

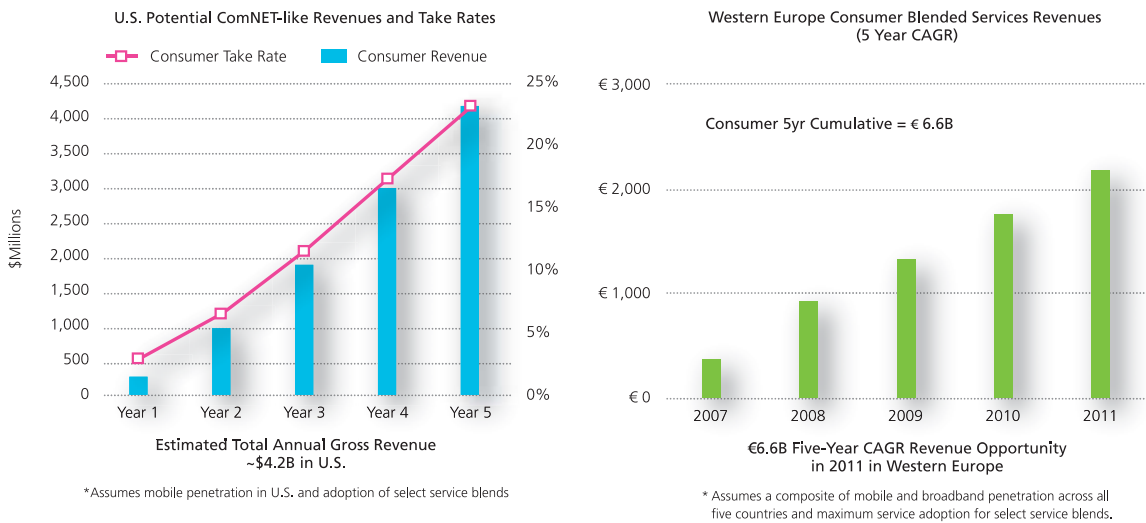
Driving the Adoption Curve

By B. Krasner

Business guru Geoffrey Moore has been saying for more than a decade that order-of-magnitude changes are necessary for innovators and early adopters to “cross the chasm.”¹ That paradigm certainly rings true in the world of competitive transformation. Since 2002, many Tier 1 telecom operators announced high-profile, multi-year programs aimed at innovating their networks and transforming their business models. Irrespective of the scope and the drive for change, transformation projects are taking much longer than originally announced. How can operators cross the chasm?

Alcatel-Lucent research indicates, for example, a \$4 billion and nearly €7 billion revenue opportunity for blended services in the consumer markets of North America and Western Europe respectively. If operators can cross this chasm based on experiences with early adopters, they can take advantage of this sizable market.

Figure 1: Carriers can help drive the blended services adoption curve and take advantage of sizable market opportunity.



But first things first. Who are the early adopters? As part of Alcatel-Lucent’s User Centric Experience initiative, we conducted comprehensive market research in sixteen countries and identified both consumer and enterprise trends that can help operators further understand the technology adoption curve to speed service rollout and shorten time to revenue. The study focused on demand and willingness to pay for blended services – access to all different kinds of communications across any type of device or a single device from a single service provider. That means that voice, video and data features are always on and simultaneously accessible to allow users the ability to seamlessly move from one function to another with the press of a button. The study identified the characteristics of the early adopters among consumers and enterprises.

1 Geoffrey Moore, Crossing the Chasm: Marketing and Selling High-Tech Products to Mainstream Customers. (New York: Harper Business, 1991).

Consumers

Around the world, teens and “tweens” are powerful influencers for video, gaming, and messaging-related features and applications. Unlike their parents, who reveled in schoolyard activities, today’s Digital Youth don’t want or need to look beyond their own homes to connect with their pals. Through technology, they simultaneously share experiences on their blogs, check their community chat spaces – escaping to their virtual lives.

Early adopters tended to be young males, although the older population generally represents more revenue potential and tends to favor simplicity over innovation in technology. Overall, consumers expected discount pricing from bundling but were willing to pay more for a premium service such as blended services. Our research found that regardless of country, consumers are willing to pay a premium for blended services whereas bundled services are intrinsically tied to discount pricing. “Thanks to the flexibility of IP architecture, service providers will be able to offer next-generation service suites targeted at individuals and lifestyles,” says analyst firm IDC. It further believes, “in five years, the concept of a service bundle that is merely based on one bill, price savings, and a unified point of sale and customer support will be antiquated.”²

Survey respondents most interested in blended services and most willing to pay a premium for them were classified as being in the “sweet spot” – the group of potential customers to initially target. Twenty-two percent of North American adults belonged to this group. Within it, two sub-groups emerged: “Early Takers” and “Pragmatic Enthusiasts”. Early Takers are attracted to the promise of what technology can do for them. They look for privacy, safety, security and they have a desire for technology to provide convenience and simplify their lives. Members of the second group, the Pragmatic Enthusiasts, are also concerned with privacy, safety, and security. But beyond that, they want to locate and get in touch with others when they need to.

Feature packaging and availability affect adoption rate also. In our study, we asked respondents to choose five features from among a list of 19 to put together their “ideal package.” Not surprisingly, infotainment-passionate teens and tweens who are into blogging and communities, Internet, virtual life and peer-to-peer applications favor video, instant and text messaging, and Internet music and video features. Their parents consistently preferred functionality over entertainment. They opted for push to e-mail, phonebook manager, mobile phone spam blocker, call logging, and integrated mailbox.

Table 1: Distinctive demographic profiles, like this one for Pedro Gonzales in the Mexican market, can help target early adopters.



- I am a 45 years old married male.
- My annual household income is 280,000 pesos.
- I am most interested in your Enhanced Messaging, Instant Interaction, and Multimedia Communication services.
- I'd definitely pay 1,500 pesos per month more for those services.

2 IDC, 2007 U.S. Consumer Multiplay Bundled Service Analysis, 1 March 2007.

Enterprises

In the U.S. and Western Europe, the size of the early adopter market and, therefore, market revenue opportunity are higher among enterprises than consumers. Early adopters are willing to pay more for blended services, particularly if they can customize the blend. The size of the early adopter market in Asia ranges from one-third of the market in China to just six percent in Korea, with the remaining fourteen countries somewhere in between. In fact, the analyst firm Infonetics believes China is a market vastly underserved and a market in which demand for low-end handsets is already high.³ Our research found in China, people who are already using mobile phones and high-speed Internet service earn the moniker of “early adopter.” Therefore, they are somewhat predisposed and certainly more enthusiastic about personalized and blended services than their counterparts in Japan and Korea, where the penetration rates for mobile and broadband are much higher. In February 2007, Shanghai Telecom, a subsidiary of China Telecom, selected Alcatel-Lucent for a full-scale, citywide network transformation to enable the delivery of new, blended services, bearing out the research results.

Table 2: Willingness to pay for blended services in selected countries.

Country	Willingness to Pay (Per month/per employee)
Argentina	120ARS
Brazil	R 80
Chile	150000CLP
China	500 CNY
Japan	¥8800
Korea	₩76,000
Mexico	Up to 600 MXN
Venezuela	30,000 VBE

Early adopters in the United States are predominantly self-employed and in the hospitality, retail and professional services industries; and in Canada, they are small companies with ten or fewer employees. In addition, early adopters plan to make their decisions within six months of being offered the service, although in regions like North America, the first three months are particularly critical.

The size of the “sweet spot” among enterprises can be as high as about one-third of the business market. Within the group, sub-groups such as “Dynamic Adopters” emerge: those who embrace the promise of technology for the workplace and their own work experience. They believe in the potential benefits of blended services and advanced technology but are also aware of increased security concerns and blurring the boundary between work and personal life. Other attractive sub-groups, particularly in North America, include “Productivity Seekers” and “Cool and Remotes”. Productivity Seekers believe in technology’s ability to address the intense pressures they feel on the job especially by saving them time. Cool and Remotes are similar to Productivity Seekers, but tend to feel less over-whelmed by the variety of choices.

Around the world, companies showed a strong interest in upgrading their devices to receive blended services, especially in China and North America. This result indicates that customers are willing to pay for the higher end devices that are required to take full advantage of next-generation services.

³ Infonetics Research, Service Provider CAPEX, 27 April 2007.

Table 3: Enterprises vary by size and geography in their desire for blended services.



- We're a mid-sized professional services firm with multiple locations.
- Technology saves us time and money and keeps us ahead of ahead of the competition.
- We are interested in your Message Manager, Flexible Connections and Video Integration services.
- We're willing to pay 1,082 pesos per month per employee for these services

Enterprise market

For enterprises, the "ideal package" of blended service features and applications varied by geography and size of company. The most popular choices, however, tended to be integrated mailbox, call logging, SMS text, phonebook manager, voice and video conferencing, wireless office, and instant messaging.

Delving into user trends and identifying early adopters as initial target markets may well impact time to revenue and successful implementation of competitive transformation programs. Those who reach the early adopters will get the necessary propulsion to cross the chasm.

Alcatel-Lucent is sharing the details of these studies with key customers and partners worldwide. If you'd like further information, please contact your Alcatel-Lucent representative. ●

Barbara Krasner is Director, Customer Advocacy Marketing, Alcatel-Lucent CMO, Whippany, NJ, USA.
Email: bkhait@alcatel-lucent.com

Constanza Torres, responsible for the referenced primary market research, is Senior Manager, Strategic Marketing, Alcatel-Lucent CMO, Murray Hill, NJ, USA.
Email: connietorres@alcatel-lucent.com