

Ericsson Moves to Win in the All IP-Convergence World



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This stylized case was prepared by Professor N. Venkatraman, David J. McGrath Jr. Professor in Management at Boston University for use during the *Fourth International Tech Strategy Case Competition* at Boston University (March 27-29, 2009). This is not intended to portray or reflect actual discussions, reflections or actions within Ericsson.

Carl-Henric Svanberg was sitting back at his office reflecting on the Mobile World Congress that just concluded in Barcelona in February 2009. 2008 had been an exciting year for the industry as it reached an important milestone: over 4 billion mobile subscriptions globally. There had been breakthroughs in mobile broadband and an accelerated focus on an all-IP convergence. These trends were positive and encouraging for the industry in general and Ericsson in particular and he was confident that his company was well positioned for this IP-convergence. The financial performance had been good (+11% growth and strong cash flow) and over 40% of all mobile calls in the world were made through Ericsson's network and systems.

Still, he was worried about the global recession and what it may mean for how Ericsson achieves sustained growth and profitability. The macroeconomic factors such as exchange rate swings, meltdown of the global financial markets and declining consumer confidence were concerns. The silver lining was that the recession thus far seems to have had minimal impact on the telecoms and the financially strong operators had shown resilience. It was also clear that the world economies were making coordinated investments in new infrastructure including mobile broadband and Ericsson could be even better positioned to be an integral part of the new global digital infrastructure that could shape business models in many sectors. Even though the mood in Barcelona was upbeat, he wondered if Ericsson [and the broader industry] was at an inflection point. Past success and growth rates of over 10% may not guarantee future success if the post-recession business landscape turned out to be very different and with Ericsson poorly positioned. He had championed Ericsson to be the "prime driver in an all-communicating world" but wondered about the sources of profitable growth. He wanted Ericsson well positioned to take advantage of new avenues of profitable growth in the coming decade.

Carl-Henric Svanberg turned to one of his trusted colleagues on the management team, Hans Vestberg to take a look at the opportunities and threats facing Ericsson at this inflection point. He suggested that they meet in early April. He wanted Hans to prepare a presentation to (a) focus on clear avenues for Ericsson's pursuit of profitable growth; and (b) delineate possible ways their future could be threatened by the broader shifts underway. Particularly, he wanted Hans to assess how well Ericsson is positioned in the converging all-IP marketplace with over 50 billion connected devices by 2020 against the backdrop of trends such as: (1) the evolving shape and scope of "an all-communicating world"; (2) the dominant global competitors such as Nokia and Alcatel-Lucent and the rise of new competitors such as Huawei from China; (3) the strong push from Cisco to rebrand itself as the enabler of "The Human Network Effect" and (4) the strong push from IBM and others into 'cloud computing.' He wanted a fresh look at the opportunities and threats in the converging marketplace and a reasoned assessment of how Ericsson could seize them to win.

Hans Vestberg viewed this as a leadership challenge to guide and shape Ericsson's strategy in the coming years. As CFO and a member of the global management team, he too was pleased with the recent financial results. He was also thrilled with recent successes in winning major contracts at Verizon, Vodafone, China Unicom, Sprint and others. At the same time, he was acutely aware that this was no time for complacency. He had seen many industry-leaders such as Motorola, IBM, Nortel, HP, Lucent, AOL, Yahoo and others stumble at some point in their history. He was aware that in the converging marketplace, newer companies might seize technology-based discontinuities to capture greater share of revenues and margins. Also, some companies that may today appear at the fringe of the industry may emerge rapidly and dictate the rules of the game as Apple and Google have done.



Ericsson had recently hired some smart MBAs as part of its global recruitment efforts to bring new thinking to its strategy process. Vestberg assigned them to look at the key trends to assess how well Ericsson is positioned and make specific recommendations to him. He thought they may bring greater clarity to the scope and shape of “an all-communicating IP world” and look at the opportunities from a fresh perspective, untainted by any internal deliberations on strategic actions and directions that may have gone on within Ericsson in recent years.

So, you are required to develop the presentation that Hans Vestberg will use in his conversations with Carl-Henric Svanberg on how Ericsson can effectively pursue profitable growth by delivering value to its customers and be seen as a value-added partner to them as they deal with the current financial crisis. He has laid out five themes for you to look at. Obviously, you will see some as more important than others and your analysis and recommendations will reflect that choice. Be sure that you consider these five themes in an integrated fashion.

1. The scope and shape of the “all-communicating world.” Ericsson’s vision centers on the all-communicating world. What will this world look like in 2015? 2020? What functionality and requirements will emerge as key value propositions? What new applications could unleash even greater opportunities?

2. Margins from solutions delivery. The value potential in this sector is shifting from products to services and solutions. Ericsson has had reasonably good success with managed services for operators on a global basis since 2000. Today, it manages networks for operators serving over 200 million subscribers. At the same time, the global services marketplace is becoming fiercely competitive with players such as IBM, HP, Accenture, Tata Consulting, Infosys, Wipro and others. How should Ericsson position itself as a solution provider to get a greater share of revenue and margins? What logic of partnerships should it explore with other complementary service providers to win?

3. Acquisitions and Alliances. Ericsson has a business model that begins with technology research through the development of networks and applications all the way to running and managing the overall systems for operators. To be strong in this integrated value-chain, Ericsson has made a number of important acquisitions (e.g., Tandberg) and formed key joint ventures (e.g., Sony Ericsson and Ericsson-STMicroelectronics). What other acquisitions and joint ventures should it consider in line with the evolution of an all-communicating IP world? What are the technologies that appear at the periphery today that may become part of the core of an all-communicating world? How can Ericsson shape the emerging ecosystem such that it is the prime orchestrator?



4. Global scale and centers of competencies. Ericsson prides itself as a global corporation with far-flung operations in many countries. This global scale can be a source of knowledge and expertise that can be usefully leveraged in other locations for becoming efficient in internal processes as well as for delivering superior service to customers. How can Ericsson further leverage its global scale to be a world-class leader in global processes and streamlined operations? What other successful models of global operations in other sectors serve as a possible model for Ericsson to consider? How can it use that scale advantage for not only low cost operations but also for innovation?

5. Open Innovation. Ericsson has started embracing open innovations (labs.ericsson.net) only recently. Ideas of open innovation have caught the imagination in many sectors and some companies within the industry (e.g., Nokia) and outside telecom (e.g., P&G) appear to have embraced this idea. What should Ericsson do with open innovation—if anything—as part of its strategy?

Hans Vestberg recognizes that these form the core set of the ideas that define Ericsson's approach to *pursuing profitable growth* in the coming decade. He is looking to your team to identify areas where Ericsson has distinctive strengths that it should continue to emphasize while identifying areas that Ericsson is potentially vulnerable as other companies gain greater traction in this converging marketplace. His list of five themes serve as a starting point for Ericsson to seize the momentum and solidify its role as a "prime mover." He expects your reasoned analysis and recommendations so that he can further refine his ideas for his meeting with Carl-Henric in April 2009.

