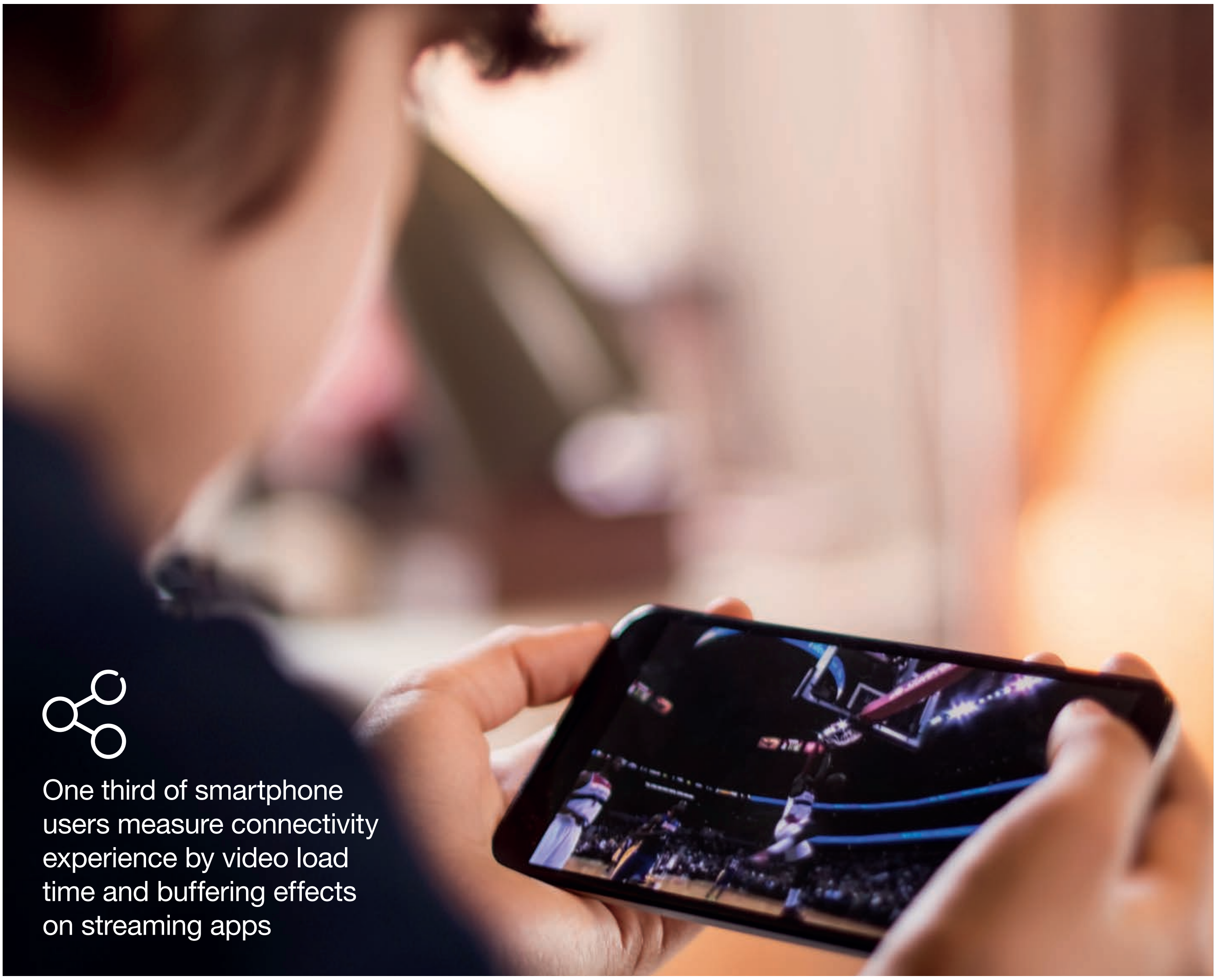
Evolving smartphone usage expectations have resulted in smartphone users evaluating their experience in new ways. Smartphone users have developed their own implicit mental index to measure mobile broadband performance from their operator. Globally, 86 percent say they use at least one of these new indices to judge connectivity experience. The top 3 mental indices developed by smartphone users across the 14 markets surveyed include: webpage load time, content upload time (e.g. pictures on social media sites) and video load times/ buffering effects on apps like YouTube. However, these indicators vary by market, demographic and type of smartphone usage. For example, live video streaming users are more likely to use video load times and buffering issues to build their perception of the network performance.

Millennials expect operators to communicate app experience rather than network coverage

Figure 3: Mental index to judge network performance



Source: Ericsson ConsumerLab, Experience shapes mobile customer loyalty, 2016
Base: Smartphone users across 14 markets globally using apps weekly over mobile broadband



Similarly, millennial smartphone users aged 18 to 24 use a greater number of indicators than other groups to build their perception of performance; 24 percent of this demographic apply more than 5 mental indicators, compared to just 13 percent of users aged 40+. Millennial smartphone users have high expectations on performance. In the UK for example 33 percent of millennial smartphone users say their expectations have been met on mobile broadband speed, coverage and reliability compared to 45 percent who say so among the 40 to 49 year olds.

The new metrics devised by millennial smartphone users mean operators can no longer restrict their focus to just offering superior network performance; they must also communicate it. Millennial users expect operators to communicate how well video streaming and social apps work on the network, rather than being informed about the extent and reach of their network coverage.

Figure 4: Ranking of most preferred communication messages that 18 to 24 year old smartphone users expect current operators to use

1. Your top social media apps (Facebook, Twitter etc.) load faster on our network
2. Your favorite video streaming apps (YouTube, Netflix etc.) load faster on our network
3. Share files faster over the instant messaging apps you use most
4. Upload videos faster over your favorite photo and video sharing apps like Snapchat etc.
5. Our network saves battery on smartphones
6. We have the best 3G and 4G coverage in your city
7. We offer crystal-clear HD voice calls on our network
8. We are investing more to make our network more reliable than ever before
9. Super quick call connection on our network so that voice calls connect much faster
10. Best indoor coverage compared to other operators

BEYOND NET PROMOTER SCORES

Inertia is not loyalty

When we refer to loyalty in this study, we take into consideration the recommendation, preference and intention to stay with their operators.

Connectvity issues impact on loyalty and the user's intention to stay with the mobile service operator. Those who face a high number of issues, i.e. 11+ per week, are roughly two times more likely to contemplate switching operators compared with those who don't. However, despite all the issues faced, most smartphone users still stay with their operator. This is mainly due to cost, time, difficulty or inconvenience involved in switching. Across the 14 markets surveyed only 5 percent said they would most likely switch operator in the next few months. Among the remaining 95 percent who plan to stay with their operator, one third say the reason they are still with their operator is that it's too much hassle to switch, or that they can't see any significant difference between operators' network quality and their offerings. This raises the question whether every retained smartphone user is loyal to the operator.

Recommendation is no longer enough

Evidently, smartphone users can stay with the same operator for years without feeling loyal towards them, proving that understanding customer loyalty is not straightforward and measuring loyalty with traditional NPS indexing isn't sufficient. Smartphone users take into account both the individual context (like changing needs) as well as the competitive context (such as attractive alternatives available) when deciding whether to stay with their operator. How they perceive their operators' overall performance determines the strength of the relationship, but may no longer be enough.

Smartphone users' 'preference' for their current operator offers further insight to this. Globally, 27 percent of smartphone users can be categorized as promoters or advocates based on the likelihood of recommending their operator to family and friends; however, one fifth – despite being satisfied and willing to recommend – do not necessarily prefer their operator over others. They are twice as likely to switch compared to those who do prefer their operators. Operators need to not only ensure they meet expectations of smartphone users to drive recommendation, but also encourage active preference.

One fifth of brand promoters – despite being satisfied and willing to recommend their operators – do not necessarily prefer them over others

Loyalty through performance

We can understand the most impactful areas for boosting smartphone user loyalty by breaking it down into separate factors. These factors not only drive recommendation but also preference for their current operator. From this, we can determine that across the 14 markets surveyed, mobile broadband experience is currently the principal driver behind smartphone users' loyalty to operators, followed by customer support. Mobile broadband experience is based on smartphone user satisfaction with many aspects, such as web page and video load time to buffering effects on streaming apps, as well as network coverage. For example, addressing mobile broadband experience has twice the impact on customer loyalty compared to improving initial purchase experience. It is also approximately three times more effective than increasing satisfaction with pricing and offerings.

Past Ericsson ConsumerLab studies also indicate that network performance and value for money are correlated. This suggests that improving network quality also increases the perceived value for money – without actually lowering tariffs.

The impact of driving operator loyalty with network performance-related aspects (like mobile broadband and voice calling experience) tends to vary by markets. In the US, voice calling and mobile broadband experience are equally important, while in South Korea, addressing mobile broadband has thrice the impact compared to voice experience.

In high growth markets, such as India and Brazil, mobile broadband experience is twice as important in driving smartphone user loyalty compared to voice experience. This is because users of smartphone and mobile broadband in these markets are younger and care less about voice call usage compared to mobile data.

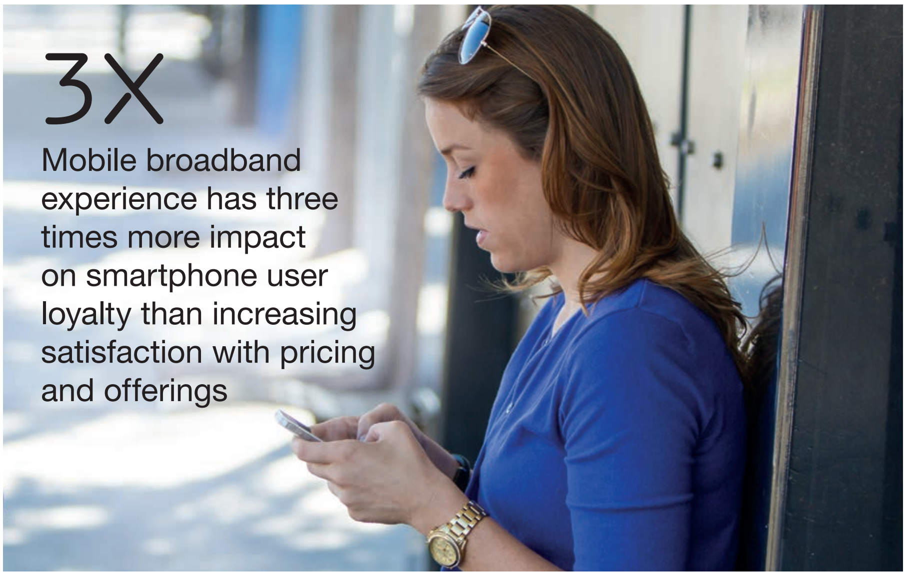
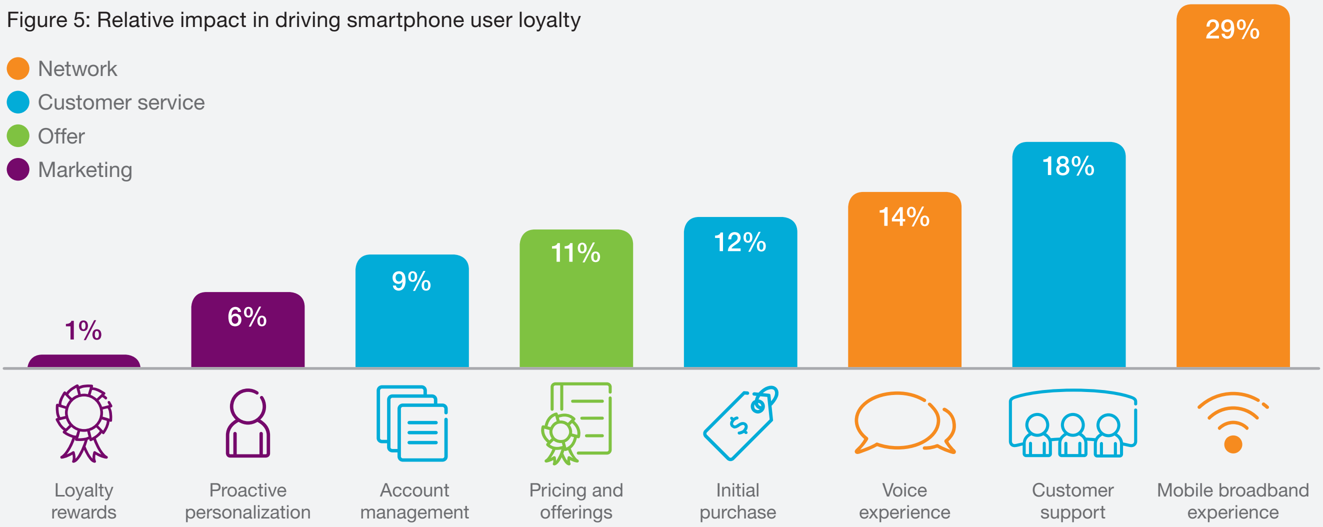


Figure 5: Relative impact in driving smartphone user loyalty



Analysis based on Structure Equation Modelling
Source: Ericsson ConsumerLab, Experience shapes mobile customer loyalty, 2016
Base: Smartphone users across 14 markets globally using apps weekly over mobile broadband

DIFFERENT LOYALTY MOTIVES

Different loyalty motives

Measuring consumer advocacy or recommendation divides consumers into three segments: Promoters, Passives and Detractors. However, based on varying levels of recommendation, preference and loyalty motives, we can see that smartphone users exhibit six different loyalty attitudes. We refer to these six groups as loyalty profiles. Whereas NPS is based exclusively on likeliness to recommend an operator, we have added two questions in our survey of smartphone users related to the reasons to stay with a current operator and operator preference.

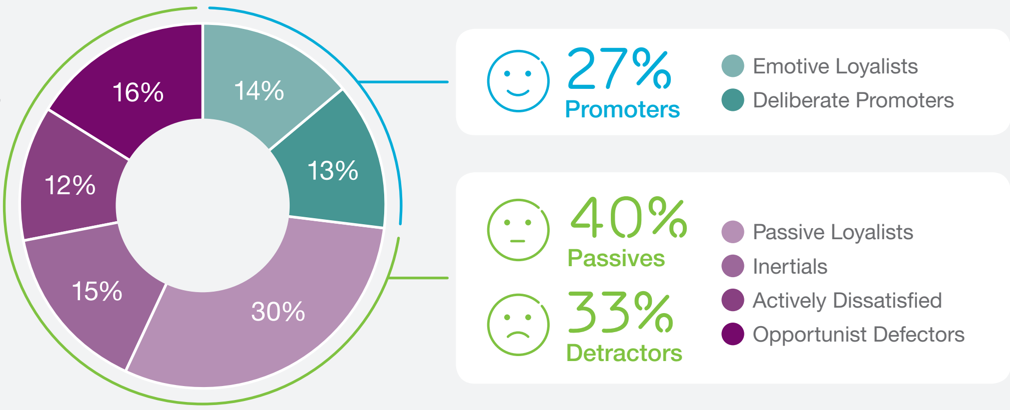
Not all Promoters are created equal – Promoters can be classified into two broad loyalty profiles: those who bind their loyalty to emotions and those who are more rational and pragmatic about their expectations. Passives and Detractors on the other hand can belong to any of the other four loyalty profiles, based on the level of preference towards an operator and underlying loyalty motives. Smartphone users migrate between these loyalty profiles based on their changing needs and experiences with the operator.

When operators use NPS and compare Promoters with Detractors across the 14 markets, the risk of switching operator increases fivefold. Using loyalty profiles instead, the difference between Emotive Loyalists and Actively Dissatisfied is 11 times as great. As such, understanding why smartphone users exhibit different degrees of loyalty is essential if operators want to keep up with the changing loyalty landscape.

While only 5 percent of smartphone users explicitly state they will switch operators, loyalty profiling reveals 28 percent are at most risk of switching (Actively Dissatisfied and Opportunist Defectors)

Figure 6: Translating Net Promoter Scores to loyalty profiles

Source: Ericsson ConsumerLab, Experience shapes mobile customer loyalty, 2016
Base: All smartphone users using apps over mobile broadband at least weekly



Emotive Loyalists:
Smartphone users who are emotionally attached to their operator brand, exhibiting highest preference and trust. They strongly feel the chosen brand is best for them. 97 percent think of their operator as a brand they like and can associate with. They are extremely satisfied with most aspects of the experience offered including mobile broadband connectivity.

Deliberate Promoters:
Despite showing a high likelihood to recommend, their expectations on the operator are rational and pragmatic. Due to a relatively weak preference towards their operators, the risk of switching operator among them doubles when compared to Emotive Loyalists.

Passive Loyalists:
The largest group among all smartphone users, they are uninvolved with the operator while being unsure of whether they should recommend their operators or not. They stay due to a perceived lack of alternatives and are attached for financial reasons, rather than emotional. If an alternative is available, more than a third (34 percent) claim they will consider switching.

Inertials:
This group feels locked in with their operators. Around three in five face smartphone issues daily, but won't switch. 56 percent said they do not wish to switch because there is too much time, money and hassle involved. While Inertials are mostly on subscription contracts, around a third globally are also pre-paid users.

Actively Dissatisfied:
This group thinks their operator does not deliver on its promise and is unhappy with all interactions. They are more likely to be detractors with low preference and would definitely switch. They face more smartphone issues than other users on a daily basis and a majority are dissatisfied with their mobile broadband experience.

Opportunist Defectors:
These are bargain seekers looking out for the best possible tariff plan on the market. They are least satisfied with value for money compared to the other groups. On average, they are also closer to subscription contract renewal than others. At this stage, they are most likely to switch, as they feel there are better viable alternatives on the market.

Figure 7: Attributes with highest relative impact in driving loyalty and percent of smartphone users satisfied with each

Emotive Loyalists	
Initial purchase experience	94%
Pricing and offerings	91%
Loyalty rewards	73%

Deliberate Promoters	
Pricing and offerings	76%
Mobile broadband experience	73%
Loyalty rewards	59%

Passive Loyalists	
Pricing and offerings	46%
Customer support	45%
Mobile broadband experience	37%

Inertials	
Initial purchase experience	36%
Customer support	32%
Mobile broadband experience	28%

Actively Dissatisfied	
Account management	7%
Mobile broadband experience	4%
Customer support	4%

Opportunist Defectors	
Voice experience	17%
Customer support	11%
Mobile broadband experience	8%

Source: Ericsson ConsumerLab, Experience shapes mobile customer loyalty, 2016
Base: Smartphone users across 14 markets globally using apps weekly over mobile broadband

Addressing different needs

These different loyalty profiles have diverse needs, priorities and perceptions of performance from their operator. Among those users most likely to switch (Actively Dissatisfied and Opportunist Defectors), twice as many face video streaming issues on a daily basis compared to those who are most loyal: i.e. Emotive Loyalists.

Although mobile broadband experience emerged as the principal driver of loyalty, it is also the top source of dissatisfaction for four of the six smartphone user profiles identified (i.e. 73 percent of smartphone users globally).

These needs and priorities might differ across markets and network subscribers. As a result, mobile network operators will need to define distinct strategies to meet the expectations of these diverse smartphone user profiles.

Mobile broadband performance is a source of dissatisfaction among 73% of smartphone users globally

Among those users most likely to switch, twice as many face video streaming issues on a daily basis compared to those who are most loyal

Conclusion

Loyalty among smartphone users is much more complex and fragmented than most businesses realize. Smartphone users may stay with their operator for a number of reasons despite being unhappy with the services. A lack of customer defection does not necessarily indicate loyalty. Smartphone users are not generic and, therefore, it is critical that operators recognize this and respond to different customer needs and behaviors. While mobile broadband networks have improved with time, apps have also evolved, incorporating new features, such as video, which increases the demands on network performance. As new apps will continue to emerge and usage behavior will evolve, network performance will matter more than ever and will decide how loyal smartphone users will be towards their operators in the future.

Leading transformation through mobility

We are a world leader in the rapidly changing environment of communications technology – providing equipment, software and services to enable transformation through mobility.

Some 40 percent of global mobile traffic runs through networks we have supplied. More than 1 billion subscribers around the world rely every day on networks that we manage. With more than 39,000 granted patents, we have one of the industry's strongest intellectual property rights portfolios.

Our leadership in technology and services has been a driving force behind the expansion and improvement of connectivity worldwide. We believe that through mobility, our society can be transformed for the better. New innovations and forms of expression are finding a greater audience, industries and hierarchies are being revolutionized, and we are seeing a fundamental change in the way we communicate, socialize and make decisions together.

These exciting changes represent the realization of our vision: a Networked Society, where every person and every industry is empowered to reach their full potential.

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