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# Service providers face three alternative paths to success



Extract from the Ericsson Mobility Report  
November 2020

# Service providers face three alternative paths to success

Service providers can be categorized into three distinct strategies depending on whether they lead, challenge or follow the market, and the chosen strategies directly correlate with market performance.

Having an executable strategy is key to succeeding in any business. Selecting the right strategy based on business assets, market conditions and competitive landscape is critical. An Ericsson study looked at over 300 service providers around the world to see what similarities and differences can be found in their strategies, and identified the key characteristics of best-in-class service providers which successfully execute their strategy to maximize returns.

## Service providers compete with distinct strategies

The three strategies that service providers were found to adhere to in this study are labeled quality-led, offering-led and industry-led.<sup>1</sup> Although the strategies have different focuses and are distinct, each is built upon several, common key elements, for which service providers put in varying degrees of effort based on their strengths and selected business goals.

# 19%

The quality-led strategy is deployed by 19 percent of service providers – who lead in network performance.

# 28%

The offering-led strategy is deployed by 28 percent of service providers – who challenge with new services.

# 38%

The industry-led strategy is deployed by 38 percent of service providers – who focus on value-for-money propositions.

### Quality-led

Market leaders typically apply the quality-led strategy, often coming from the incumbent position, and therefore tend to maintain their lead in terms of network coverage and quality. The focus and investments are on network transformation, sites, spectrum and being first to deploy the latest technology to maintain their number one leading position in quality. Their marketing typically showcases their leading position in network performance. Often having greater resources than their competition, quality-led service providers are more selective and choose to have few strategic partnerships.

### Offering-led

The offering-led strategy is mostly deployed by challengers. The ambition is to be first to market with new offerings. Prominent in this strategy is maintaining a high level of market innovation to capture market share, often with one-for-all offerings, coupled with targeted distribution. These challengers use extensive campaigns and promotional programs to gain traction and capitalize on their “first-mover advantage”. Offering-led service providers also work with multiple partners in the area of products and services. They typically use modern technology – such as AI – in their operations, as well as a wide use of omni-channel strategies for customer experience management.

### Industry-led

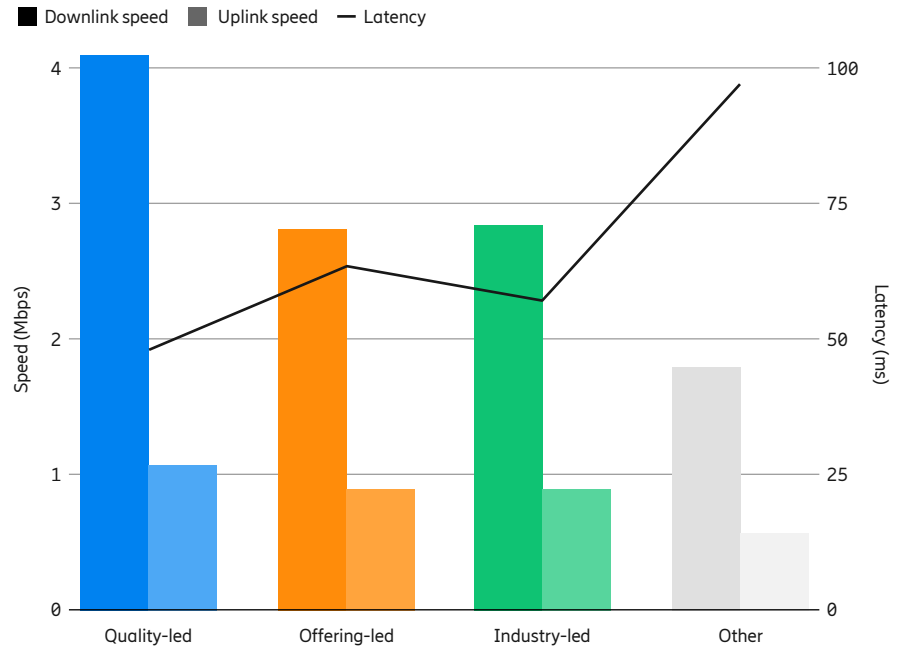
Most service providers follow general market trends, referred to here as the industry-led strategy. These service providers are seldom, or never, first to market. This is illustrated by their approach to network quality, which is similar to the quality-led strategy, but without the ambition or potential to reach a leading position. This also applies to their go-to-market strategy for service offerings, distribution, campaigns and use of sub-brands. Industry-led service providers find success as fast followers, focusing on a value-for-money proposition that delivers what their customer segment desires, and typically have lower levels of average revenue per user (ARPU).

<sup>1</sup> Fifteen percent of service providers scored low in the strategy elements analyzed, making it unclear which strategy they were executing. These have been classified as “other”.

**Methodology**

For this Ericsson study, 308 service providers, in 121 countries worldwide, were researched and analyzed using publicly available information. A strategy analysis framework, originally developed by C. Campbell-Hunt at MIT, was applied and revised to fit the telecom industry. Analysis of service providers' financial performance, service offerings and network performance has been extended by cross-comparing the findings with other owned studies or external sources. Data was collected during Q1–Q3 2020.

**Figure 27: Network performance on a global level**



69%

Today, 69 percent of quality-led service providers have launched 5G for smartphones commercially.

**Differentiation through sustainable leadership in network performance**

Network performance data<sup>2</sup> shows the throughput delivered with a 90 percent probability, meaning 90 percent of the samples have better performance than shown in Figure 27. This illustrates that service providers with a quality-led approach successfully execute their strategies to build a network performance gap, having significantly better results in terms of downlink and uplink speeds as well as lower latency. Both offering- and industry-led service providers aim to have “good enough” network performance, trailing the quality-led operators but not investing as heavily in network transformation.

Today, 69 percent of the quality-led service providers have launched 5G for smartphones commercially, leveraging their position further through a moderate price premium on 5G. Only 31 percent of offering-led and 16 percent of industry-led have launched 5G. Although the offering-led group chose a price position very close to the quality-led, the industry-led service providers have a premium that is more than

50 percent higher than the others.

This indicates a skimming strategy in the short term, targeting early adopters rather than driving a quick uptake, whilst waiting for the market to be ready. Similarly, the quality-led are more active in the area of fixed wireless access (FWA), leveraging network performance to complement or directly compete against fixed networks. Of these, nearly 80 percent have FWA offerings on the market, compared to the average of 65 percent globally. Quality-led service providers will look to maintain their lead. Offering-led will have pressure to improve in this area to support innovative 5G services, like cloud gaming, that require lower latency and higher bandwidth than often provided today by this group.<sup>3</sup>

A look at service offerings<sup>4</sup> reveals that offering-led service providers tend to couple network performance with specific use cases and end-user expectations, like promoting the best network for video streaming. Quality-led providers, on the other hand, mainly focus on coverage and performance and are more likely to have promotions that leverage network performance as well as their existing premium customer segments.

**Strategies follow regional market conditions**

At about 45 percent, the Middle East has the highest proportion of quality-led service providers, as the execution of this strategy requires large investments in the network. Western Europe seems to have the largest variation of strategies per market.

45%

The Middle East region has the highest proportion of quality-led service providers with 45 percent.

Within Africa, offering-led is the most common strategy, frequently offering a wide range of services linked to mobile subscriptions such as gaming, mobile banking and insurance. The quality-led strategy was not found here, similar to Central and South America.

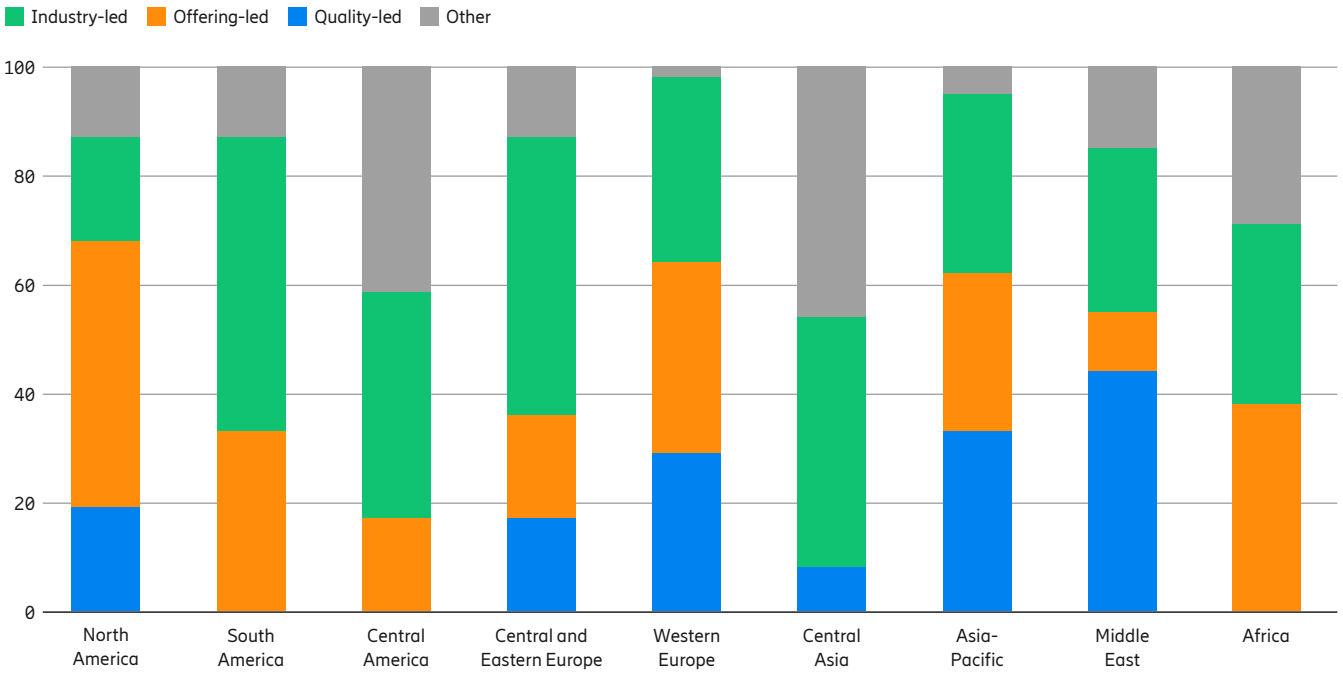
Central and Eastern Europe deviates from the global average, with a significantly higher share of industry-led service providers and fewer quality-led service providers. Previously state-owned incumbents in Central and Eastern Europe typically held the number one position in the market with aspects of a quality-led strategy. However, the region shows a low percentage of quality-led service providers globally, indicating that incumbents here didn't focus as much as their peers from other regions on network transformation, and didn't keep up investment levels to score higher in our analysis. At the same time, global service providers, primarily from Western Europe, have often been acquiring the number two or three player in many of the markets. With the added financial support, they have then been able to move their position to match or even take the lead in terms of network performance.

<sup>2</sup> Source: Ericsson analysis on Speedtest Intelligence® data from Ookla®, (Q3 2020). Data represents the lowest performing 10 percent of samples.

<sup>3</sup> Ericsson Mobility Report, “Mobile cloud gaming – an evolving business opportunity” pp. 25–28 (November 2020).

<sup>4</sup> More service offering choices for the consumer: [www.ericsson.com/en/mobility-report/articles/service-offering-choices-for-the-consumer](http://www.ericsson.com/en/mobility-report/articles/service-offering-choices-for-the-consumer).

Figure 28: Spread of strategies within each region (percent)



**Strategies reward different financial KPIs**

The strategies give different outcomes when cross-analyzed against performance metrics, illustrating how the strategies support distinct business goals. Globally, industry-led is slightly ahead on revenue growth, with the most service providers amongst the top 50 in the world.

Quality-led service providers, on the other hand, take a firm lead for EBITDA, market share and ARPU leadership. The same is true when looking at capex to sales ratio, which would be expected, as the quality-led strategy is focused on network transformation and quality.

**Quality-led service providers perform best in local markets for four out of six KPIs**

Studying local markets where we have financial data for two or more service providers, and ranking each strategy based on the performance in each financial KPI, we can find out which strategy type takes which position in each market.

# No. 1

Offering-led service providers often take the number one spot for the five-year revenue growth KPI.

The offering-led strategy takes the top spot most often when looking at five-year revenue growth. Quality-led service providers have the highest market share as well as the best cash flow in the majority of markets. They also have the highest ARPU closely followed by offering-led service providers. The industry-led strategy takes the top spot for EBITDA, with quality-led just behind.

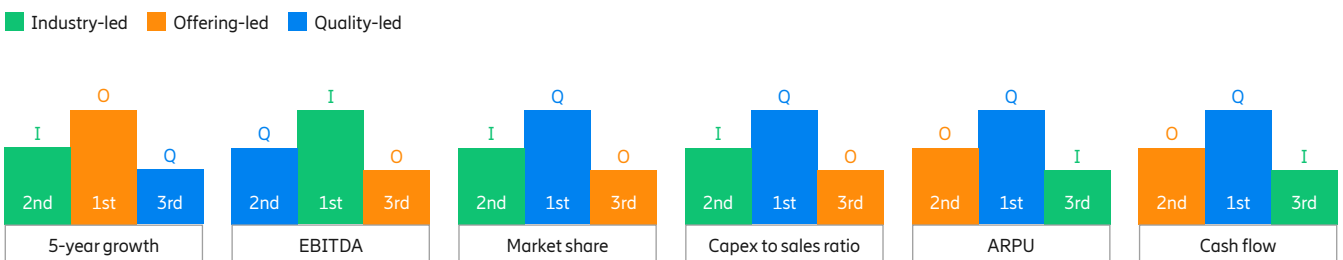
One KPI that stands out is the market share, where quality-led service providers are taking the number one place in more than half of the markets analyzed. Offering-led, on the other hand, places third in 50 percent of the markets.

This is likely a natural consequence of the market leader commonly choosing a quality-led strategy, whilst challengers tend to adopt an offering-led strategy.

**Selection and execution are key to success**

Service providers compete using distinct strategies, which give different returns. By understanding their local market conditions and business assets, best-in-class service providers challenge the market with a focused competitive advantage, optimizing their returns. Quality-led providers build and maintain a sustainable gap in network performance, offering-led innovate with service offerings and customer experience management, while industry-led act as fast followers. All these strategies have their advantages and disadvantages, and the adoption of a certain strategy is carefully considered by service providers based on their specific situation.

Figure 29: The ranking of service providers which lead in KPIs, in their respective local markets



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