

# THE NETWORK AS AN EXPERIENCE PLATFORM

How commoditization has led to  
the birth of a new kind of economy

# HOW IT ALL BEGAN

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## EXECUTIVE SUMMARY

With the arrival of the Internet of Things and the capability of devices to share data by connecting to the internet, operators need to recognize and capture the potential of their networks as 'experience platforms'. By 2020 there could be as many as 100 billion internet-connected objects around the world, and this represents a unique opportunity for operators to deliver the rich experiences their customers demand.

Operators must realize that the Networked Society exists for the experiences it enables, and that both B2C and B2B businesses are capturing great experiential value from the vast telecommunications networks. The network enables digital experiences through technology that are not possible in reality.

This paper looks at the origins of the shift from the service economy toward the emerging experience economy. It also explores the need for operators to capture the potential of their networks as experience platforms, the value created from the shift for both operators and customers, and the necessity for operators to adapt to this new environment.

### It's all about the experience

The movement to focus on the experiences customers have was originally instigated by Joe Pine. Ericsson's thought leadership in this area has now evolved, and operators need to capture the potential of their networks as experience platforms.

This has become a necessity for operators, since every developed country has now shifted into the experience economy. By evolving and developing their most precious asset – the network – into an experience platform, operators give themselves the ability to design, create, stage and manage the experiences that their customers desire.

In order to manage the evolution from industrial and service economies to today's experience economy, operators need an Experience Management Center (EMC). This allows them to effectively mirror the economic evolution, transitioning themselves from Network Operations Centers (NOCs) to Service Operations Centers (SOCs) to EMCs, along the dimensions shown in Figure 1.

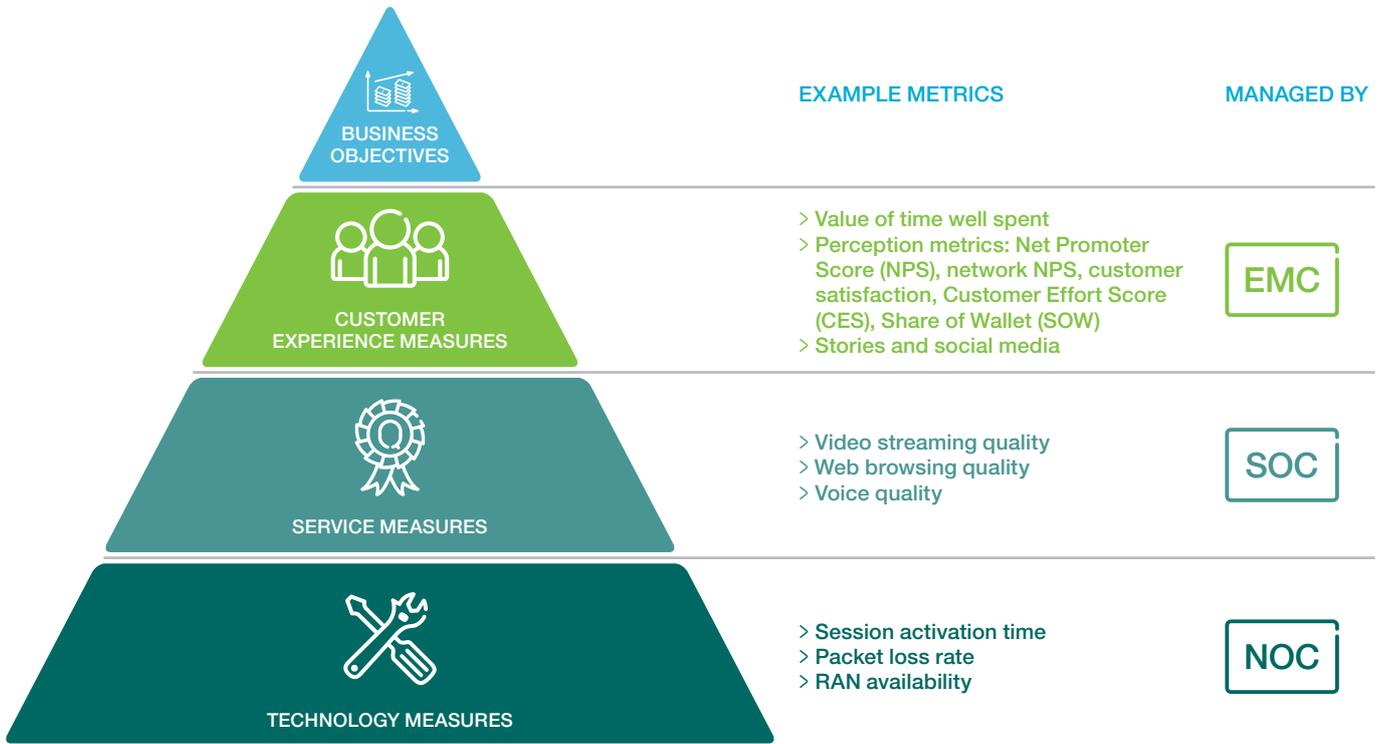
Critically, the EMC must also take an outside-in approach that focuses on staging memorable events that engage customers in an inherently personal way. This is what an experience truly is.

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**The EMC must take an outside-in approach that focuses on staging memorable events that engage customers in an inherently personal way.**

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Figure 1: The network as an experience platform



**Experiences are subjective**

In an EMC, perceptual metrics are included in the measurement architecture of operators’ network and service operations. These capture the key experience KPIs that measure memorable events through feedback, and the value of time positively spent engaging in the experience.

Since experiences are inherently personal to every consumer, this necessitates the inclusion of subjective experience KPIs alongside objective measurements. Objective data alone does not tell the whole story, nor does it truly measure, monitor and manage the experience.

**The economic value chain**

The economic advantages of focusing on experience can be demonstrated by the coffee industry. Companies harvest this commodity and trade it for the equivalent of just USD 0.01 or USD 0.02 per cup. A manufacturer then roasts, grinds, packages and places those same beans in a store – turning them into a good – at which point the price jumps to between USD 0.05 and USD 0.25 per cup. Brew this product in a vending machine or kiosk, and the resulting service now equates to USD 1-1.50 per cup. Coffee can therefore be classed as one of three economic offerings – commodity, good or service – with three distinct value ranges attached to it.

However, serve that same coffee in a popular coffee chain – where the ordering, creation, and consumption of the product embodies a heightened sense of theater or ambience – and consumers will happily pay USD 2-5 per cup. Businesses that ascend to this fourth level of economic value establish a distinctive experience that surrounds the purchase of the coffee, increasing its value several times over compared with the original commodity.



# THE EXPERIENCE ECONOMY

Experiences are therefore a distinct economic offering. Indeed the experience economy is now supplanting the service economy, which overtook the industrial economy in the latter half of the 20<sup>th</sup> century, which superseded the agrarian economy before the industrial revolution.

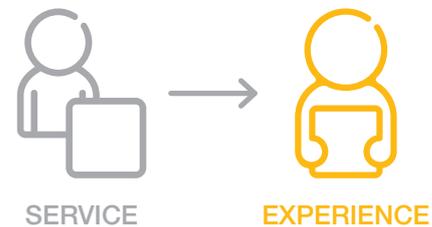
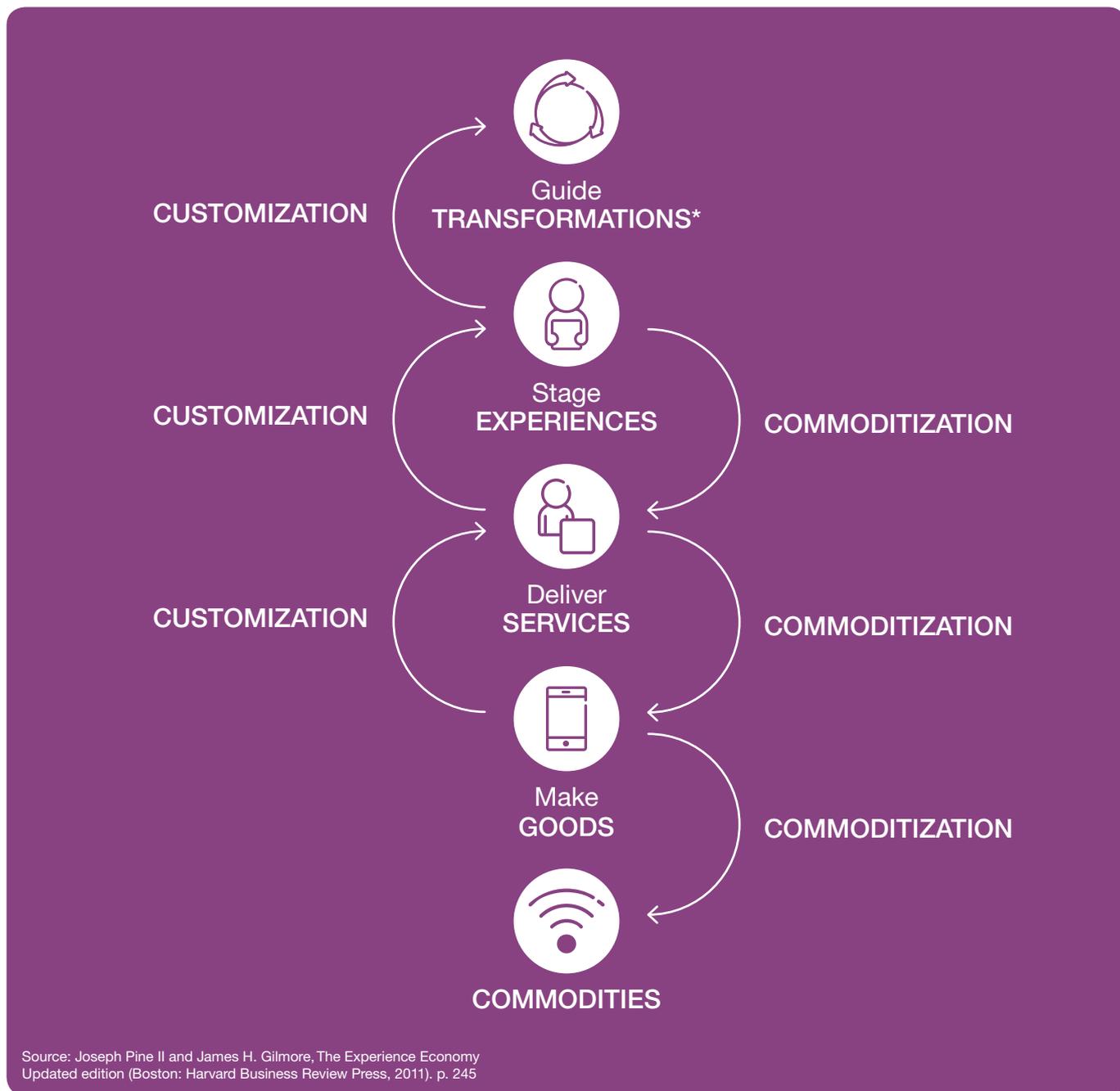


Figure 2: The progression of economic value



Source: Joseph Pine II and James H. Gilmore, *The Experience Economy* Updated edition (Boston: Harvard Business Review Press, 2011). p. 245

\*If you charge for the demonstrated outcomes that your customers achieve, then you are in the Transformations business. This is the next stage of economic progression after Experience.



### Continual commoditization

The experience economy can be seen in the rise of themed restaurants, boutique hotels, experiential retail, and the newfound focus on patient experience in health care. It can also be seen in neighborhood stores when banking, the student experience in universities, and so on.

However, experiences are not a new economic offering – just a newly identified one. They have been around for centuries in the form of theater, sport and dining, among many other events. The difference today is the rapid diversification of this experiential innovation.

Experiences are also not solely for consumers. Companies that sell to other businesses embrace them. A good example of this is the company Case Construction and its Case Tomahawk Experience Center in Wisconsin, USA. The center allows customers to experience the equipment first hand and get a feel for how it works. An internal study showed that while the company's dealers close around 20 percent of potential deals, visits to the experience center close around 80 percent.

What is happening in the experience economy is that in both consumer and B2B industries, goods and services are no longer enough, since both are becoming commoditized. Consumers now think of them as something to be purchased at the lowest price. One of the biggest catalysts to this commoditization has been the internet, allowing people to instantly compare prices from one vendor

to another. While this commoditization initially applied more to goods, it is now also the case with services, such as hotels, airlines and banks.

So while consumers increasingly choose their goods and services based on price, they also look to spend their money and time on offerings of greater value. As a result, they purchase more experiences.

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 **EXPERIENCES**  
are now a distinct economic offering

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### How we talk about it

Another area where we can observe the effect of the experience economy is in our terminology. Marketers are more focused on 'experience marketing', technology experts talk about the 'user experience', and operational leaders are going after the 'customer experience'. Each of these reflects the shift from goods and services to experiences, but they do not go far enough. They do not recognize that experiences are now a distinct economic offering.

With the term 'customer experience' in particular, what most people mean is that they want their transactions to be pleasant, easy and convenient. However, this is just good service. An experience must involve a truly memorable event – one that is personal to each individual – to be considered part of the experience economy.

# EXPERIENCE ECONOMY FOR OPERATORS



The same progression of economic value can be seen happening in the telecommunications industry. Software and hardware come together to create the good, or product, that is the network. On top of this, there are the industry layer services such as provisioning, billing, retail and customer support centers. These are the services that provide economic value to customers.

With the rise of the experience economy, telecommunications has become commoditized, perhaps more so than any other industry. It began with landlines, and has continued along with the shift to mobile technology. Consider how the industry now sells mobile phone plans based exclusively on price – with the handset thrown in. Likewise, since Skype and other VoIP services have greatly siphoned off demand, pricing has gone down. Whenever an industry commoditizes, price goes down to a marginal cost. Pricing in the industry is now such that customers no longer pay for individual phone calls – they are essentially free of charge.

Operators must realize that the network exists for the experiences it enables, and that both B2C and B2B businesses are capturing great experiential value from the telecommunications networks. However, in spite of this opportunity, the real value is not going to the operators. It is going to the companies that layer their experiences on top of the network.

Consider Zappos.com. It has perhaps the most famous call center in the world. The company's mantra is 'delivering happiness' to its customers. Its representatives embrace this purpose, and rather than being measured on how little time they spend speaking to customers, the management instead celebrates those who spend the most time dealing with queries.

## Embracing new possibilities

Digital technology delivered over the network now enables experiences that were never before possible in reality, from surfing the web and playing immersive virtual games, to using social media. We use the zeroes and ones of digital technology, experienced through the smartphones and tablets we carry around with us, to learn about reality, augment it, and even escape from it.

Today, the experiences we have as consumers and businesses are limited only by our imagination. It's time to apply this imagination to the telecommunications industry.



## DIGITAL

technology enables experiences  
that were never before possible

The way to approach these new possibilities is for operators to embrace the following principles of experience staging:

- > Theater – integrating both front of house and behind the scenes into staging the desired experience
- > Customization – where experiences meet the personal wants and needs of the individual
- > Customer experience metrics – measuring time well spent in engaging the consumer in a positive personal way, and removing bad experiences
- > Culture – ensuring that company personnel focus on customers and the experiences they have, not just the goods and services delivered
- > Innovative design – engaging customers in new experiences, rather than merely removing pain points
- > Transformations – focusing on the outcomes customers gain as a result of the experiences they have



## CONCLUSION

The way operators manage the value they provide to their customers mirrors the progression of economic value. The invention of telecommunications networks first arose due to the strength of the industrial economy. The key to its success was NOCs' efficient management of hardware. Then, as the world shifted into the service economy, operators likewise shifted from NOC to SOC. This took them beyond managing hardware to managing services.

Now that advanced countries are shifting into the experience economy, operators will once again have to adapt. The network must evolve into an experience platform through the creation of an EMC, capable of creating, staging and managing the experiences that customers want. This is where Ericsson Managed Services comes in – providing the EMC as well as helping to establish its capability among operators. This involves engaging with Ericsson to understand operators' customer experience requirements, and building a capability based on the evolution from NOC to SOC to EMC.

## AUTHOR

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Joe Pine is the cofounder of Strategic Horizons LLP, a thinking studio that helps businesses conceive and design new ways of adding value to their economic offerings. He is the coauthor of the books *The Experience Economy* and *Infinite*



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Ericsson is the driving force behind the Networked Society – a world leader in communications technology and services. Our long-term relationships with every major telecom operator in the world allow people, businesses and societies to fulfill their potential and create a more sustainable future.

Our services, software and infrastructure – especially in mobility, broadband and the cloud – are enabling the telecom industry and other sectors to do better business, increase efficiency, improve the user experience and capture new opportunities.

With more than 110,000 professionals and customers in 180 countries, we combine global scale with technology and services leadership. We support networks that connect more than 2.5 billion subscribers. Forty percent of the world's mobile traffic is carried over Ericsson networks. And our investments in research and development ensure that our solutions – and our customers – stay in front.

Founded in 1876, Ericsson has its headquarters in Stockholm, Sweden. Net sales in 2013 were SEK 227.4 billion (USD 34.9 billion). Ericsson is listed on the NASDAQ OMX stock exchange in Stockholm and the NASDAQ in New York.