Master of Science in Business Administration

ERICSSON: TV is a New Game

Diversification strategy for TV & Media business

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ABSTRACT

Title: *Ericsson*: *TV is a new game* – Diversification strategy for TV & Media business.

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The thesis hereby presented in the form of a case study aims to address the challenges faced by the multinational *Ericsson* throughout the process of developing a diversification strategy for the TV & Media business and the strategic options made associated to this diversification maneuver. The case study functions as an educational tool since it allows students to apply the strategic frameworks and theoretical concepts learned in class to a real business situation.

Ericsson is a Swedish multinational company operating in the Information and Communication Technology (ICT) industry, being a provider of communications technology and services and operating and investing in several business areas, among them the TV & Media business.

The corporate business strategies followed by *Ericsson*, as well as the strategic options taken regarding the TV & Media business, and the analysis to the diversification strategy, as well as to the strategic options taken, constitute interesting topics for discussion in strategy courses, supported by the theoretical concepts and strategy frameworks proposed in the literature review.

The proposed reflection focuses on the analysis and evaluation of the strategic decision to diversify into the TV & Media business and the strategic options taken, particularly, the development of the business area through an acquisitions strategy.

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I – CASE STUDY

1. INTRODUCTION

The beginning of a diversification path

In April 2003, the appointment of Carl-Henric Svanberg as *Ericsson*'s CEO brought an all new vigor to this Telecom key player going through a tough time. The major re-structuring process pared with the stock market bubble burst of 2000 had weakened the company and Svanberg's main goals were clear: bring *Ericsson* back to growth, complete successfully the company's re-structuring plans and streamline the company's processes.[1]

Svanberg decided to follow two strategic approaches in order to achieve growth and profitability: bet on the Telecom Services Business, through the newly created Global Unit Business Services, and initiate a bolt-on acquisition[2] strategy to consolidate *Ericsson*'s position in the Telecom Industry.

The CEO's bet on a diversification strategy surpassed the bet on Telecom Services, following the Telecom operators need for business consolidation. The future for the operators' business models was entering TV, so, in 2005, *Ericsson* decided to go into the TV & Media business.

After Svanberg's departure in 2009, his former Head of Global Unit Business Services and CFO, Hans Vestberg, was appointed the successor as *Ericsson*'s President and CEO and, with him, came an innovative and forefront strategy, which brought the company's diversification strategy further beyond.

At the 2011's Mobile World Congress, Hans Vestberg presented the *Networked Society* Strategy, not only taking the Telecom and Information and Communication Technology (ICT) industries to an all new level, but also the TV & Media business, which became one of the company' strategic pillars. Along with the *Networked Society* came a clear commitment to be more than a provider of networks and Telecom services, a commitment to be part of this

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[1] *Best turnaround CEO's of all times*, FierceWireless.

[2] **Bolt-on Acquisitions** – Bolt-on acquisitions occur when a smaller company, with little financial and administrative infrastructure but usually with excellent operation and customer relationships, is bought out by a private equity firm or a corporate firm to provide the purchaser complementary services, technology or geographic footprint diversification.

technology world revolution. *Ericsson* ambitioned to become not only an enabler, but a driving force of the change in the way people, businesses and society face this new and exciting world "*where everything that benefits from being connected, will be connected*".[3]

2. ERICSSON

Company overview

Ericsson is a Swedish multinational operating in the Information and Communication Technology (ICT) industry, being a communications technology and services provider that offers software, services and infrastructure in ICT for Telecom operators and other industries, assuming its most prominent role in the Communication Service Provider segment of the ICT industry.

The company has three main business areas: Networks, Global Services and Support Solutions, subdivided in six key business units: Mobile Broadband; Fixed Broadband & Convergence; Communication Services; Managed Services; Operations and Business Support Systems (OSS/BSS) and TV & Media Management.

There is, also, a great focus on R&D through the Patents & Licensing Unit, which, by the end of 2013, counted with 35,000 patents and 25,300 employees working exclusively in this department.

Ericsson has been led by the CEO Hans Vestberg since 2009 and counts with 117,655 employees worldwide, 17,655 of them in Sweden, registering a gender breakdown of 22% female for 78% male employees.

This ICT giant, present in 180 countries, recorded net sales of $34,9 billion and operating income of $2,73 billion, in 2013 and has, recently, been ranked first in Communications Service

[3] Ericsson's President and CEO Hans Vestberg presenting the Networked Society at the 2011 Mobile World Congress.

Providers Operational Technology Market Share in 2013 by *Gartner*[4], reaching 18,6% market share and $30 billion dollars revenues.

Furthermore, according to Gartner's *Market Share Analysis: Communications Service Provider Operational Technology, Worldwide, 2013*, *Ericsson* has been extremely successful at the software segment and services, ranking #1 for these two categories as well as for the mobile networks infrastructure segment.

Mission, vision and values

Ericsson is a major player in the ICT industry, an industry that has undergone major transformations in the last decades and has been providing the necessary tools for society to continuously go further and further regarding connection and mobility. Following this reality, *Ericsson*'s mission is to "*lead transformation through mobility*".

Ericsson's Professionals are guided by three main values: "*Respect. Professionalism. Perseverance.*". They are committed to deliver the most innovative, high-performance solutions to their customers, always keeping a customer-provider relationship based on trust.

Finally, a major advance at *Ericsson*'s recent strategy, which has become its' vision is the Networked Society. The Networked Society is *Ericsson*'s vision of a worldwide society "*where every person and every industry is empowered to reach their full potential*"[5].

Networked Society

The Networked Society was presented by *Ericsson*'s CEO, Hans Vestberg, at the 2011 Mobile World Congress: "*The Networked Society is where everything that benefits from being connected will be connected*"[6].

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[4] Gartner's *Market Share Analysis: Communications Service Provider Operational Technology, Worldwide, 2013.*
[5] *Ericsson*'s Vision .
[6] Ericsson's President and CEO Hans Vestberg presenting the Networked Society at the 2011 Mobile World Congress.

The Networked Society is *Ericsson*'s vision of the future for society worldwide, a society where "*everyone, everything and everywhere will be connected in real time*"[7]. This constant connection between people, knowledge, devices and information has already started to bring a huge impact on Society, Life and Business, allowing for innovation, growth and sustainability.

Ericsson's vision for the future was grounded on mobility and connectivity. With 40% of all data traffic flowing through networks managed by the company, this became the perfect opportunity for *Ericsson* to lead this transformation and contribute to empower every person and every industry to reach their full potential.

The Networked Society has been revolutionizing our world, bringing new opportunities and innovative answers to serious industry challenges and changing the worlds' perspective on innovation, collaboration and socializing – living. Because in the Networked Society "*When one person connects, their world changes. With everything connected our World changes.*"[8]

***Ericsson*'s position in the industry and competition**

As the market share leader for Communication Service Providers (CSP) operational technology, *Ericsson* is known for its technical expertise, very comprehensive network and support solutions portfolio. Its continued innovation and ability to deliver as a viable long-term partner remain key points for communication service providers' procurement to consider.[9]

Ericsson's networks business unit has two main parts: Mobile networks and IP & Cloud. Regarding mobile networks segment, *Ericsson* is first in the market, presenting the best technology, performance and R&D scale, and its main competitors in the segment are NSN, Alcatel-Lucent, ZTE and Huawei. In the IP & Cloud segment, the company has been positioned between 4th and 5th in the segment, having Juniper, Alcatel-Lucent, Cisco and Huawei as main competitors within this segment.

Another market segment in which *Ericsson* has secured a leadership position is Global Services. This business unit has high skills, tools and capabilities to offer the best services to the several

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[7] *Ericsson* on Networked Society: A connected world is just the beginning.
[8] *Ericsson – Networked Society Essentials*.
[9] Gartner, December 2014. *Vendor Rating: Ericsson*.

major clients. Within this segment, main competitors are IBM, Accenture, Huawei and NSN, among others.

As for *Ericsson*'s support solutions, the company's ranking fluctuates between 1^{st} and 3^{rd} places, beneficiating from the complete portfolio and R&D scale at the company's disposal. In this segment, IBM, Oracle, Huawei and Amdocs are the main competition.

In a company that presents such a high investment in patents & licensing as *Ericsson*, the first place in the podium is mainly due to the 2G, 3G and 4G patents that are in *Ericsson*'s portfolio.

3. INDUSTRY OVERVIEW

Telecom & ICT industries at a glance

Since the beginning of the century, the Telecom industry suffered a heavy re-structuring, having the main Telecom vendors been reduced from 12 to 5 and the ICT players been multiplied considerably. These changes in the Telecom and ICT industries have actually followed the modifications recorded in business mix, having the business focus gone from hardware to services & software, in the last 10 to 15 years.

Even though there was a reduction of Telecom vendors in the market, the ones in it transformed the industry into a highly concentrated and competitive one, being the current bigger players *Ericsson*, *Huawei* and *Alcatel-Lucent*. (**Exhibit 1**)

The Telecom industry is now facing a market where consumers have learnt to live in an all connected world and cannot stand to lose connectivity, wherever nor whenever. High quality and speed mobile service in both voice and data traffic at all times and a focus on the customer experience are already expected by customers. Smartphones, apps, connectivity, mobility, data traffic and mobile video access have changed what consumers expect from the Telecommunications Sector and, mainly, what they value the most, demanding a change on Telecoms' value propositions.

The market dynamics have changed, industries are converging and the Telecom Sector has a central role in the multi convergence phenomenon, which is bringing Telecom and ICT closer to other, traditionally and untraditionally related, industries.

The convergence phenomenon brought new challenges and opportunities to the ICT industry, the changes in customer priorities, new consumption patterns and technology innovation are bringing countless opportunities, but also an imperative need to rethink and rebuilt business models, in an Industry expected to reach, approximately, $5 trillion dollars worldwide by 2015, mainly driven by Digital Contents and Entertainment. (**Exhibit 2**)

The ICT industry is going through a transformation period and, specially, the segment of Communications Service Providers (CSP). According to an Accenture's report regarding the future of Communications Service Providers[10], a successful CSP's agenda for a fruitful transformation should include the following aspects: invest in intelligent networks to enable optimization and convergence experiences; invest in a business model of integrated digital services, building partnerships with OTTs (Over-The-Top)[11] and developers to deliver integrated experiences to clients; focus on new services, invading adjacent markets; and attract the best human capital for innovative and leading roles.

Entertainment & Media industry: main trends and challenges

In the Entertainment & Media industry, content has always been crucial. From content creators and owners to broadcasters and distributors (TV service providers), the content they have at consumers' disposable makes their world go around. Nowadays, content keeps on playing a central role, but divides the spotlights with technological advances and the new consumption patterns that are changing the TV game.

The currently rooted reality of the all connected world brings challenges to every industry and Entertainment & Media is no exception. Constant connectivity, full mobility, growing importance of mobile video traffic and ease of access to video content on-demand have hugely impacted consumers' expectations regarding TV services. Consumers want an evolved TV experience, which is user-centric, flexible, customized and transversal to all video enabled devices and that can be taken with them anywhere and accessed at any time.

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[10] ACCENTURE, The Future Communications Service Provider: A Blueprint for Relevance in the Converged Digital World, 2013.

[11] **Over-the-Top** (OTT) – Content providers that deliver their service through the Internet, therefore, using the network infrastructures of the customer's network provider of Internet access.

Consumers are giving more and more emphasis to easy-to-use, video on-demand services and convenient streaming that allows for cross-platforms access to content. Streaming has been attaining a more prominent role in the consumers' media viewing habits, given that "*75% of people watch any type of streamed video several times a week or more against 77% of people who watch scheduled broadcast TV several times a week or more*" (**Exhibit 3**). Binge viewing[12] is another media viewing habit that has been growing at a fast pace, enhanced by video on-demand and streaming services.

Moreover, this shifting on consumers' media viewing habits has brought to the market a new way to watch TV, the Over The Top TV [13]. The OTT TV subscription services have been challenging the traditional TV industry with their offer of customized TV service without having the network's investment of a traditional TV player. Since OTT TV players, such as Netflix and Hulu, run their business over the internet, they use the Telecom operator's networks that are providing internet service to OTT TV subscribers. This way, OTT TV service providers avoid a huge operating cost that the traditional TV players have to support, therefore, bringing a massive challenge to the traditional TV industry business models.

The online video content availability, the possibility to access content through all video enabled devices anywhere and the crave for customization are setting up solid pillars for the growth of OTT TV business that has been bothering the traditional TV broadcasters. This became a serious concern for the near future, threatening all players in the TV industry traditional value chain. (**Exhibit 4**)

Furthermore, social media has been growing and its influence in the new media value chain followed the trend, as viewers are now taking an active role. On one hand, consumers are currently able to dictate the success or fail of a TV series, for example, through comments on social networks or recommendations to friends/other TV viewers. And, on the other hand, consumers' interaction with the media companies are bringing consumers closer to the value creation processes, integrating viewers' perspectives on content creation, bundling or distribution and, therefore, trying to enhance the possibility of success.

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[12] **Binge viewing** or binge watching – To watch multiple episodes of a television series (or other type of television programme) in rapid succession, typically through DVDs or digital streaming.
[13] **Over-the-Top TV** (OTT TV) – Content suited for TV that is delivered through the internet, so there is a TV service which is provided using the network infrastructures of the customer's network provider of Internet access.

This interaction has brought new dynamics into the Media value chain, which embodies the relationship and interchanged information between consumers and providers, having consumers gone from a passive to a proactive position in the Entertainment and Media Industry and its current value chain. (**Exhibits 5 and 6**)

OTT TV along with the changes in the consumers' expectations for the current and future TV service are, currently, requiring the industry to rethink and rebuilt their TV Experience offer, value propositions and business models. Only with the adequate response to customers' demands and expectation and the anticipation of future trends or customers' desires will the players be able to secure their place in this billion dollars industry.

4. *ERICSSON*'S DIVERSIFICATION STRATEGY

Ericsson is the overall market leader of the Communication Service Providers (Operational Technology) with an 18,6% market share and as any front-runner in the industry strives to keep its current position, therefore, excelling at all strands of the market is a continual goal.

Ericsson's core businesses, Networks and Telecom Services, have been the company's main source of revenues and, currently, secure the market leadership, financial results and enable crucial investments in R&D.

However, every company needs a long-term strategy that prepares and empowers the company's future by anticipating market trends and preparing for potential business solutions to successfully respond to the company's future challenges. *Ericsson*'s long-term strategy came with the Networked Society and the commitment to be the main partner in leading ICT transformation. Using the core businesses and the fact that 40% of world's data flows through networks managed by the company, *Ericsson* has been leading the implementation and expansion of the Networked Society, driven by the increasing importance of mobility and internet on people and businesses' everyday life and future.

Over the years, *Ericsson* has been diversifying its business into areas that could take leverage from the company's core business and its technology & services leadership, global scale and skills, betting on several businesses and technologies that presented a higher growth potential and would enable the company's success in the days to come, either in its current industry or any another.

The company's decision to diversify its business into the areas of Operations Support System (OSS)[14] / Business Support System (BSS)[15], IP Networks[16] and TV & Media came as a way to reply to the market's needs, trends and technological evolutions. Moreover, it came as a way to complement *Ericsson*'s portfolio with businesses in adjacent areas to the core business, which presented high business potential and higher market share and recurring revenues (software and services) than the core businesses, Networks and Telecom Services.

In the recent past, *Ericsson* decided to invest in Cloud, a business that is revolutionizing businesses across all industries and, specially, the Telecom industry. Integrated at *Ericsson*'s portfolio, the bet on Cloud can also be characterized as an investment in an adjacent area to the core business. Even though the Cloud Services unit was created, mainly, as a support unit to the company's existing businesses, it also works as a separate business itself. This newly business allows *Ericsson* to leverage its' assets and capabilities in order to materialize *Ericsson*'s main goal within the Networked Society, becoming an enabler of transformation for companies across several industries. (**Exhibit 7**)

Additionally, and as a way to anticipate the future and leading the transformation in the Networked Society, *Ericsson* decided to invest in new areas such as Machine to Machine (M2M)[17]. *Ericsson*'s strategy behind the diversification into this completely new area was based into three main goals, test new models, innovate and build footprint. This way, *Ericsson* is able to anticipate itself to the main competitors, such as *Huawei* or *Alcatel-Lucent*, in order to guarantee the company's market position in businesses that can potentially become the future of the industry.

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[14] **OSS** – Software applications that support back-office activities to operate telecom's networks, provision and maintenance of customer services.
[15] **BSS** – Software applications that support customer-facing activities, such as billing, order management, CRM (customer relationship management) and call center automation.
[16] **IP Network** – An IP network is a communication network that uses Internet Protocol (IP) to send and receive messages between one or more computers/devices. An IP network is implemented in internet networks, local area networks (LAN) and enterprise networks. Each host is assigned a unique logical IP address, which distinguishes it from other nodes and helps initiate data communication with other hosts. IP network communication occurs when a host sends a data packet to another host by addressing its IP address, also identifying the sender by its IP address. An IP network requires that all connected devices be configured with the IP suite and have a valid IP address to perform any network communication.
[17] **Machine to Machine (M2M)** – Wireless or wired network setup that allows devices the ability to communicate freely, enabling automated data transmission and measurement between mechanical or electronic devices.

Proving that *Ericsson* has been focusing on preparing the company's future, with businesses that will lead this industry in the upcoming times and not being a stagnated player of the ICT industry stuck to the current core businesses that bring the higher margins, the company's CEO Hans Vestberg has given an interview on the strategy to Ericsson's Networked Society[18], where he clarified, in a drawn matrix, *Ericsson*'s Strategic Direction. (**Exhibit 8**)

5. TV & MEDIA BUSINESS: A STRATEGIC PILLAR

The ICT industry is now connected to every industry and consumers' spending in ICT, which are expected to reach around 5 trillion dollars worldwide by 2015, has shifted its drive to Digital Contents & Entertainment. Furthermore, the data traffic growth has particularly increased on mobile data and video traffic, but has not been matched by a growth on revenues. (**Exhibit 9**) These facts do not only tipped some trends on consumers' valuation of ICT services provided, but also clarified that the ICT industry players need to diversify, in order to bring higher revenues and consolidate their business. Years ago, Telecom operators' need for business consolidation boosted the entrance in the Entertainment & Media industry, therefore many of *Ericsson*'s top clients in networks and telecom services (Telecom operators) became also TV service providers.

This double role of *Ericsson*'s top clients, along with the high potential of the Entertainment & Media industry, the increasing consumers' trend to access video content and the drive to provide cutting-edge services and support solutions to their customers, was a strong motivation for *Ericsson* to bet on the TV & Media business to become a company's strategic pillar. And, even though *Ericsson*'s entrance into this business was, at first, highly connected to the distribution segment players of the Media value chain, Telecom operators, the services and solutions offered have grown strategically in order to appeal to players across all segments of the Media value chain.

Following the Networked Society presentation and the leverage *Ericsson* would be able to give to this business, whose present and future is highly related with connectivity and mobility,

[18] *Ericsson* President & CEO Hans Vestberg interview with Andrew Keen, host of TechCrunch's "Keen On" on October 6, 2014.

arose *Ericsson*'s vision of what TV & Media business and Entertainment & Media industry would be in the future.

The prediction that by 2020 there will be 50 billion connected devices and, of those, 15 billion will be video enabled, has brought a new blaze to the future of this industry and has increased the expectations around it. Nowadays, TV consumers' expectations are higher than ever before, as consumers embrace the internet-connected technologies and devices and expect a more personalized service, TV & Media main players are forced to innovate in their TV services and offers.

Mobile connectivity, bandwidth and high speed Internet are fundamental to deliver a quality TV experience, of which consumers are increasingly demanding about. *Ericsson* has the ability to use synergies between its Mobile Networks, IP Networks and Cloud business units to provide cutting-edge solutions such as LTE[19]/4G Broadcast, IPTV[20] and Cloud Services for *Ericsson*'s TV & Media business, in order to have the most complete technical and management solutions for TV & Media players.

Moreover, *Ericsson* has been expanding its TV solutions through the investment in creation and management of TV experience on devices, given that, nowadays, consumers' higher valuations of TV services go to access to content through streamed video and to anywhere access to content across devices.

To support TV service providers, content owners and broadcasters to better perform in the Entertainment & Media industry, *Ericsson*'s TV & Media business unit offers solutions from on-demand content management, multi-platform video processing and multiscreen TV solutions to Mediaroom Solutions[21] and 4G Broadcast, in order to help their clients to deliver high quality and innovative TV services to end users. (**Exhibit 10**)

End consumers' desire to have the highest personalization level on TV services and the growing importance of connectivity, mobility and cloud services in TV & Media leaded the way to the next generation TV solution: *Ericsson*'s Media First TV Platform.

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[19] **LTE**– Long-Term Evolution, commonly known as 4G, is the wireless high-speed data communication network for devices such as mobile phones and other data terminals, currently being the most spread out communication network service in the world.
[20] **IPTV** – is a cutting-edge TV solution that runs TV-over-IP networks.
[21] **Mediaroom Solutions** – TV solutions that run on IP networks, allowing the delivery of fully-interactive and customizable TV experience to any device.

Ericsson's MediaFirst TV is a software-defined and media-optimized solution for TV & Media suppliers to deliver the Pay TV service of the future. A solution that combines cloud-driven TV & Media solutions integrating the quality and content depth characteristic of Pay TV with the interactivity, user personalization and multiscreen viewing capabilities of OTT's. MediaFirst TV Platform's unified searching capabilities provide users with the possibility of searching through their favorite content, whether it's live TV, time-shift, VOD or OTT. With the possibility of creating user accounts, the consumer can create profiles, share them and receive tailored recommendations and content based on data from their viewing history and preferences. The starting point for the, so desired and acclaimed, TV of the Future.

Developing the business through M&A

Ericsson has been establishing an increasingly stronger position in the Entertainment & Media industry by offering a range of solutions that appeal to every segment of the Media value chain. *Ericsson*'s TV & Media portfolio has been developed and expanded, mainly, through an acquisition strategy, led by two guiding lines: acquisitions leading to market share growth and acquisitions that enable the incorporation of new technologies, which improve solutions offered by the company's TV & Media business unit.

Ericsson has made some structural acquisitions, such as Tandberg, Technicolor, Microsoft Mediaroom and Red Bee, which had the ability to lead to market share growth and to increase the company's presence in the Entertainment & Media market, even though, they are related to different parts of the industry value chain.

While Technicolor and RedBee are related to TV management services, Tandberg and Microsoft Mediaroom enabled *Ericsson* to build a significant position in IPTV and video infrastructure, meaning it is more related with the quality and agility of the TV service provider.

Nevertheless, there was a crucial difference in *Ericsson*'s motivations to acquire RedBee and Technicolor. Even though both companies are related to content management services, RedBee covers content owners, content producers and broadcasters' segments, while Technicolor is specialized in providing content management services to broadcasters, having brought its worldwide customer-base and experience into *Ericsson*'s TV & Media business unit.

Actually, the acquisition of Microsoft Mediaroom in September 2013 turned *Ericsson* into the world's leader for IPTV with a market share of around 25%, but has also represented a crucial addition to the company's multi-screen solutions. Beside the market share, market position and financial forecasts, this acquisition has also brought a significant customer base including big names such as AT&T Inc., Deutsche Telekom AG, Singapore Telecommunications Ltd. and Telefónica S.A. Moreover, hundreds of employers, full of know-how and industry experience integrated *Ericsson* through this acquisition and can now assist not only the *Ericsson* Mediaroom, but also the TV & Media business, helping to develop it and achieve success.

Regarding complementary acquisitions, *Ericsson* has acquired several technological companies, which brought new technologies and technological capabilities for the company's entire business portfolio. However, the complementary acquisition with the higher impact on the TV & Media business was Fabrix.

Fabrix's acquisition has brought several competences for *Ericsson* such as highly skilled cloud computing software engineers, media optimized storage and, specially, cloud DVR applications to enable any device or network delivery. Although, this complementary acquisition brought added value to the TV & Media business, its value to *Ericsson* is not concentrated into this specific area of business, but rather in several points of improvement in the company's businesses that can be supported and improved by the usage of Cloud storage, computing and network delivery for video applications.

Most recently, *Ericsson* released the Hyperscale Datacenter System (HDS) 8000 at the 2015 Mobile World Congress (MWC) in Barcelona. The HDS 8000 is a new generation of hyperscale datacenters that allow for hardware disaggregation, improves efficiency, utilization, automation and decreases the total cost of ownership. This new datacenter offers the same kind of functionality as cloud-based providers. This product boasts integrated security, utilization capacity and applications management and is a starting point for Cloud transformation by enabling a faster deployment of cloud services and lower total cost of ownership. For the TV & Media business, *Ericsson*'s HDS 8000 may be an advantage to boost the cloud DVR applications and media optimized storage capabilities integrated through Fabrix's acquisition and further elevate and expand *Ericsson*'s TV & Media business solutions linked to Cloud services. (**Exhibit 11**)

Ericsson's worldwide references for the TV & Media business

Ericsson's TV & Media business could be divided into four categories: Converged Multiscreen/OTT, Video Delivery, Managed TV and TV infrastructure modernization.

As for the Converged Multiscreen/OTT, *Ericsson*'s main references are Deutsche Telecom with the Mediaroom deployment in more than 12 million households with more than 22 million set top boxes; Telefonica as a prime integrator of Global Video Platform and Mediaroom + OTT; and Orange with the evolution into the Multi-screen environment.

In Video Delivery, there are two references to highlight: Verizon's bet on *Ericsson*'s LTE Broadcast for entertainment and sporting events; and Vodafone with the supporting of OTT service.

Lastly, and regarding managed TV, there are four important references: Canal +, which gave *Ericsson* the opportunity to manage the playout and the ingestion of the content for 22 Canal+ overseas channels; Rai TV as a managing service operations center; TV5MONDE brought *Ericsson* into the integration and operations of new production, playout and has handed the management and integration of post-production facilities; at last, Telefonica has handed the managed IT services, multi-tenant and multi-country Global Video Platform.

6. MAIN CHALLENGES

Entering a new business always brings some uncertainty, but the way a company diversifies its business portfolio and the synergies within the current portfolio, which can be used to leverage the newly business, are crucial for success. In *Ericsson*'s case, the diversification strategy for TV & Media business was put in place by a series of acquisitions that brought operational experience, customer base, employees' experience and know-how, and new technologies and methods, to deliver the best options to Entertainment & Media players developing their activities at any part of the industry value chain. Moreover, the synergies from core business and other businesses within the company's portfolio, alongside Ericsson's existing customer-base, facilitated a successful entrance into the Entertainment & Media industry.

Even though *Ericsson*'s diversification strategy for TV & Media went quite smoothly, usually this kind of moves bring risks such as management complexity or the dispersion of managers' attention, and employees in general, throughout the different businesses. However, the entrance through acquisitions is a strategy that minimizes risks and allows a faster growth in the business than if the business was built from the ground up, bringing synergies, talented elements into the companies' team and minimizing some risks of diversification.

Competition is a common factor at any industry, but being *Ericsson* a front runner in the highly concentrated ICT industry, it is used to be in a competitive environment, fighting to stay ahead of competition and trying to anticipate its competitors' every step. The entrance into the TV & Media business has been no different and competition has been a challenge to surpass. Regarding the TV & Media business, besides the companies that were already in the market, providing services to content creators, producers and broadcasters and the ones providing devices and services to Cable TV providers and other distributors, *Ericsson* has also ended up facing its already known competitors from their industry of origin like *Huawei*, which has also decided to enter this business by providing solutions for Media players. Moreover, IT consultants like *Altran* are also developing solutions to deliver their "Connected TV", which is competing with *Ericsson*'s Media First Solution.

7. OUTLOOK

After the crucial acquisition of Microsoft Mediaroom, the launch of *Ericsson*'s solution for the TV of the future – Media First – and the growing importance of Cloud in the TV & Media business will be decisive for the company's success in the future.

Besides the high quality TV service, the on-demand content, user-centric experience, multiscreen TV and personalized service expected by consumers/viewers, the Entertainment & Media industry players have evolved with the possibilities that technological advances bring into the table and are also expecting more from suppliers and service providers like *Ericsson*.

Given the growing difficulties on managing media content, TV service providers are currently being challenged to take their business into Cloud. *Ericsson* launched a new end-to-end cloud enabler for media management services, in both public and private cloud. This enables broadcasters to manage their media through a series of cloud-hosted capabilities, allowing for an easier management of media content given the increasingly embrace of viewers of on-demand and multi-platform access to content. This enables broadcasters to be in the forefront of media management and to deliver a more agile and secure service by taking advantage of technological advances and services provided by suppliers.

Moreover, and besides an easier management of media content, Entertainment & Media players are also craving for a clearer insight on viewers consumption habits, in order to be able to deliver the most personalized TV service possible. For that purpose, *Ericsson* is developing solutions that allow TV service providers to access the information needed to customize the TV service in content, bundles and, even, advertisement, ultimately, providing the tools and mechanisms needed for a flexible and customized TV service, adapted to the preferences of each member of any household.

The question now is: how will the TV of the future be after customization? Will *Ericsson* continue to be an anticipator of waves inside the TV & Media business?

II – EXHIBITS

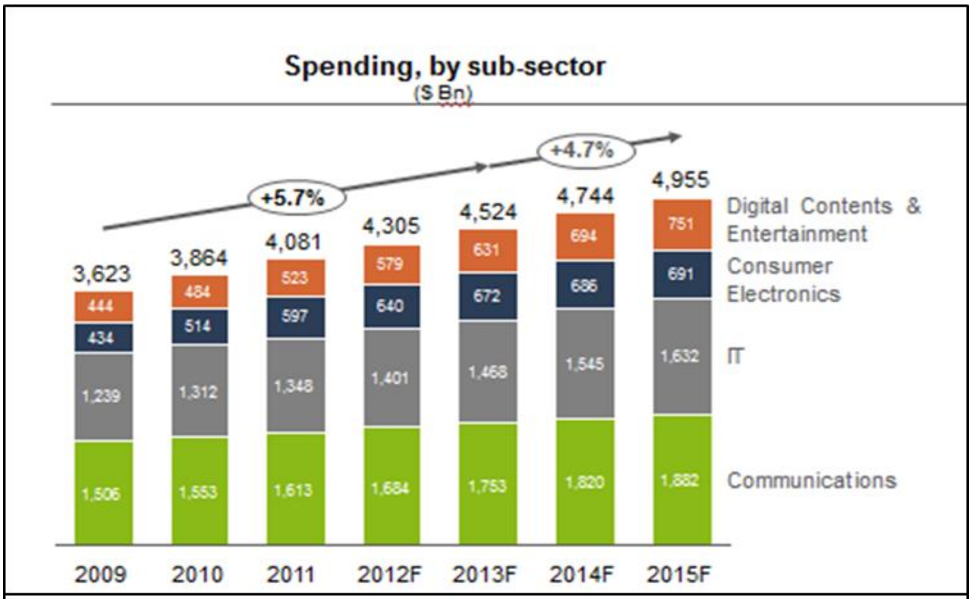
Exhibit 1 – Communications Service Providers (Operational Technology) revenue and market share, worldwide, 2013

Current Year Rank	Company Name	2013 Revenue	2013 Market Share
1	Ericsson	30,310	18.6%
2	Huawei	24,317	14.9%
3	Alcatel-Lucent	15,643	9.6%
4	NSN	14,148	8.7%
5	Cisco	9,583	5.9%
6	ZTE	7,770	4.8%
7	NEC	4,637	2.8%
8	Samsung	3,000	1.8%
9	Accenture	2,975	1.8%
10	IBM	2,893	1.8%
11	Fujitsu	2,779	1.7%
12	Juniper	2,710	1.7%
13	Amdocs	2,679	1.6%
14	Ciena	2,083	1.3%
15	HP	1,841	1.1%
16	Oracle	1,733	1.1%
17	Capgemini	1,048	0.6%
18	Tech Mahindra	960	0.6%
19	Others	34,598	21.2%

CSP = communications service provider; OT = operational technology
Note: Percentages may not add to 100% because of rounding.

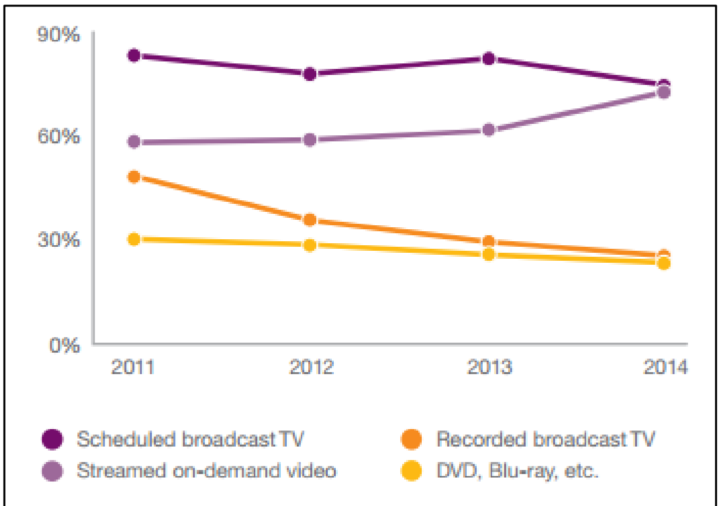
Source: Gartner (May 2014)

Exhibit 2 – Worldwide spending in ICT by sub-sector



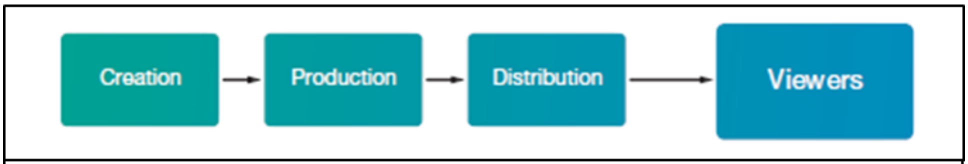
Source: IDC, Strategy Analytics, Gartner, PwC in Ericsson's presentation at Tele Forum XXII, May 2014

Exhibit 3 – Percentage of people watching different media types on more than a weekly basis



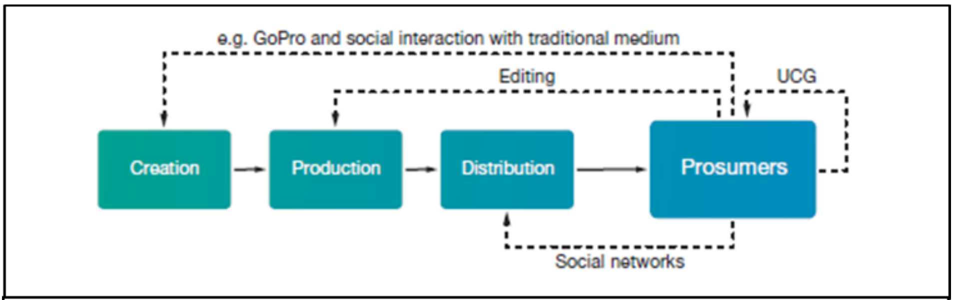
Source: Ericsson ConsumerLab, TV and Media 2014. Base: 9 markets

Exhibit 4 – Traditional media value chain



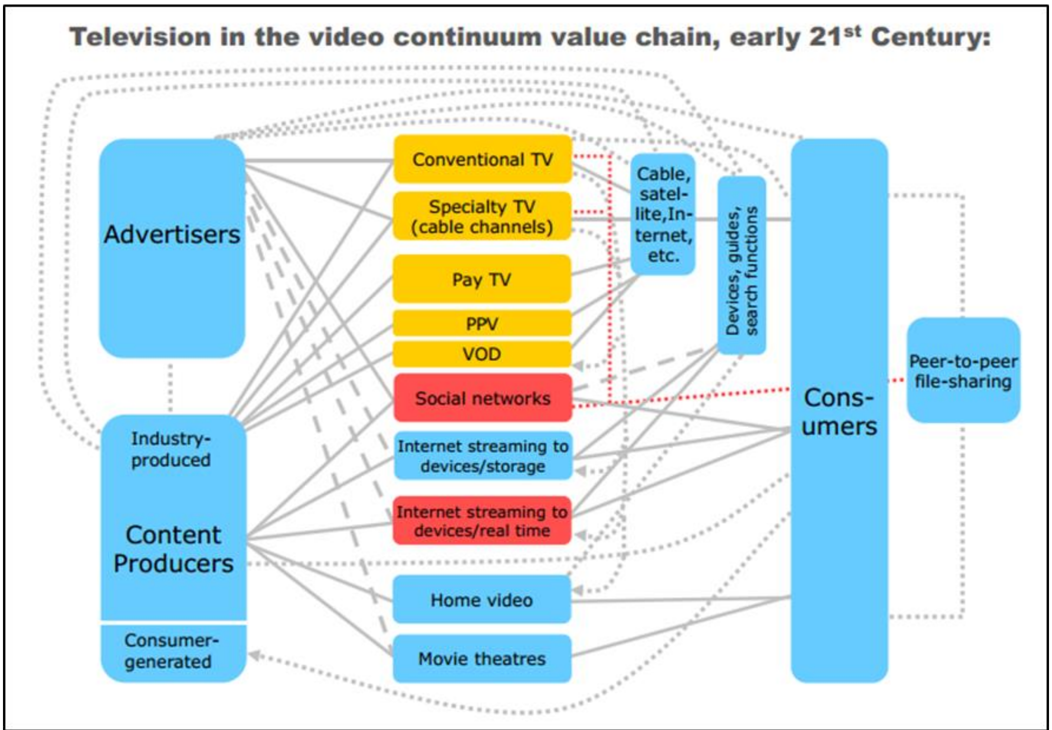
Source: Ericsson Networked Society Lab: *ICT and The Future of Media*

Exhibit 5 – ICT and current media value chain



Source: Ericsson Networked Society Lab: *ICT and The Future of Media*

Exhibit 6 – TV in the video continuum value chain, early 21st century



Source: *Media Models and Value Chains for Print, Radio and Television July 2012* – Communications Management Inc.

Exhibit 7 – Volvo: **Global Connected Car Services in partnership with** ***Ericsson*****.**

Volvo Car Group and Ericsson deliver global connected car services

The launch of cloud-enabled connected car services across the Volvo product portfolio at this week's at CES (Consumer Electronics Show) in Las Vegas is the latest proof-point of the visionary partnership between Volvo Car Group (Volvo Cars) and Ericsson.

Leveraging extensive consumer research and industry-leading innovation, the all-Swedish partnership has focused on developing a solution that supports current and future connected car needs by combining Volvo Cars' driver behaviour expertise and Ericsson's consulting and systems integration know-how.

Volvo Cloud car services enabled by Ericsson's Connected Vehicle Cloud include a unique Park & Pay solution, Connected Service Booking and infotainment applications, such as Pandora, Rdio, TuneIn and Stitcher amongst many others, adding time-saving convenience and a myriad of entertainment options to the Volvo car experience.

The solution is implemented and operated as a managed service of a global cloud-based solution with regional and central nodes. These nodes enable efficient provision and communication of services and information to the cars. All in all the "cloud" offers great flexibility to adjust capacity and local presence of content based end-user demands. Ericsson's systems integration capabilities have been critical in solution design and integration into Volvo Car's IS/IT environment and to the head-end unit in the car. The solution covers all Volvo Cars markets around the globe.

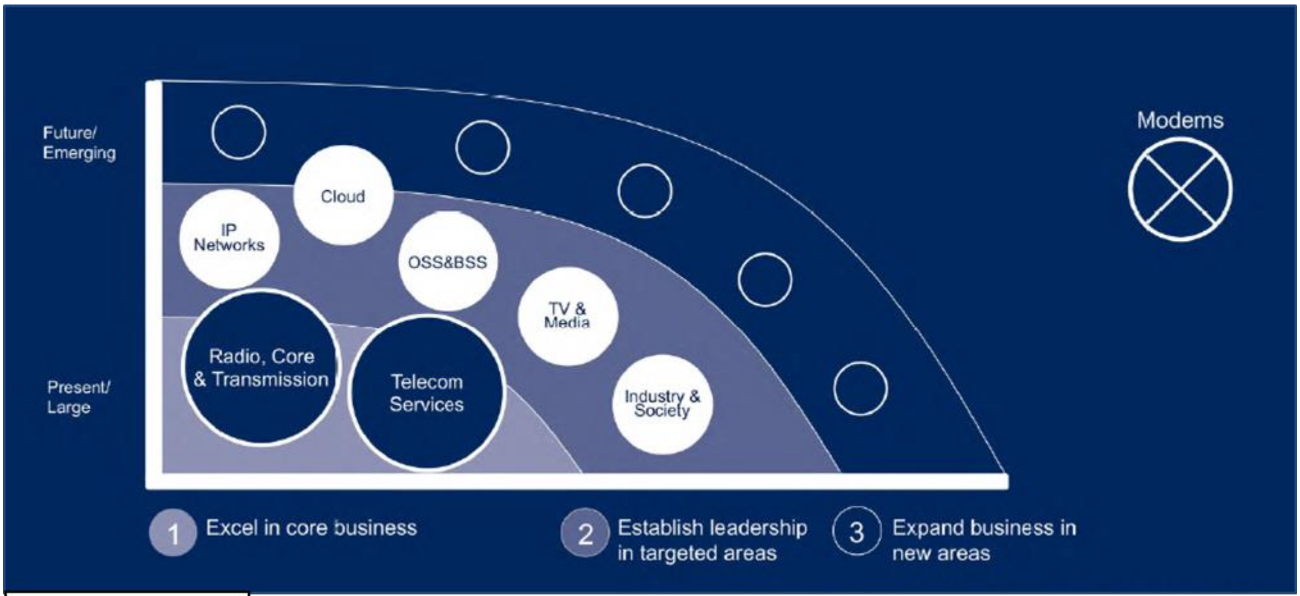
"This partnership is another proof-point that Volvo Cars is in the vanguard of innovation with a clear understanding of the importance of the car in an increasingly connected society," said Lex Kerssemakers, Senior Vice President Product Strategy and Vehicle Line Management at Volvo Cars. "This is a strategic step forwards for us that provides our customers with cloud-enabled applications and services as never before, thanks to Ericsson's world-class services platform."

Per Borgklint, Senior Vice President and Head of Business Unit Support Solutions at Ericsson, says: "Our partnership with Volvo Cars clearly demonstrates the industry transformation that is ongoing in the Networked Society. Evolution of new services and experiences is being made possible by the seamless convergence of information and communication technologies, such as broadband, mobility, smartphones and the cloud."

The Connected Vehicle Cloud is just the first step on a journey towards fully connected and integrated car and infrastructure services, and positions Volvo Cars as a major player in the connected car arena.

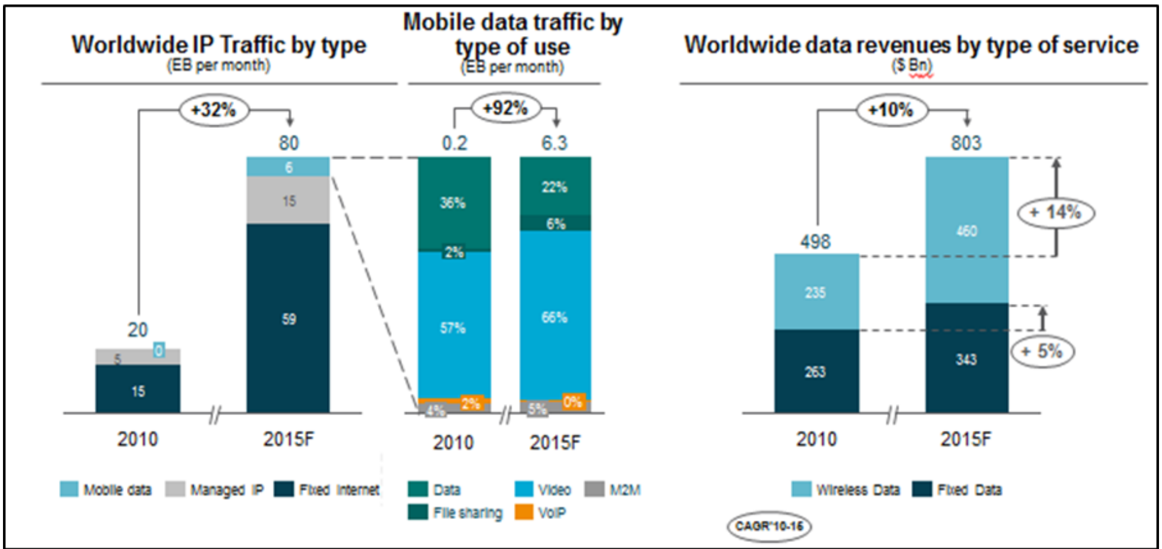
Source: Volvo Cars Group: Global Newsroom – Press Release.

Exhibit 8 – Ericsson's strategic direction 2014



Source: *Ericsson*

Exhibit 9 – Data traffic and revenues



Source: Cisco, IDC in Ericsson's presentation at Tele Forum XXII, May 2014

Exhibit 10 – Gartner rating of Ericsson's TV & Media Offerings

Media/TV Offering: Promising

Ericsson has been expanding its TV offering, following the 2010 acquisition of Tandberg Television and investments in the creation and management of the next-generation TV experiences on devices, including video compression, video on demand and content distribution for broadcasters and CSPs. Ericsson's acquisition of Microsoft Mediaroom during 2013 significantly strengthens the company's global TV and media portfolio in providing TV service providers with the necessary platform for innovation and aggregation of all content in an IP and Internet environment.
Ericsson has further strengthened its TV and media portfolio with three more acquisitions during 2014: Azuki Systems (mobile TV), Red Bee Media (media consultancy service) and Fabrix Systems (video software).
Its Media Delivery Management System and multiscreen TV service creation platforms are gaining traction. IPTV has also become more attractive to those CSPs and converged operators (such as hybrid satellite and cable multiple system operators) re-evaluating their strategies toward a tightly integrated multiscreen TV environment. The outlook is positive — given that all broadcasters, content owners and TV service providers will have to adopt Internet delivery of TV, and with the uptake of LTE broadcast trials.

Source: Gartner, December 2014, *Vendor Rating: Ericsson*.

Exhibit 11 – Hyperscale Datacenter System Ericsson HDS 8000

The demand for cloud solutions is growing but concerns around security and governance continue to slow adoption rates. Today's operators should not have to choose between speed and security. As the Networked Society matures, operators can no longer afford to compromise – they increasingly need cloud services that deliver high performance with high security and governance.

At Mobile World Congress 2015 Ericsson is introducing new products to the Ericsson Cloud System; Ericsson HDS 8000 (Hyperscale Datacenter System), built on Intel® Rack Scale Architecture, Ericsson Secure Cloud Storage and Ericsson Continuum ® delivering the world's best policy driven platform for hybrid cloud leveraging Ericsson's investment in Apcera.
Data, applications and distributed cloud infrastructures can now be automated and governed for security and compliance, meeting global enterprise policy requirements and geo specific regulations. A platform that lets business build trust in their systems as quickly as they embrace new technology.

Ericsson HDS 8000 is a new generation of hyperscale datacenter systems that uses Intel® Rack Scale Architecture for a disaggregated hardware approach to dramatically improve efficiency, utilization, automation and total cost of ownership.
HDS 8000 uses optical interconnect. Combining a disaggregated hardware architecture with optical interconnect removes the traditional distance and capacity limitations of electrical connections. This enables a more efficient pooling of resources, which has a positive impact on utilization and energy consumption.

Ericsson Secure Cloud Storage is a pre-integrated portfolio of data services complementing the policy-driven hybrid PaaS layer, streamlining web scale development and deployment of new data rich applications. The data services portfolio adds leading cloud software databases that span traditional relational databases to web scale, big data NoSQL type databases. Ericsson is partnering with Cleversafe in this area, a leading provider of hyperscale object storage. Ericsson's first announced product is secure object storage capable of controlling access with policy and guaranteeing confidentiality and integrity of data.

Ericsson Continuum® is a unique policy driven PaaS with hybrid cloud support for application deployment, orchestration and governance through Ericsson Continuum. The unique policy-driven PaaS now supports a hybrid approach across multiple clouds, enabling global enterprise to take advantage of public cloud, on-premise private cloud and industry cloud infrastructure resources to achieve the best levels of performance, agility, scale, cost-effectiveness and compliance, within the context of strong IT governance and control. Ericsson Continuum also provides the most secure deployment of Docker containers.
Ericsson Cloud System maintains full support for OPNFV through the Ericsson Networks Software 15B release to drive a successful transformation to telecom cloud operations.

Source: *Ericsson* – Press Release.

III. LITERATURE REVIEW

1. EXTERNAL ANALYSIS

1.1. Industry Definition

A well done strategic analysis starts with the correct definition of the industry in which the company is operating (CARDEAL, 2014).

To determine the best strategies for a specific company and its strategic positioning is crucial to understand the industry's reality in which the company is, since different industry's definition will result in different conclusions (CARDEAL, 2014).

1.2. Porter's Five Forces

Michael Porter has stated that one of the difficulties when analyzing an industry is how managers define it, being that, many times, their assessment of the competition ends up being too broad or narrow, only focusing on today's direct competition and forgetting that "*competition for profits goes beyond the established industry rivals to include four other competitive forces as well: customers, suppliers, potential entrants and substitute products*" (PORTER*, 1979*).

The Porter's five forces are: threat of new entrants, pressure from substitute products, bargaining power of buyers, bargaining power of suppliers and intensity of rivalry among existing competitors; and these competitive forces determine the intensity of competition and, consequently, the profitability and attractiveness of an industry.

No matter how unique an organization might be nor its particular characteristics, the forces operating within an industry will always affect identically every company in the industry, the main difference will be the company's reaction to those forces (HENRY*, 2008*).

Therefore, a manager's job should be to positioning the company in such way that it can defend itself from the five forces and attempt to, in the long run, influence these forces in its favor.

1.3. Industry Key Success Factors

The Industry Key Success Factors (KSF) correspond to the variables that, depending on the company's management, allow for some companies to compete distinctively by creating value to customers (EISENHARDT & MARTIN, 2000). These factors correspond to what needs to be done right for a company to become successful in a particular industry.

To determine the KSFs, it is crucial, in a first stage, to understand why consumers purchase certain products/services over others in a given industry, meaning the Key Purchase Factors. At a second stage, and already knowing about consumers' preferences, it is important to analyze the nature of competition in a given industry and to know which factors should a company bet on in order to create higher value to its clients than competitors (CARDEAL, 2014).

From a different point of view, the Industry Key Success Factors enable a company to better perform than its competitors in providing the offerings with the higher customer's value creation (OHMAE, 1982).

2. INTERNAL ANALYSIS

2.1. Competitive Advantage

Academically, competitive advantage is perceived as being closely related with performance. Economically speaking, a company has a competitive advantage if it has higher economical profits than its average competitor in a given industry (BESANKO, DRAVONE & SHANLEY, 2000).

In a less economically perspective, a competitive advantage can be defined as the features that allow a company to have a higher performance than its main competitors (OSTER, 1999) and, even, the value a company is able to deliver to its customers (PORTER, 1985). Following this guideline, the concept of economic value was introduced in the definition of competitive advantage by Peteraf and Barney, affirming that a company holds a competitive advantage if it can create more economical value than its marginal competitor *(PETERAF & BARNEY, 2003)*. And why marginal competitor? Because by comparing with marginal competitors, we are assuming that in a given industry there might be more than one company holding a competitive advantage.

The competitive advantage can be obtained in two ways (CARDEAL, 2014):

- As a result of the efficient use of company's resources and capabilities to reach an inferior economical cost of product/service than competitors, ending up delivering the same perceived value to customers for a lower cost;
- As a result of a bet on differentiation by using the company's resources and capabilities in order to deliver a differentiated offer, perceived as superior, for the same cost.

Therefore, the competitive advantage brings benefits for the company, through the induced effects, as a higher market share or a higher product/service perceived quality, every time the price-set allows for either an increase of the consumers' surplus or a surplus on sales profitability, in such a way that generates a profit surplus for the company (CARDEAL, 2014).

2.2. Value Chain

The value chain evaluates the value that each specific activity adds to the organization's products or services (PORTER, 1985), being a simple way to look at the company as a group of activities that create value. The more complete is a company's value chain for a given product or service, the higher the value that the company will be able to deliver to its final customer and, thus, the customers' willingness to pay.

It is possible that in a given organization, each line of products or services has its specific value chain. Therefore, an organization's value chain may include the evaluation of each line of products or services' value chain. The differences between an organizations' value chain and its competitors may be in the source of a company's competitive advantage (PORTER, 1985).

2.3. New SWOt analysis

After having analyzed a company's strengths and weaknesses, as well as the environment the company is in, it is possible to proceed to a SWOT analysis (ANDREWS, 1971). SWOT (*Strengths, Weaknesses, Opportunities and Threats*) is the most commonly used strategic management tool (CARDEAL, 2014).

The SWOT analysis relates the strengths and weaknesses of a given company with the opportunities and threats of its environment and allows a company to identify the best way to take advantage of opportunities and mitigate potential threats, by leveraging the company's strengths and minimizing its weaknesses.

However, the growing importance of time in the strategic decisions of a company was the main reason for the arise of a new perspective on the SWOT analysis: the New SWOt (*Strengths, Weaknesses, Opportunities and time*) (FREIRE, 1997).

The New SWOt replaces the dimension threats by the dimension time, allowing for the inclusion of one of the most important factors in any strategic management decision and excluding threat from the equation since any threat could be seen and transformed into an opportunity.

This way a company should be able to seize any opportunity unless it reacts too late, it does not have the resources and capabilities needed to do so or there is a lack of strategic thinking in the organization (CARDEAL, 2014).

3. BUSINESS STRATEGIES

3.1. Ansoff's Matrix

Igor Ansoff's matrix allows the identification of four strategic business development options: Market Penetration, Market Development, Product Development and Diversification (ANSOFF, 1987).

- <u>Market penetration</u>: this strategy corresponds to an increase in sales volume by supplying the company's current products in the market segments that it already serves.
- <u>Market development</u>: through this strategy, a company tries to extend its current product portfolio to new market segments. Moreover, these new market segments may correspond to new geographic markets.
- <u>Product development</u>: this option consists in developing new products to serve the markets in which the company is already present.

- <u>Diversification</u>: this strategy combines the product development and market development and translates into the achievement of new markets through new products developed.

Even though the described strategies individually allow a company to strategically develop and grow its business, is possible for a company to use simultaneously more than one strategy in order to be competitive.

		Product	
		Existing	**New**
Market	**Existing**	**Market Penetration**	**Product Development**
	New	**Market Development**	**Diversification**

Source: JOHNSON, G., SCHOLES, K. & WHITTINGTON, R. 2008. *Exploring Corporate Strategy*, London, Prentice Hall, page 341.

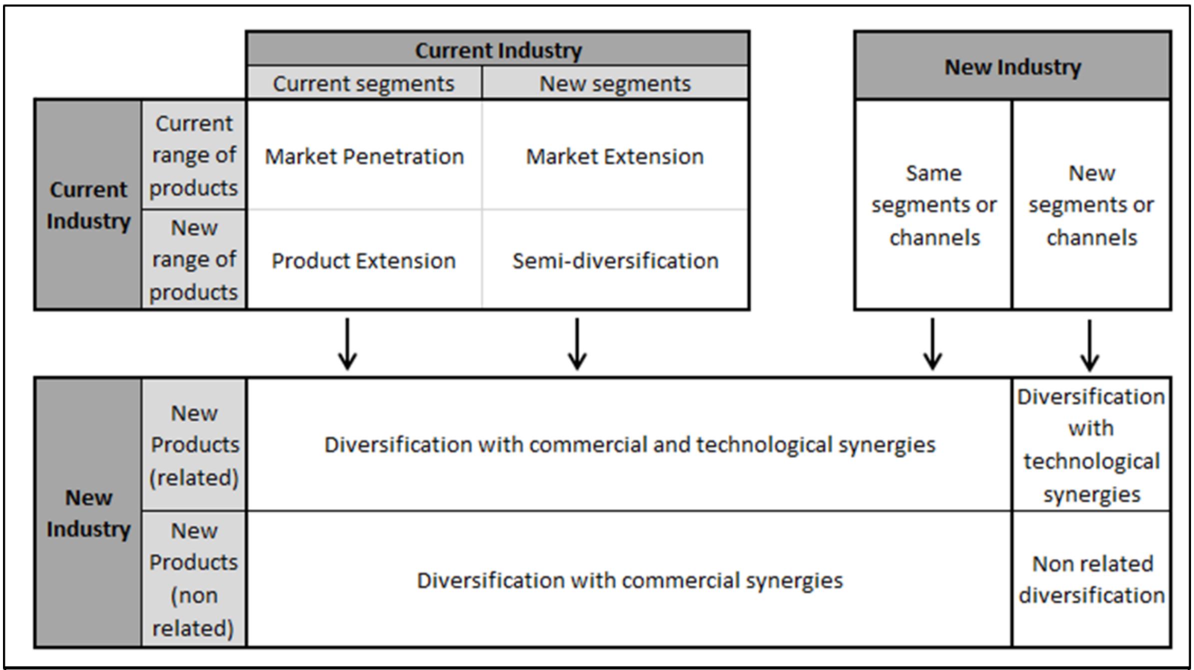
Figure 1. Ansoff's Matrix

4. CORPORATE STRATEGIES

4.1. Diversification

When a company goes into a different industry from its original one, it is called diversification. Diversification presupposes the introduction of new products or services into a company's portfolio (*ANSOFF, 1987*), even though it is acceptable that the new products or services are somehow related with the products or services from the company's industry of origin (*CARDEAL, 2014*).

According to Cardeal (2014), the diversification context is highly influential to the type of diversification chosen as well as the synergies that can be taken from the company's current product or service portfolio, segments or channels. In the matrix below, it is possible to verify this authors' perspective on diversification options and the synergies that can be harnessed in the process.



Source: CARDEAL, N. 2014. *Pensamento Estratégico*, Lisboa, Universidade Católica Editora, page 255.

Figure 2. Diversification Context & Synergies Matrix

Based on the diversification context & synergies matrix, there are four types of diversification strategies (*CARDEAL, 2014*):

- Diversification with technological synergies: when a company decides to develop new products that are somehow related with the existing ones, having the organization the opportunity to seize existing technologies in the development process.
- Diversification with commercial synergies: when the new market in which an organization is entering has the same targeted consumer segments or uses the same distribution channels.
- Diversification with commercial and technological synergies: when an organization chooses to enter a new market with the same targeted consumer segments or distribution channels as its current one, at the same time that develops new

products which are related to its current product portfolio, being able to seize existing technologies in the product development process.

- Non related diversification: when neither the new products developed nor the new industry or channels are somehow related to the current industry, activities and products of an organization.

Moreover, a related diversification has associated the possibility of potentially seize synergies between a company's businesses and such potential is only limited by imagination (HARRISON, 2003).

5. STRATEGIC OPTIONS

5.1. Acquisitions

An acquisition takes place when one company decides to purchase another company or a specific business unit of another company. An acquisition is strategically relevant when the buyer is in position to take control of management in the acquired company.

Bower (2001) has analyzed the Mergers and Acquisitions (M&A) occurred from 1997 and 1999 for transactions superior to 500 million dollars and has several types of classification of M&A operations. The following list reflects Professor Joseph Bower classification, regarding acquisitions.

Types of acquisitions:

- Research & Development related acquisitions: acquisitions to vertically integrate R&D in order to rapidly consolidate a markets' position, instead of investing and developing R&D activities from the ground-up, or to reinforce the purchaser's R&D activities.
- Overcapacity related acquisitions: this type of acquisitions allows the purchaser to grow in mature or declining industries, cutting off competitors, and having the possibility to reduce costs through integration.
- Industries' Convergence related acquisitions: this type of acquisitions takes place when two or more industries start to have increasingly more points in common, mainly related with technology. This type of acquisitions is becoming particularly common among IT and ICT industries.

- Market Extension related acquisitions: this type of acquisitions allows companies with similar product portfolios to complement each other regarding geographic markets.
- Product Extension related acquisitions: this type of acquisitions occurs when a company decides to purchase another in order to expand its product portfolio, instead of developing it from the ground-up.
- Geographic Scan related acquisitions: this type of acquisitions has the underlying aim to expand the business geographically, therefore the purchaser decides to acquire several companies developing their business in the same industry segment, but in different geographical areas.

IV – TEACHING NOTES

1. Synopsis

This case study focuses on *Ericsson*'s diversification strategy for the TV & Media business. *Ericsson* is a communications technologies and services provider in the Information and Communication Technology (ICT) industry, which has been betting on diversification as a way to grow its business and secure the company's future.

As part of its strategy, *Ericsson* has always looked for diversification opportunities related to the companies' core businesses, which could take leverage from the company's technologies, skills and global scale, and could enable the company's success in the long-run by presenting high growth potential and market presence.

Since 2010, *Ericsson* has expanded the TV & Media business through a series of acquisitions that allowed the company to expand its offerings and position in the market, bringing into the company a series of technologies that leveraged this business, but could be harnessed for other business units.

Throughout this case study is given the necessary information to analyze *Ericsson*'s strategic decision to diversify into the TV & Media business and the importance of the acquisitions made to develop this business unit. It is important to assess: the overall fit between the company and this recent business, the decision to diversify into the TV & Media business and the importance of choosing to pursue an acquisitions strategy to expand the TV & Media business.

2. Teaching Objectives

The case study aims to illustrate the importance of a diversification strategy for a company playing in such a dynamic industry as the ICT (Information and Communication Technology) industry and how *Ericsson* was able to leverage on its core business and main assets, in order to enter a new business area, TV & Media.

This case provides instructors the opportunity to discuss a practical case related with diversification and acquisition strategies, which allows for the using of several topics taught in previous classes as well as the application of acquired knowledge in the resolution of a real business case. Moreover, this case study provides students the opportunity of exploring two strategy topics which usually are not widely addressed, diversification and acquisitions strategy.

The professor must submit the case study at the end of the class and ask students to prepare it for discussion in the following class. Students must focus on the corporate strategy adopted by the company, on the environmental analysis and internal context, and to evaluate the strategic option of creating a new line of products/services to serve a newly business.

To analyze the case, students can use a set of tools and frameworks learned in class, namely, a Porter's 5 forces model, Industry Key Success Factors and a New SWOt analysis. Moreover, and regarding the analysis of the diversification into TV & Media business, students should proceed to an analysis of the strategic decision using Ansoff's Matrix, as well as Professor Cardeal's Diversification Context & Synergies Matrix. Lastly, an analysis to the acquisitions regarding TV & Media position, using the Media value chain.

3. Suggested Assignment Questions

The following suggested assignment questions are meant to help students understand and analyze the case study, applying what they learn during classes.

1. Analyze the attractiveness of the Entertainment & Media Industry, defining the industry segment in which *Ericsson* is positioned.
2. Identify the Communications Technology and Communications Services segments for Entertainment & Media Industry Key Success Factors, *Ericsson*'s main strengths and weaknesses and proceed to a New SWOt analysis.
3. What are *Ericsson*'s sources of competitive advantages entering the TV & Media business?
4. Analyze *Ericsson*'s decision of entering the TV & Media business.
5. What might have been the underlying reasons for *Ericsson* to develop its TV & Media business through acquisitions instead of building it in-house?
6. How do you classify the acquisitions regarding TV & Media and its importance for *Ericsson*?

4. Analysis and Discussion

1. Analyze the attractiveness of the Entertainment & Media Industry, defining the industry segment in which *Ericsson* is positioned.

Analyzing the Entertainment & Media industry can be a difficult task since it would be a very broad industry definition and contrary to the recommendations regarding industry definition. Taking this into account, *Ericsson*'s role within the Entertainment & Media industry seems to fit into two segments: **communications technologies for Entertainment & Media**, in which *Ericsson* provides broadcasters and TV service providers (distributors) technical solutions to deliver a high quality TV experience to viewers, and **communications services for Entertainment and Media**, in which *Ericsson* provides TV management services and solutions to content owners, producers, broadcasters and distributors, therefore assuming the role of provider for the players in the Media value chain.

Taking into account the Porter's Five Forces model, the Entertainment & Media industry's attractiveness will be assessed for the **communications technologies segment** and **communications services segment** of the Entertainment & Media industry, the segments in which *Ericsson* is present.

Communications technologies segment:

Potential of New Entries: For the communications technology segment within the Entertainment & Media industry, there are some barriers to the entries since the development and availability of such technologies involve high initial investment, constituting an entry barrier to competitors. Moreover, the customer relationship and brand loyalty/reputation is an important factor when an Entertainment & Media player is choosing a provider of technical solutions – communications technologies provider. Therefore, the risk of new entries can be assessed as medium/low.

Pressure from Substitutes: Given the fact that these are specialized technologies for the Media value chain players, the substitutes are not as abundant as in other industries. The importance of customer relationship and the high switching costs for communications technologies diminish the threat from substitutes in the communications technology segment of

Entertainment & Media industry. Therefore, the pressure from substitute can be assessed as low.

Bargaining Power of Buyers: Communications technologies' buyers in the Entertainment and Media industry are, mainly, broadcasters and distributors (TV service providers). Within this industry, the distributors (TV service providers) is the segment within the Media value chain to have higher bargaining power, since they are the ones purchasing more technical solutions and equipment to deliver a high quality TV service to viewers, consuming in larger volumes and, usually, being business groups with large scale, ultimately, being able to exert a medium to high bargaining power. Hence, and overall, the bargaining power from buyers can be assessed high.

Bargaining Power of Suppliers: Regarding the bargaining power of suppliers, communications technologies providers for the Entertainment & Media industry's suppliers will mostly be represented by providers of components for the assembly and implementation of solutions for the technologies and equipment components of the business, being the suppliers' power limited to change price and implement trade discounts. Therefore, the bargaining power of suppliers can be assessed as medium.

Competitive Rivalry: In this Entertainment & Media industry segment, there are several competitors, many of which coming from the Information and Communication Technology industry, entering this business and providing technical solutions, mainly, for TV service providers (distributors). Hence, the competitive rivalry of the communications technology segment can be assessed as medium/high.

Overall, the **communications technologies** segment of Entertainment & Media industry attractiveness can be assessed as moderate.

Communications services segment:

Potential of New Entries: As for the communications services segment, the entry barriers are low, since, as long as the company is able to provide the type of services that fulfill the clients' needs and expectations, there are not significant switching costs associated with the transition for a new service provider. However, the customer relationship and brand loyalty/reputation can be an important factor when an Entertainment & Media player is choosing a service provider. Therefore, the risk of new entries can be assessed as medium/high.

Pressure from Substitutes: The Media value chain players need for specialized services diminishes considerably the variety substitutes are not abundant. The importance of customer relationship and detail of the services needed by Entertainment & Media players diminish the threat from substitutes in this segment. Therefore, the pressure from substitute can be assessed as low.

Bargaining Power of Buyers: Communications services' buyers in the Entertainment and Media industry are content owners and producers, broadcasters and distributors (TV service providers). Content owners, content producers and broadcasters are usually the bigger consumers of communications services, and, even though, there are lower switching costs for these segments, the kind of specialized services needed mitigates the impact of low switching costs, being the bargaining power of buyers regarding these three segments medium. Hence, and overall, the bargaining power from buyers can be assessed as medium/low.

Bargaining Power of Suppliers: Regarding the bargaining power of suppliers, communications service providers for the Entertainment & Media industry has few suppliers, which might be limited, mainly, to subcontractors of more generic technological services, not having a significant impact on price. Therefore, the bargaining power of suppliers for this segment can be assessed as low.

Competitive Rivalry: In this Entertainment & Media industry segment, there are several competitors, many of which coming from the Information and Communication Technology industry, entering this business and providing services or services aggregated to solutions, mainly, for TV service providers. However, for the services provided to content owners, content producers and broadcasters, the rivalry can be assessed as lower. Hence, the competitive rivalry of the communications services can be assessed as medium.

Overall, the **Communications services** segment of Entertainment & Media industry attractiveness can be assessed as moderate/high.

However, it would also be interesting to understand the overall attractiveness of the industry for the segment from which come *Ericsson*'s main clients in the TV & Media business: **TV services**. Therefore, the overall attractiveness for this segment will be measured using the Porter's Five Forces model, assessing the following five parameters:

Potential of New Entries: When entering the traditional TV there are some barriers to entries such as difficult access to distribution, the necessity for approval from TV regulators, the high capital requirement and the sunk costs involved in the network infrastructures and equipment required by Cable TV providers or TV service providers as Telecom operators to deliver a high quality TV service. However, the TV game is changing as OTT service providers, as Netflix, are using the networks acquired by Telecom operators and the Internet service contracted by consumers to deliver their content and service, reducing sunk costs and capital requirements, ending up decreasing the entry barriers. Therefore, risk of new entries can be assessed as medium/low due to the recent revolution in the TV Services segment of the Entertainment & Media industry.

Pressure from Substitutes: Regarding TV, the main substitute products come from the film industry, print media, sport or cultural events and internet. However, most recently, the main substitute and the one the represents the bigger threat is Internet. With Internet access to video content becoming mainstream and the growing influence and adherence to online OTT services like Netflix or Hulu, TV is currently facing a serious threat coming from the Internet and even trying to make its way into the TV industry. The world famous series House of Cards, produced and "broadcasted", firstly, through the Internet by Netflix and afterwards, and due to its popularity boom, bought by traditional TV broadcasters to be available on traditional TV services, is a clear example of how substitute products coming from Internet have been increasing the pressure over the TV industry and its players and have been pushing to make their way from substitutes to competitors. Hence, the pressure from substitutes can, currently, be assessed has high.

Bargaining Power of Buyers: Assuming that as buyers we are referring to viewers, one can conclude that the bargaining power of consumers has been rising in recent years due to the change on viewers consumption habits, the currently high consumers' expectations from TV services and the increase on the variety of available options, either through traditional TV, VOD through TV service, VOD service through Internet, as Netflix or Hulu, or "plain simple" video content available online, for example, Youtube. Moreover, the TV service providers, usually Cable TV companies or, as happens in Portugal, Telecom companies, have been increasing the price war, contributing to the increase of consumers' bargaining power. Therefore, the bargaining power of consumers can be assessed as high.

Bargaining Power of Suppliers: Although content is king in the Entertainment & Media industry and the globalization has pushed big broadcasters to buy or internally produce content for worldwide consumption, the sources of supply have been rising in the recent years with content providers coming from every corner. From traditional content providers to OTT service providers that invested on creating content, such as Netflix, and even the user-generated content (UGC) which has been invading the TV content, for example by sharing videos or photos for TV and Online News, the quality of content from any of the sources has also been increasing. Therefore, the bargaining power of suppliers can be assessed as medium/low.

Competitive Rivalry: In this industry segment, competitors have been rising from every corner and the big players are now facing competitors such as Netflix and Hulu that came from a different background and have lower operational costs due to their service providing system (through the Internet and not over the traditional TV service). Nowadays, viewers are not particularly loyal when it comes to the TV channels they watch, they care for content quality and for the type of content that is available on a given TV channel, if they are not very keen of it, they will just change channel, since the switching cost is low or even inexistent. So, competitors need to work hard to have the best content and, even, differentiated content, since TV content is highly perishable and in an industry with highly diversified rivals, competitive rivalry can only be assessed as high.

Overall, the **TV Services** segment of TV & Media industry attractiveness can be assessed as moderate.

2. Identify the Communications Technology and Communications Services segments for Entertainment & Media Industry Key Success Factors, Ericsson's main strengths and weaknesses and proceed to a New SWOt analysis.

Understanding the reasons behind the consumers' purchasing decision, Purchase Key Success Factors, is a crucial part of decoding the Industry Key Success Factors. The following tables provide a summary analysis of the **Communications Technologies** and **Communications Services** segments for Entertainment & Media Industry Key Success Factors.

Communications Technologies segment:

Purchase Key Factors	Competition Engines	Industry Key Success Factors
Connectivity & Mobility	Long-term partner	Partnerships
High quality and speed technologies	Broad technologies and solutions portfolio	Operational Flexibility
Intelligent networks	Innovation	Research & Development
Integrated experiences	End-to-end solutions	Brand Image
Focus on customers' experience		

Communications Services segment:

Purchase Key Factors	Competition Engines	Industry Key Success Factors
Services to boost mobility	Long-term partner	Partnerships
High quality services	Broad support solutions portfolio	Operational Flexibility
Integrated experiences	End-to-end solutions	Research & Development
Focus on customers' experience	Innovation	Brand Image

The following step is to proceed to an internal analysis regarding *Ericsson*'s main strengths and weaknesses. The following analysis provides the company's set of resources and capabilities that enable the company to create value for its customers and get competitive advantage vis-à-vis its competitors. See the table below.

Strengths	Weaknesses
Market Position	Customers' concentration
Innovation & Technical Expertise	
Brand awareness and client relationship	
Broad products and solutions portfolio	
Assets Leverage and Synergies	
Partnerships	

With the external an internal analysis done, it is possible to identify the main factors, either resultant from Industry Key Success Factors or the company's strengths and weaknesses, contributing for value creation to customers, and proceed to the New SWOt analysis presented in the table below.

NEW SWOt ANALYSIS		
Strengths & Weaknesses	**Short and medium term opportunities**	**Medium and long term opportunities**
	Strengths	
Market Position	• Broad customer-base brings the opportunity to enter adjacent areas and to provide new services and solutions than the ones being provided to each customer. The entrance in the TV & Media business is closely related with the privileged market position as a Telecom Operators' provider of network infrastructure, equipment and services.	• Market position and customer-base helps to anticipate future needs and being in a front-runner position to provide innovative solutions in response to the latest customers' needs, leveraging its position to build footprint in newly areas by implementing proofs of concept in clients that might become a future technology or service provided to a TV & Media client.
Partnerships	• The HyperScale Data Center 8000, the result of a partnership with Intel, is a starting point for Cloud transformation, which might leverage the TV & Media business through the Cloud DVR and storage offers.	• Continue Partnership with Intel in order to leverage future innovative collaborations into business opportunities as its happening currently with the HyperScale Data Center 8000, that leverage the TV & Media business unit.
Innovation & Technological Expertise	• The uptake on LTE broadcast trials is raising the expectations that major broadcasters might be interested in investing in this new technology.	• In the future, Fabrix's technologies (Cloud DVR and storage), resulting from an acquisition with strong technological relevance for the TV & Media business, might be integrated into the newly Hyperscale Data Center 8000.
Broad products and solutions portfolio	• Ericsson's diversification strategy enabled the company to have a portfolio including adjacent areas such as OSS/BSS, IP Networks and Cloud to the company's core business. The adjacent businesses can be leveraged in order to provide a more complete solution or even an end-to-end solution to the customer.	• *Ericsson*'s bet on the Machine to Machine business is starting to be deployed and tested in collaboration with Volvo Constructions prototypes. This project, which is already expected to involve Cloud, could be a new business opportunity to develop a new component for *Ericsson*'s TV & Media business unit.

Assets Leverage and Synergies	• IPTV is expected to continue its growth, boosting Ericsson's TV & Media business. IPTV is an example of taking advantage of synergies between business units and the benefits of having a broad solutions portfolio within the company.	• Range of technologies, skills and solutions at *Ericsson*'s disposal that can be adapted, upgraded or leveraged in order to provide new solutions and evolutions for *Ericsson*'s customer-base, current or new markets.
Brand Awareness and Client Relationship	• *Ericsson*'s brand awareness among Telecom industry and Communication Service Providers is a starting point for being a viable option for Telecom or TV & Media players looking for new services or solutions.	• *Ericsson*'s reputation in the market of being a viable long-term partner for business solutions can be considered a long term opportunity for customers or potential customers looking for a partner to develop and grow its business and not only a provider.
Weaknesses		
Customers' Concentration	• Deep knowledge of a broad customer-base from Telecom industry that can be transversal to several business units, for example, many mobile networks or Telecom services clients are also in the TV/Media business.	• *Ericsson* is at a privileged position for future business opportunities and partnerships with any Telecom company for new technological developments, markets or segments.

3. What are Ericsson's sources of competitive advantage entering the TV & Media business?

Ericsson's leadership position on Telecom services and mobile networks, along with the company's global scale and skills, can be valued as a source of competitive advantage entering the TV & Media business.

The fact that the emergence of TV & Media at Ericsson's portfolio is so closely linked with the Telecom operators' need for business consolidation and their bet on this business has provided a competitive advantage to *Ericsson*. Due to the already established trustworthy business relationship and the deep know-how of the Telecom industry, either through the services provided or the mobile network infrastructures installed, Telecom operators' perceived value of *Ericsson*'s offer for TV & Media services and solutions will most likely increase, creating a competitive advantage.

Moreover, thanks to *Ericsson*'s global scale, skills and know-how on the Telecom industry, it is possible to use synergies between Telecom services and the network infrastructures business units and leverage them to provide the best service and solutions for the TV & Media players. By using synergies, know-how and skills from other business units, such as the application of IP networks to the TV & Media solutions provided, *Ericsson* is able to become more efficient in the solutions offered, obtaining a competitive advantage based on efficiency.

Consequently, *Ericsson* is able to obtain a competitive advantage through both diversification and efficiency, since it is able to obtain an increased perceived value from clients and to obtain lower costs by leveraging its global skills and scale.

4. Analyze Ericsson's decision of entering the TV & Media business and the influence of synergies in such decision. Use the Ansoff's Matrix.

In the TV & Media value chain, Telecom operators have been playing the role of TV service providers/distributors since the margins from their traditional businesses have been reduced and a need for another source of higher margins and business consolidation has emerged. *Ericsson*'s core business and long term relationship with some of the major Telecom operators worldwide has facilitated the company's entrance into this new business.

Even though *Ericsson*'s entrance into TV & Media business was, at first, highly connected to the distribution segment of Media value chain, the services and solutions offered have been growing strategically in order to appeal to players across all segments of Media value chain. Therefore, there was a clear need to introduce new products for this newly market for *Ericsson*, which, according to Ansoff's Matrix, is a typical diversification growth strategy.

According to Igor Ansoff, betting on a diversification strategy is the riskier strategy among the four proposed in his strategy model, since this business development strategy combines the introduction of new products in the company's existent portfolio in order to proceed to a market extension. Therefore, *Ericsson*'s entrance into the TV & Media business can be characterized as a diversification strategy.

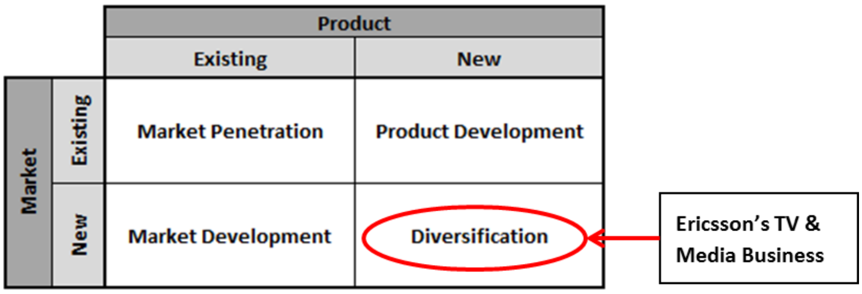
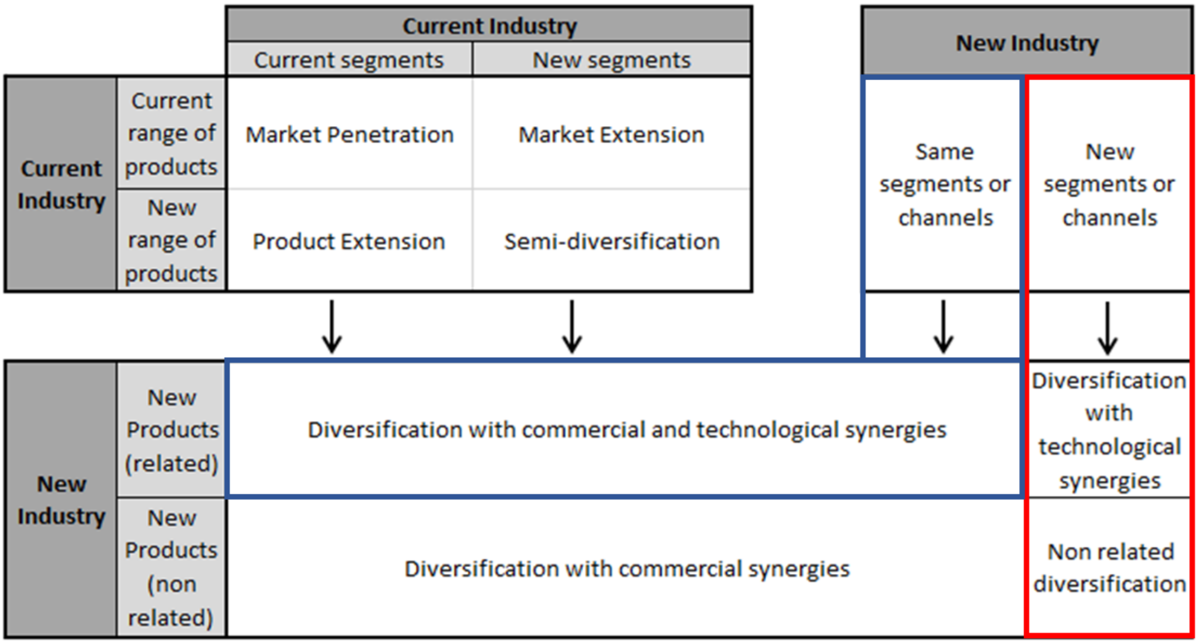


Figure 3. Ansoff's Matrix: *Ericsson*'s TV & Media business positioning.

However, it would be interesting to further analyze *Ericsson*'s diversification into the TV & Media business in order to understand the underlying reasons for this business decision. For that, it would be helpful to apply Cardeal's Diversification Context Matrix, with the purpose of better understanding the type of diversification undertaken by *Ericsson* regarding the TV & Media business, as well as the synergies embedded in the strategic decision of diversifying into this business.

Given the fact that *Ericsson*'s major clients in its core businesses are Telecom operators, and that among the company's main worldwide references regarding the TV & Media business are also major Telecom operators, in its TV service providers role, such as Deutsche Telecom, Telefonica, Orange, Vodafone or Verizon, one can conclude that, at least for the distribution segment of the Media value chain, *Ericsson* is using the same segments and channels, being able to utilize <u>commercial and technological synergies</u> from its other businesses to develop this one.

As for the broadcasters and content producers segments, the kind of services and solutions, that *Ericsson* needed to develop in order to become a suitable provider, were quite different from its existent portfolio. However, and due to certain business units' products and services portfolio, as, for instance, Cloud and IP, it became possible to harvest significant <u>technological synergies</u> for this new market.



Source: CARDEAL, N. 2014. *Pensamento Estratégico*, Lisboa, Universidade Católica Editora, page 255.

Figure 4. Diversification Context & Synergies Matrix: *Ericsson*'s TV & Media business positioning.

Overall, the strategic decision of entering the TV & Media business can be qualified as <u>diversification with technological synergies</u>, also presenting some sprinklings of commercial synergies regarding the services provided to the distribution segment of the Media value chain.

5. What might have been the underlying reasons for Ericsson to develop the TV & Media business through acquisitions instead of building it in-house?

Pursuing a diversification strategy brings certain risks, such as the management complexity, the dispersion of managers' attention through the different businesses or the inability to seize the potential synergies between the new business and the existent ones.

Ericsson's entrance into the TV & Media business was made mainly through an acquisition strategy motivated by an industries convergence between the Telecom industry and the Entertainment and Media industry, which happens when a group of companies start having increasingly more points in common and it's highly related with technological businesses.

The entrance into this business through acquisitions has boosted not only the market shares and client-base, but also the synergies between the different businesses. By acquiring certain companies to diversify into this new market, *Ericsson* is mitigating the risk of failure in an early phase, as well as reducing initial costs.

For instance, if *Ericsson* decided to build the TV & Media business in-house, the time and money invested to develop new products and services for this new market would be considerably higher as well as the time needed to gain sufficient and differentiating knowledge regarding the TV & Media business.

Therefore, and summing up, the decision to diversify through an acquisitions strategy has brought significant knowledge regarding the Entertainment and Media industry as well as already developed services and solutions, customer-base and market share to strength *Ericsson*'s position in the Media industry from the start. Moreover, hundreds of employers with know-how and industry experience became part of *Ericsson*'s human capital, being a key asset to develop the business and even assist in other business units, which can leverage from the knowledge regarding TV & Media technologies, reducing the company's initial costs and investment in technology.

6. How would you classify the acquisitions made regarding TV & Media and its importance for Ericsson's business portfolio? Make use of the Media value chain.

Ericsson's entrance into the TV & Media business was mainly made through a series of acquisitions, which can be a highway for a significant increase on the company's presence and market share in a given market.

Regarding *Ericsson*'s acquisition strategy for the TV & Media business, according to Bower's classification regarding the type of Mergers and Acquisitions (M&A), the company's acquisitions were a mix between two types of M&A: related to <u>industries' convergence</u> and to <u>product extension</u>. The acquisitions related to industries' convergence happen when there is a convergence movement between two companies, which can be translated as a continuous increase in common aspects, being this a type of M&A that tech companies are usually very keen on. As for product extension M&A's, this corresponds to situations in which it is preferable for the company to acquire another company with a specific technology or product/service, different from the ones available within the company's product portfolio, than to develop the same technology or product/service in-house.

As for *Ericsson*'s main acquisitions regarding the TV & Media business, one can conclude that with the convergence between the Telecom, ICT and Entertainment and Media industries, the emergence of an acquisition strategy could be expected given that the common points between those industries are increasing and their borders merging. This brings the opportunity to bet on businesses and competences that can create value for the company, utilizing the applicable synergies from the company's other businesses, as has happened with the acquisition of Tandberg or Microsoft Mediaroom. Moreover, certain services were made available to customers through the acquisition of certain companies, which allowed offering, for example, TV content management services to content creators, producers and broadcasters, without having to invest in the development of the product/service from the ground-up, as it happened with the acquisition of RedBee, for example.

Furthermore, an additional analysis of *Ericsson*'s acquisitions regarding the TV & Media business, linking it with Media's value chain, is required to understand to what extent are the structural acquisitions (Tandberg, Technicolor, RedBee and Microsoft Mediaroom) and the complementary acquisition (Fabrix), named in the Case Study, significant for the specific company's business.

Ericsson's acquisitions regarding TV & Media business were arranged to allow the company to strengthen its position in the Entertainment and Media industry as a service provider to every player in the Media value chain, from content creators to distributors. *Ericsson*'s challenge to be able to satisfy every player in the value chain has marked the company's acquisition strategy, which has been led by 2 guidelines: acquire companies that either brings market share growth to the company or allow the incorporation of a new technology to improve the solutions offered by *Ericsson*'s TV & Media business unit.

In the figure below, there is a representation of the TV & Media acquisitions' positioning along the Media value chain to facilitate the analysis and comprehension of each of the mentioned acquired companies' position and importance in the company's business portfolio.

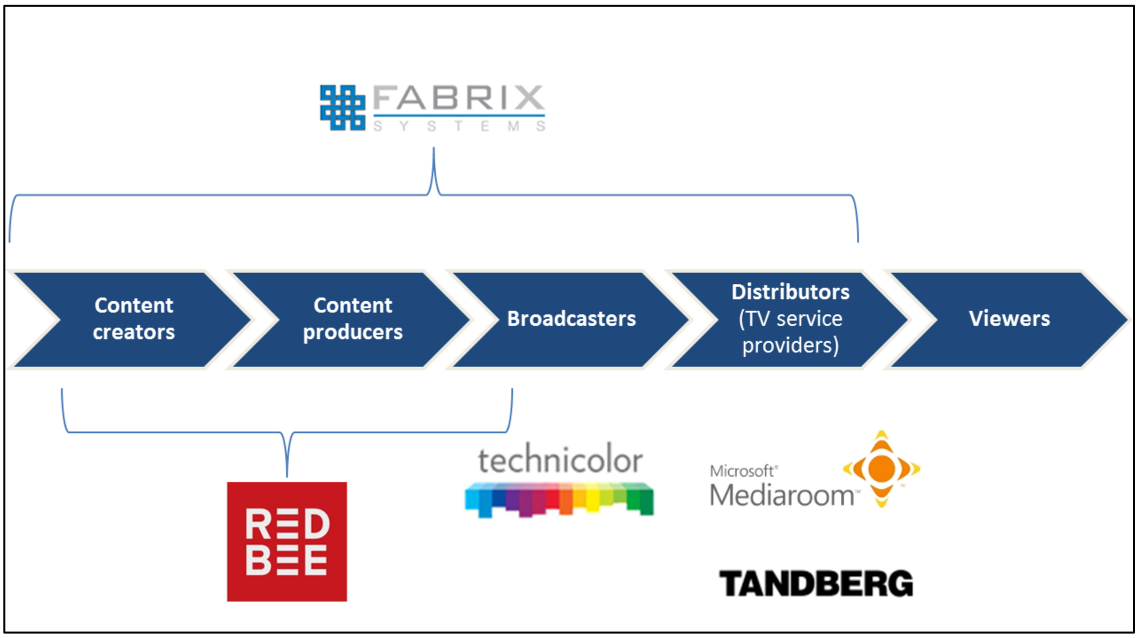


Figure 5. *Ericsson*'s acquisitions for TV & Media business across the Media value chain.

Ericsson's structural acquisitions for the TV & Media unit were RedBee, Technicolor, Microsoft Mediaroom and Tandberg. These acquisitions main goals were to expand the company's business in this area across all segments of the operational value chain and increase market share.

Aiming to provide services and solutions to the upper stream segments in the Media value chain, content creators, content producers and broadcasters, *Ericsson* invested on RedBee to deliver content management services to the first three segment, however Technicolor is a company specialized in delivering content management services focalized on broadcasters, which brought its worldwide customer-base and its specialized skills into *Ericsson*'s TV & Media business unit.

Regarding the distributors segment on the Media value chain, the acquisition of Microsoft Mediaroom and Tandberg was inwardly related with IPTV and video infrastructures, providing the possibility for *Ericsson* to establish a stronger position within the IPTV and video infrastructures, two areas strongly related to TV & Media business.

Specially, in the case of Microsoft Mediaroom, this acquisition brought more than technical or technological aspects, it brought a wide customer-base and a strong market share and market position, which has highly strengthened *Ericsson*'s position in the IPTV segment and the TV & Media business unit.

Lastly, has for complementary acquisitions for the TV & Media business, Fabrix's acquisition has brought cloud computing software, media optimized storage and cloud DVR applications, which are critical technical skills for several business units within *Ericsson*'s portfolio, bringing added value not only to the TV & Media business, but to several points of improvement in the company's business, that can be supported and improved by the usage of Cloud storage, computing and network delivery for video applications. However, and to classify Fabrix's acquisition positioning within the Media value chain, this acquisition can be considered an added technology that can easily be an helpful tool for the business development in the TV & Media business unit, taking a cross-cutting role along the Media value chain, as shown in the figure above.

V – CONCLUSION

This dissertation was an opportunity to have a direct contact with a multinational company developing its business in the very dynamic Information and Communication Technology industry and better understand the importance of corporate strategy for the success of a company.

Throughout this journey, it was very interesting to study the diversification strategies taken by *Ericsson*, understand the underlying reasons of those strategic options and, in particular, the importance of leveraging the existing businesses, assets and capabilities, as well as global scale, to enter a new business, TV & Media, and the strategic options taken to execute a successful entrance into a new market through acquisitions.

Supported by the tools present in the Literature Review, it was possible to analyze *Ericsson*'s diversification strategy and, particularly, the strategic decision of diversifying into the TV & Media business, the strategic option of expanding this new business through an acquisitions strategy and the underlying reasons for the acquisition of certain companies to support the expansion and deployment of the TV & Media business unit.

Regarding *Ericsson*'s diversification into the TV & Media business, the strategic analysis indicates that it was a correct strategic decision and the acquisitions made to support this business, directly or indirectly, seem to have been correctly chosen, since those allowed *Ericsson* to position itself as a technology and services provider with solutions for every player in the Media value chain. However, *Ericsson*'s dependence from its biggest clients as a Communication Service Provider can become a limitation when exploring diversification possibilities and bets for new areas of business.

In a future research, it would be interesting to explore, regarding TV & Media business, the future of a customized TV and how *Ericsson* will continue on responding to such evolution. Moreover, and regarding the company's diversification strategy, it could be challenging to explore the impact that the investment on new areas, such as, the currently new, Machine to Machine business, has on *Ericsson*'s future strategic decisions and financial results.

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