

CONSUMERLAB



KEEPING SMARTPHONE USERS LOYAL

Assessing the impact of network performance
on consumer loyalty to operators

An Ericsson Consumer Insight Summary Report
June 2013

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METHODOLOGY

The main purpose of the study was to identify what drives customer loyalty to operators, and in addition the monetary value that can be gained by improving network performance.

Ericsson ConsumerLab undertook an online study across 12 countries, gathering quantitative results from 1,000 smartphone users per country. These countries include US, Mexico, Brazil, Chile, UK, Sweden, Russia, Turkey, South Korea, China, Japan and Indonesia.

Those interviewed were users aged 18-69 who use their smartphones to access the internet at least once a week. Overall, the study is representative of more than 350 million smartphone users.



ERICSSON CONSUMERLAB VOICE OF THE CONSUMER

Ericsson ConsumerLab has more than 15 years' experience of 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 and 15 megacities – 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.

To be close to the market and consumers, Ericsson ConsumerLab has analysts in all regions where Ericsson is present, which gives a thorough global understanding of the ICT market and business models.

All ConsumerLab reports can be found at:
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USER BEHAVIOR IS CHANGING

The ever increasing ubiquity of smartphones has seen consumers accessing the internet more frequently throughout the day, both indoors and outdoors. Over time, apps and data have become just as much an integrated part of everyday life as SMS and voice calls. This widespread change in user behavior has consequences for mobile network operators.

Operators are struggling to maintain their reputation within the mobile ecosystem alongside handset manufacturers, operating systems and content suppliers. This creates a challenging environment, with increased churn and customer disloyalty. This report assesses the influence of various factors on customer loyalty to operators, with a focus on network performance in particular.



KEY FINDINGS

- > **Loyalty below average**
The telecoms industry is lagging behind other industries when it comes to user satisfaction. Mobile operators are rated lowest compared with other players in the ecosystem.
- > **Delayed gratification**
High expectations affect customer loyalty when not met with a sufficient standard of performance, particularly among heavy users. Insufficient coverage and perceptibly long waiting times when browsing or using apps are two of the main causes for dissatisfaction.
- > **Performance and value**
Network performance is currently the main driver of loyalty to operators. This is closely linked with value for money. When you improve satisfaction with network performance, perceived value for money also improves.
- > **Room for improvement**
User perception is that data speed and coverage are poor, especially on public transport. Introducing measures to improve network performance would help to alter this perception and differentiate offerings.
- > **Loyalty makes money**
Increasing customer loyalty has a significant impact on Customer Total Value (CTV), a metric used to assess future value from customers. This means there is potential for each subscriber to generate more revenue across his/her lifetime.



TELECOM INDUSTRY HAS FALLEN BEHIND

Consumer loyalty and satisfaction can be measured by an industry or business's Net Promoter Score (NPS). This score gauges how likely consumers are to recommend a certain brand or service to others.

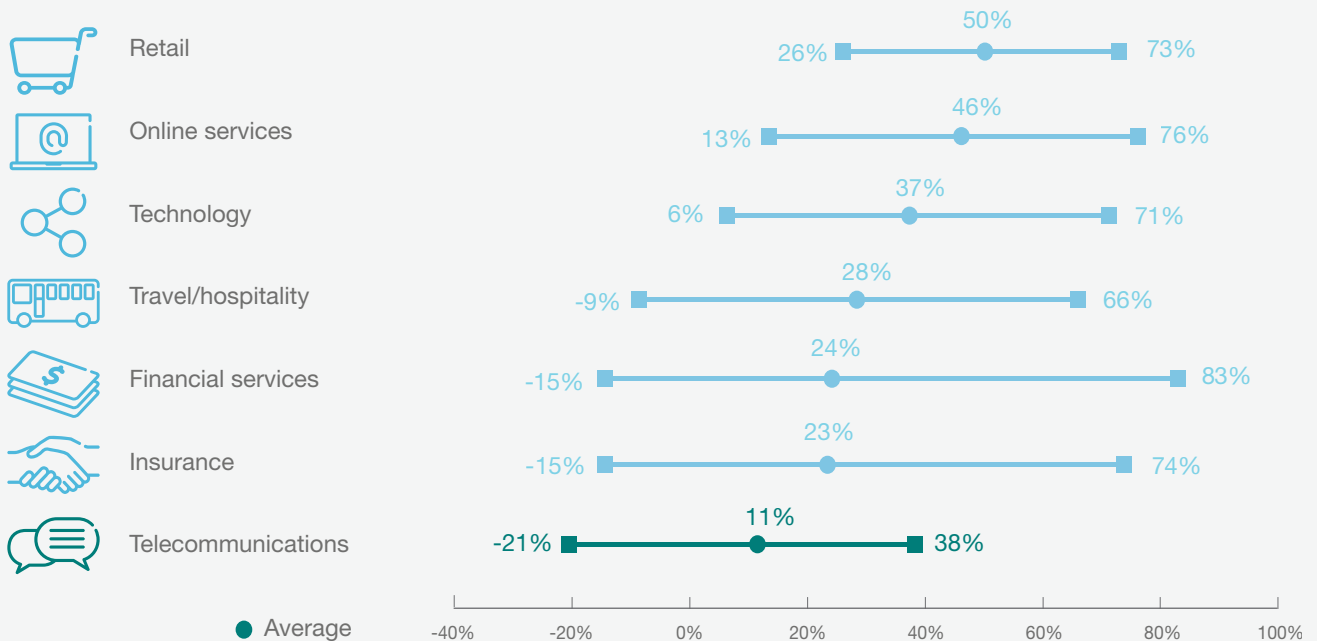
When observing consumer loyalty across a range of industries, it becomes clear that many consumers are not particularly satisfied with the performance of their mobile operators. Figure 1 shows that the NPS for operators is significantly lower than the average, at more than 10 percent below other industries.



Deeper analysis of brand performance reveals that even amongst other players in the mobile industry, consumers still rank operators lower in terms of satisfaction. In order to improve customer loyalty, operators first need to understand the reasons behind this.



Figure 1: Telecommunications trail behind other industries when it comes to brand loyalty, based on Net Promoter Score (NPS)



Source: Satmetrix 2012 Study of US consumers

EXPECTATIONS GREATER THAN REALITY

60% of smartphone users experience problems weekly



No two operators are the same, and improving loyalty means evaluating important parameters such as customer care, pricing and network performance. An analysis of the latter reveals that on average, just over 30 percent of users state that they experience problems every day when using their smartphones to browse the web or use apps, and as many as 60 percent experience these problems weekly.

However, there are marked regional differences when it comes to the perceived frequency of problems, as seen in figure 2. In Mexico, Brazil and Indonesia, over 70 percent of users experience problems weekly, and more than half of users in Indonesia experience them daily. By comparison, less than half of users in the US, UK and Sweden experience problems weekly, and under 20 percent experience them daily. As a

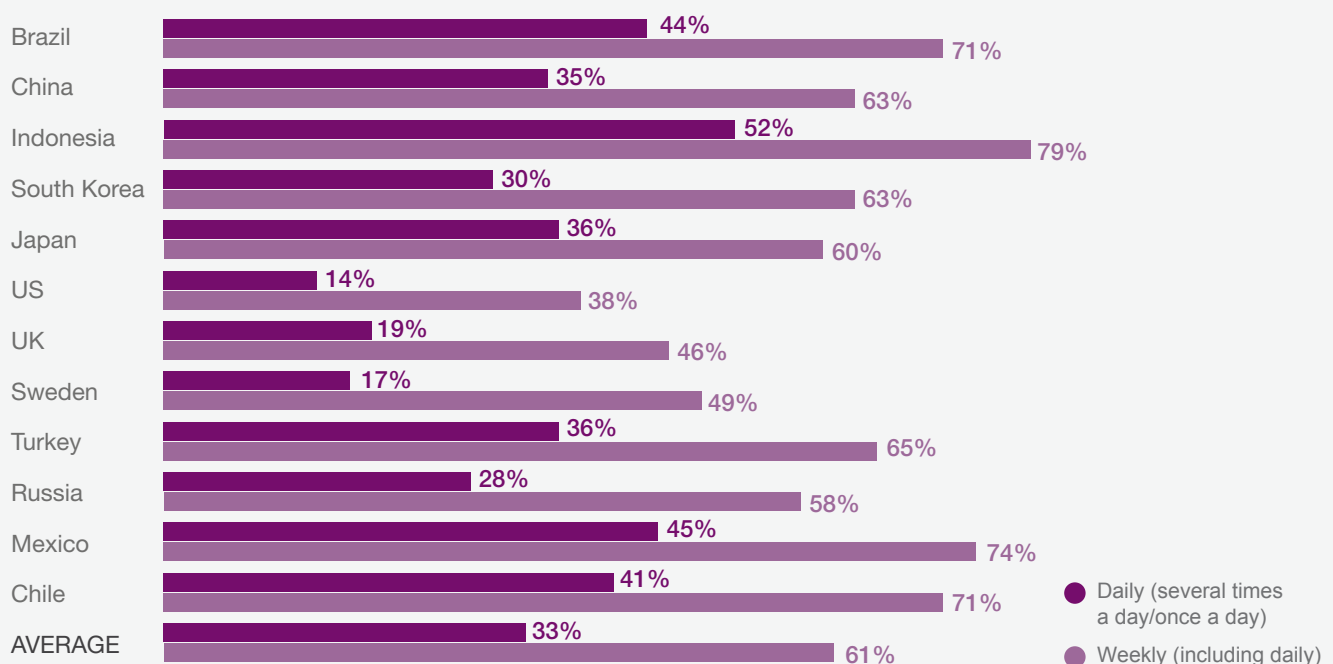
result of these issues, overall satisfaction with network performance is rated lower than other factors.

In order to ensure a good user experience, content needs to appear quickly on the screen. Often, low satisfaction with network performance is a result of smartphone users becoming fed up with waiting.

Slow browsing and content download speeds are the most common issues reported by users, followed by lack of internet access and apps crashing when in use. 15-20 percent claim to experience these issues very often, and a further 45-50 percent experience them on occasion.

The problem seems to lie in users' expectations being higher than the service they usually receive. More and more, users are coming to expect shorter loading and buffering times – and they also expect their services to work whatever the location. Even in poorly ranked areas such as public transport, 40-50 percent of people still attempt to access the internet and use social networks. An analysis of the most frequent smartphone issues indicates that many perceive their networks to not be meeting basic performance standards.

Figure 2: Frequency of problems experienced when browsing or using apps connected to the internet



Source: Ericsson ConsumerLab Network Performance Study 2013
 Base: Smartphone users in BR, CHN, ID, SK, JP, US, UK, SE, RU, TUR, CHL, MX

INCREASING VALUE THROUGH PERFORMANCE



NETWORK PERFORMANCE

has twice the impact on loyalty compared to tariff plans and customer support

By breaking down loyalty into separate factors, we can understand which areas are the most important for boosting consumer loyalty.

Figure 3, based on Shapley regression analysis, shows the relative impact between each driver and loyalty to the operator brand (NPS). From this we can determine that network performance is currently the principal driver behind subscribers' loyalty to mobile operators, followed by value for money. Addressing network performance has twice the impact on customer loyalty compared to measures such as improving customer support, and is four times more effective at increasing satisfaction than loyalty rewards.

Network performance and value for money are closely correlated, as demonstrated in figure 4. This suggests that improving network quality also improves perceived value for money – without actually lowering tariffs. Spending less on network performance and passing on savings to the consumer may also improve perceived value for money, however lowering prices provides little sustainable differentiation and may produce negative effects, such as price wars.

Figure 3: Drivers of loyalty to operator brand (NPS)

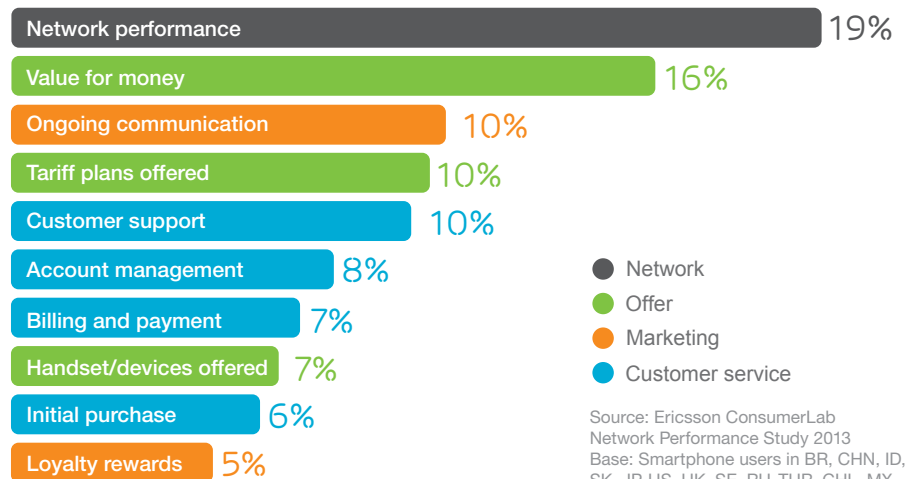
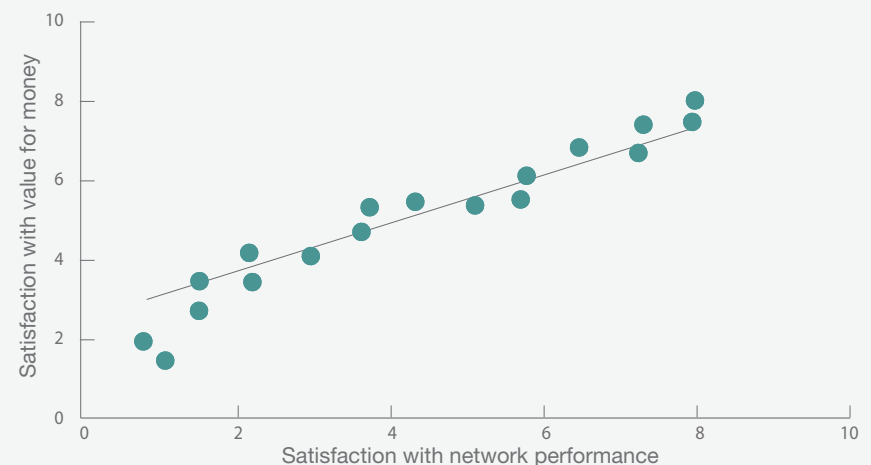
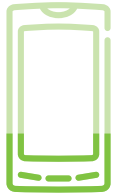


Figure 4: The correlation between value for money and network performance



Source: Ericsson ConsumerLab Network Performance Study 2013
Base: Smartphone users in BR, CHN, ID, SK, JP, US, UK, SE, RU, TUR, CHL, MX

ROOM FOR IMPROVEMENT



20%
of heavy users always experience problems



Users were asked to rate their network operators according to several different aspects of the overall experience. The results found that despite the clear importance of network performance in creating a good customer experience, it ranked below many other areas in terms of satisfaction level. This suggests that although users may not be unhappy with network performance in general, there is certainly scope for improvement.

Figure 5 illustrates the importance of certain customer loyalty drivers

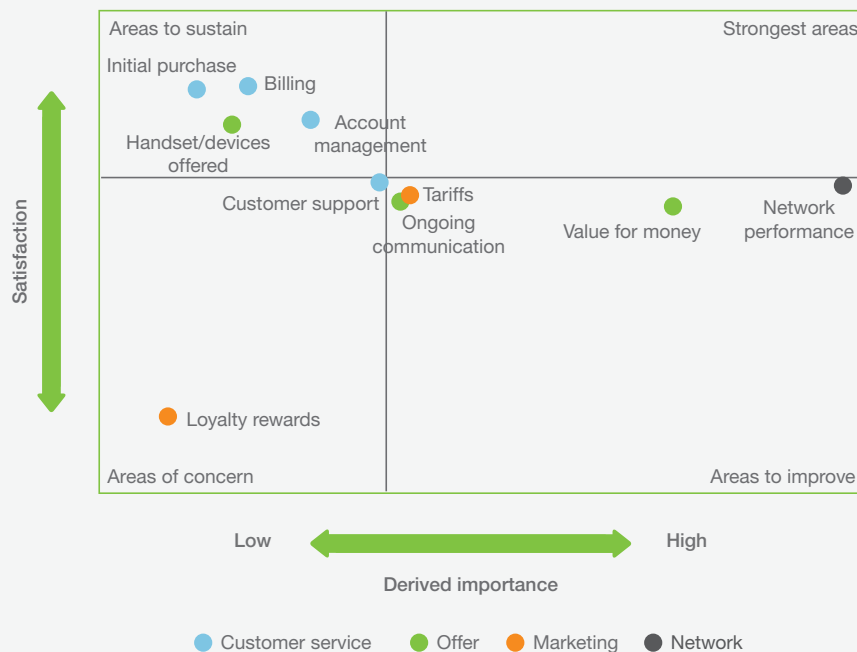
in relation to user satisfaction. From this we can see that network performance is not the only significant factor to get a low satisfaction rating – value for money follows closely behind, reinforcing the link between the two. Those factors associated with high satisfaction levels tend to be of lesser importance. In order to have any significant impact

on customer loyalty, network performance has to be addressed.

However, improved performance won't necessarily impress everyone. It is most likely to impress those who interact with the network often, in other words, heavy users. Around 20 percent of heavy users report that they 'always' experience problems, and put this down to the speed of the mobile network. For data-heavy services such as video streaming, this figure rises to 60 percent. As a group who are more aware of usage problems and therefore more likely to consider switching, they would be receptive to marketing strategies based on improving performance.

A key thing for operators to consider is how to manage user expectations. In order to build trust, they need to be absolutely clear on what they can and can't deliver. Since performance is perceived differently by everyone, users need to be addressed on an individual level, enabling improved performance in areas that matter to them. Operators should also consider proactively advising their customers on other ways of improving performance, such as changing their phone model or upgrading their operating system.

Figure 5: Satisfaction vs. importance



Source: Ericsson ConsumerLab Network Performance Study 2013
Base: Smartphone users in BR, CHN, ID, SK, JP, US, UK, SE, RU, TUR, CHL, MX

USER EXPERIENCE IS A DIFFERENTIATOR

Quality perception differs when it comes to voice and data. Voice is considered highly important when it comes to overall quality perception – this has always been the case. It remains the principal loyalty driver, and must remain strong in order to maintain network performance.

But when it comes to embracing new growth opportunities, data is a key differentiator with an important role to play in generating user recommendations. Successfully promoting these aspects to consumers could have a significant impact on loyalty.

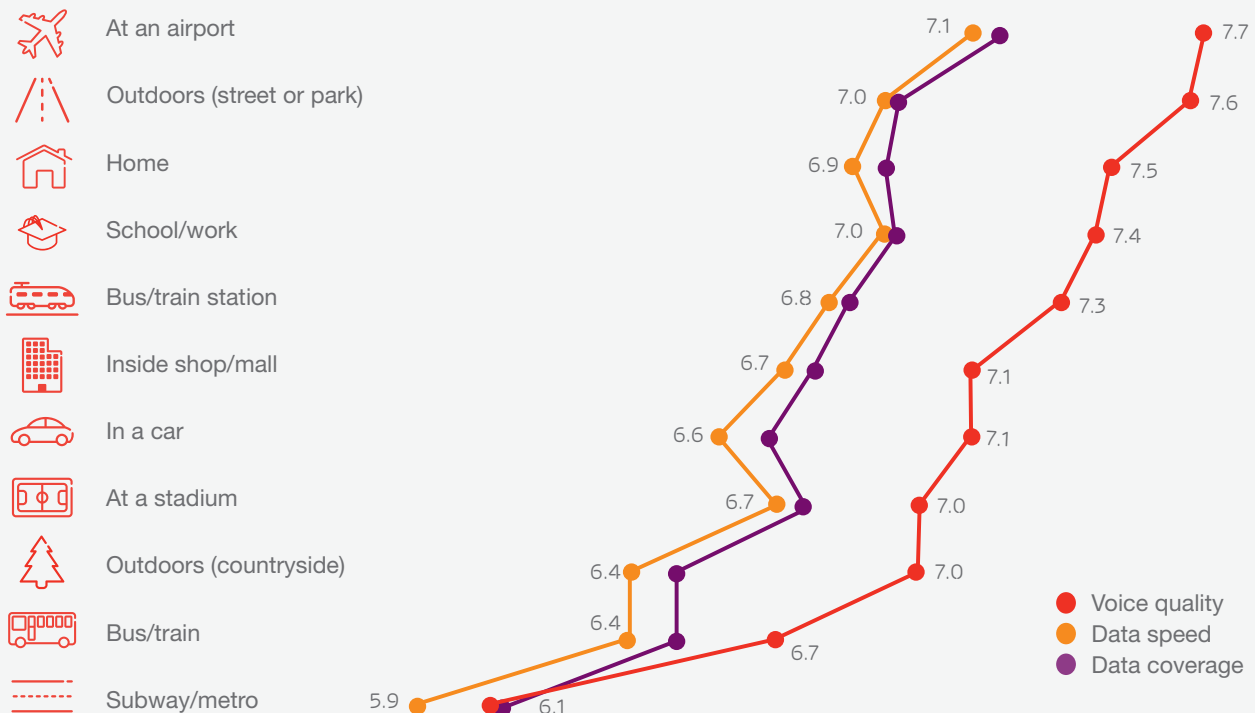
As it stands, user perception of data speed and coverage is lagging behind. In comparison, voice is doing well, as shown in figure 6. It is also clear that users have difficulties in distinguishing between data coverage and data speed. Other, more meaningful terms are needed to help users understand what apps or services they can use with satisfactory performance. Promoting measures to increase the speed of the network would help to change this perception, and would be appreciated by users.



Figure 6 shows how users rate their experience in different locations, with airports, home and out in the street rated highest, and public transport rated lowest.

On average, people are spending 1-1.5 hours a day on transport. Around 40-50 percent of users access social networks and browse the web while in transit, meaning people are still using smartphones in places that currently are ranked quite poorly.

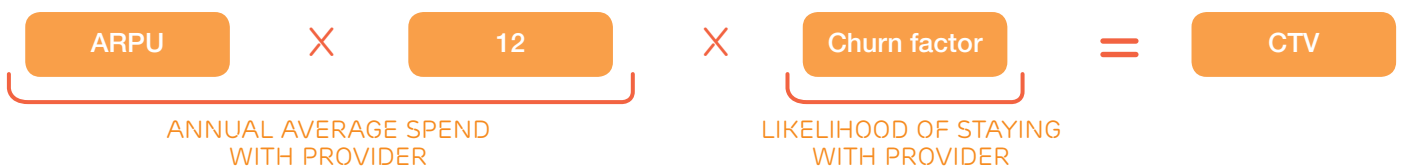
Figure 6: User satisfaction relating to data speed, data coverage and voice quality (on a scale of 0-10)



Source: Ericsson ConsumerLab Network Performance Study 2013
 Base: Smartphone users in BR, CHN, ID, SK, JP, US, UK, SE, RU, TUR, CHL, MX

THE EQUATION FOR CUSTOMER VALUE

CTV is the total projected revenues that a customer will generate during their lifetime



What makes a customer valuable? Spending alone is not enough to assess whether a customer is valuable or not – there are other factors which must be taken into account. Our calculations for Customer Total Value (CTV) take into account the effect that loyalty has on customer value by combining this with spending habits.

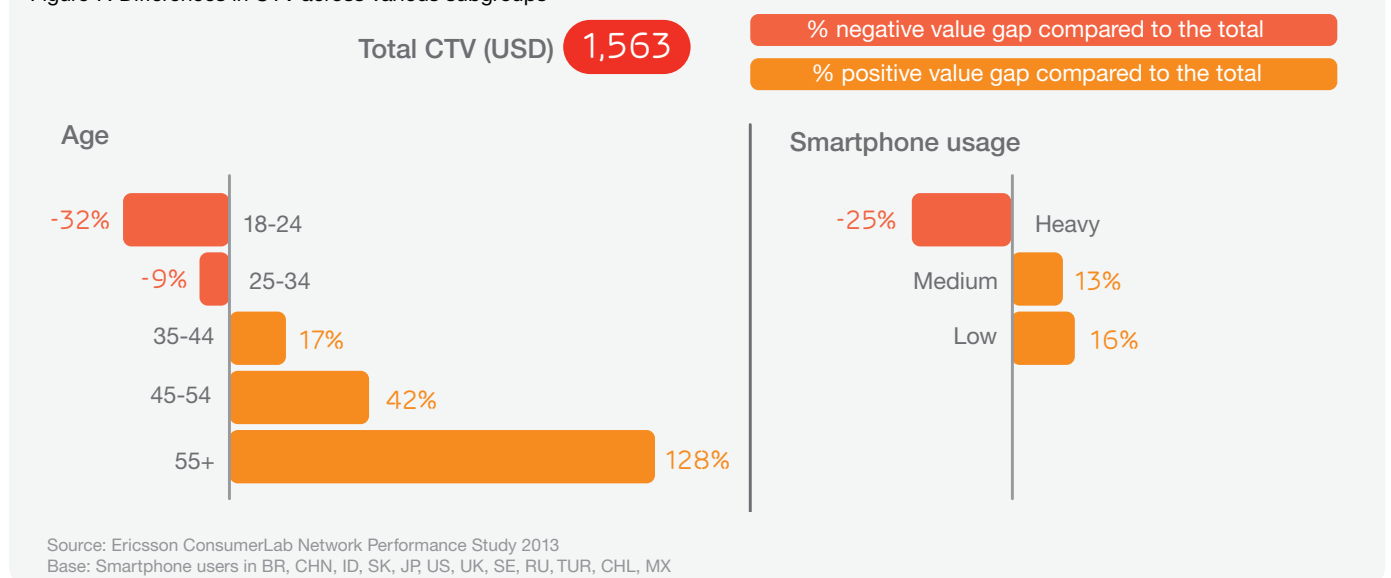
$$CTV = ARPU \times 12 \times \left(\frac{1}{CHURN} - 1 \right)$$

Increasing customer loyalty has significant benefits when it comes to generating long-term value. CTV represents the total projected revenues that a customer will generate over the course of their time with an operator. It can be calculated by using a simplified equation (disregarding cost per user, acquisition cost, and discount rate) based on the more complex calculation for Customer Lifetime Value* (CLV). This multiplies each customer's annual average spend by how likely they are to stay with their current provider.

Figure 7 shows the differences in CTV across several user categories. When it comes to different age groups, we can see that users aged 18-24 have a CTV that is 32 percent lower than the average. CTV then increases as you move up the age groups, with those aged 55+ at 128 percent above the average. This suggests that older customers are much more loyal.

Interestingly, what figure 7 also demonstrates is that heavy users generate less value during their lifetimes than low users. The reason for this is loyalty. Heavy users have high expectations, and won't think twice about switching to get the service quality they want. Being more exposed to the network they notice problems more, and will be bothered to a higher extent than low/medium users. In order to retain heavy users, ensuring good network performance is key.

Figure 7: Differences in CTV across various subgroups



*Journal of Service Research, Volume 9, No. 2, November 2006

LOYALTY MEANS REVENUE



In order to show why CTV is a superior metric than ARPU alone when assessing valuable customers, we calculated the average revenue per user (ARPU) for three separate customer groups: those with high satisfaction, those with medium satisfaction, and those with low satisfaction. The results, as shown in figure 8, found that highly satisfied customers do not spend more money with their operators as one might expect – in fact, their ARPU is lower than the average. By comparison, customers with low satisfaction actually spend more.

However, highly satisfied customers generate much greater revenue when it comes to CTV. Because they are less inclined to switch operator and their churn rates are low, they create more value over their lifetime. In order to maximize customer value, ARPU must be combined with loyalty – on which network performance has the highest impact.

Network performance is really about user perception. Operators need to relate to this when they are measuring network performance, introducing more customer-focused KPIs. Understanding the logic behind perceived and actual value puts operators in a strong position when it comes to making changes.

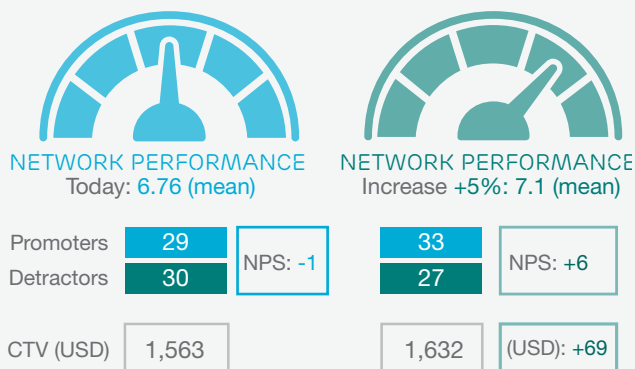
Figure 9 demonstrates the projected results that would come from improving users satisfaction with network performance by 5 percent. The ratio of promoters to detractors would shift favorably, lifting the NPS from -1 to +6. This translates to an additional USD 69 per customer over the course of their lifetime, or the number of years spent with that operator. With a customer base of more than 1 million, the resulting revenue gains would be substantial.

Figure 8: Impact of network satisfaction on ARPU and CTV

	Postpaid	
All users	ARPU (USD)	CTV (USD)
	63	2,086
Satisfaction with network operator:		
High satisfaction (8-10)	60	3,572
Medium satisfaction (4-7)	63	1,956
Low satisfaction (0-3)	74	582

Source: Ericsson ConsumerLab Network Performance Study 2013
Base: Smartphone users in BR, CHN, ID, SK, JP, US, UK, SE, RU, TUR, CHL, MX

Figure 9: The projected benefits of improving satisfaction with network performance



Source: Ericsson ConsumerLab Network Performance Study 2013
Base: Smartphone users in BR, CHN, ID, SK, JP, US, UK, SE, RU, TUR, CHL, MX

A MEASURE FOR SUCCESS

Operators need to ensure that

CONTENT LOADS QUICKLY



at a speed considered reasonable within that market

Many operators consider loyalty, or NPS, to be a measure of their success. When it comes to increasing loyalty, it's clear that network performance is currently the most influential factor. In order for network performance to be perceived as good quality, operators need to ensure that content loads quickly – at a speed considered reasonable within that market. Anything slower than this will frustrate users, and in doing so have a negative impact on loyalty. A pleasant smartphone usage experience is also likely to stimulate

and encourage more usage, and potentially increase the ARPU for each user if data plans are designed correctly.

However, it is not enough for operators to simply improve network performance in the hope that their customers will notice. In order to effectively change customer perception, communication is key. Users need to be aware that things have changed for there to be an impact on satisfaction, and in turn boost loyalty to their operator.

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