

Title: **Ericsson Announces Lenovo, U500:**
Lays Groundwork for Bandwidth Demand, Gains Particular
Advantage from Seeding Market Due to its Solutions Breadth

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Summary: Ericsson announces Lenovo as a first mobile broadband module customer, and announces the U500 - a mobile multimedia platform for the 2009. Ericsson is laying the groundwork for making the future uptake of high speed mobile data and video a greater reality...and has more to gain from doing so than most vendors due to its solutions breadth.

Market Commentary *(from our free BLOG)*

Ericsson scores a key contract with Lenovo, as Lenovo has earned the number 3 spot in PCs and has a growing presence in laptops - and this gives Ericsson a good start in selling HSPA broadband modules to help drive mobile data traffic. The U500 continues Ericsson's momentum in terms of offering cutting edge handsets with multimedia capabilities that will also impact backhaul requirements.

The Lenovo Connection

Ericsson scores a key contract with Lenovo, as Lenovo has earned the number 3 spot in PCs and has a growing presence in laptops - and this gives Ericsson a good starting point for selling its mobile HSPA modules into the business market, where mobile data services given current service pricing by operators are most likely to take off initially.

Lenovo has leveraged its IBM heritage well, developing a following if not market leadership in the business community - and has been known for having very functional business PCs and laptops that hold up to the abuse of travel well. Lenovo also scores fairly high in terms of their ability to execute on their marketing intentions for new technology. So although Lenovo may not be the overall market leader, Ericsson could have done far worse in terms of winning a first customer announcement for its mobile data

module. Particularly when it comes to the ability to market mobile data, which is most likely to sell into the business market for notebooks, Lenovo makes for a very good partner.

The Mobile Data Market

The mobile data market is poised to take off, with over half the world's GSM/UMTS networks now upgraded to offer HSDPA, and the roll out is continuing at a strong pace. The vast majority of operators that have rolled out HSDPA that we have talked to still do not yet support the maximum 14.4 Mbps data rates - but no matter - HSDPA roll out progress is going to start driving significant bandwidth as 2008 progresses - and more so in 2009 as upgrades to HSPA occur, and more importantly as operators start to get more comfortable with the business model for mobile data.

From the user standpoint, even having reliable 1.8 Mbps or 3.6 Mbps maximum download rates available in the mobile environment will seem like a very good thing right now - though operators are going to have to upgrade quickly when mobile data utilization starts to ramp up.

The mobile data market has high hopes from operators. Nonetheless, they have reasons not to move forward too quickly - as we will discuss in a moment. But they need a lot of high speed mobile data capable devices out in the subscriber base to proliferate utilization before it can take off - and Ericsson is helping make that a possibility. Given Ericsson's solutions breadth, this helps it not only from the standpoint of its data module sales into Lenovo, but also helps drive greater utilization for mobile radio equipment and backhaul networks as well.

Operators and the Mobile Data Dilemma

Flat rate services seem to be an almost inevitable future end state for mobile operators - but it is a future that they continue to be somewhat scared of from the standpoint of the business case and the load on the network. For now, mobile data services can be fairly expensive - and limited to light or moderate use. One of the reasons that the Mobile Backhaul market has been so hot is that operators have hurried to modify their backhaul networks to make them more cost effective before more aggressively rolling out mobile data services, so that they can prepare for making them profitable before scaling the revenues too aggressively.

So far, SLAs are designed more for the protection of the operator, maximum MB per month limits are typically imposed, and there are penalties or surcharges for subscribers exceeding these limits. So are mobile operators really promoting mobile data, or just talking about it while not really wanting to be aggressive?

Mobile operators will promote mobile data far more aggressively after first optimizing the backhaul network - it is probably going to be their most important source of new revenues, far exceeding those of mobile TV in the next few years. But learning how to offer QoS, support SLAs, and design the backhaul network to achieve competitive service pricing has been a big challenge for mobile operators - a challenge they are rising too, but not as quickly in all cases as many vendors would like. But mobile operators are working to rapidly catch up, have a serious desire to more strongly promote mobile data in the future, and will get significantly more price competitive with services and innovative with service plans over the next 18 months.

After that, all the mobile operators will need is much greater availability of high speed mobile data capable devices. And that is where Ericsson is proactively working today to fuel future mobile data, video, and gaming service revenues and bandwidth demand for operators in the future.

Unleashing Pent up Demand

Late 2007 saw a bit greater proliferation of new mobile data handsets, and there is a lot more to come. Ericsson has some cutting edge mobile devices on the market recently - they are definitely not cheap (particularly in markets suffering from exchange rates with the Euro), but definitely prized possessions for the gadget enthusiast. Ericsson's new U500 will not be available until mid next year, but it does give some idea of where the flagship products are going...and in turn, this gives some idea about the kind of bandwidth that subscribers will more frequently be generating in future.

The U500 has a 12 Megapixel camera built in, and offers a WVGA display for 3D user interface and gaming. Behind that is a lot of processing power: who would have thought 20 years ago the we would have mobile phones with 3 CPUs, hardware accelerators and a graphics processor?! The new display and processors make use of this mobile device for more serious usage in video, GUI-based online applications and gaming a reality.

We are still very much in the "early days" of mobile data - with the early mobile data capable handsets enabling some early adoption of new services, but not really optimizing the user experience to provide the kind of strong incentive for subscribers to adopt new multimedia services that will maximize service provider opportunity. But manufacturers have been learning a lot to date, and wrapping their experience back into development - and we have a new generation of smart handsets on the way next year - from Ericsson and rivals such as Nokia, Samsung, and others.

Conclusion

The U500 will be available in 1H2009. So even when you factor in rapid churn rates, it is going to be eighteen months until we are likely to see it in use, and perhaps nine or ten quarters before it really starts to help significantly impact network bandwidth requirements.

But by late 2009 and increasingly in 2010, operators will enjoy a much greater installed base in terms of subscribers with high speed 3G mobile data capabilities to address, which will enable them to start to really ramp up new service revenue opportunities. That, coupled with more efficient new backhaul solutions, will make them well poised to cash in on what will be a revolution in the uses for mobile data and video capabilities. One of the values of Ericsson making this announcement so early is that it puts a very public commitment out there, letting operators know how very certain Ericsson is that it can deliver the U500 on time - and getting them to think about what impact this can have on their service take rates. That, in turn, could get them thinking proactively about what network build-out objectives need to be completed by this timeframe to make profitable deliver of new services a reality.

So far, the ramp in mobile data has not grown anywhere near so rapidly as did mobile voice after it began to ramp up - though the mobile voice roll out in its early days also began slowly until prices came down far enough to address the consumer market. And Mobile voice was a natural “must have” - it extended our ability to interact with, impact and be impacted by others.

But now there is such a growing reliance on email as well as SMS, on file sharing, and on real time information sharing and collaboration in personal as well as work settings, that high speed mobile data has the prospects of becoming a cultural “must have” as well. We saw a shopper sending home a picture of an item from a home improvement store for his wife’s advice and approval a few days ago. Mobile subscribers will be far more likely to send more pictures home when they are at 12 Megapixels (with a decent lens, roughly equivalent to classic 35 mm slide film resolution, and much better than historic 35 mm film resolution). And someday, who will be able to live without finding their way to the hot new restaurant without their mobile GPS?!

Ericsson is planning ahead, not only remaining highly competitive on releasing competitive handheld devices, but also incorporating the kind of processing power and camera quality that will promote video use, online gaming, and more frequent use of the mobile for greater picture taking and sharing. These announcements of selling HSPA modules and liberally pre-announcing a hot new mobile device with strong multimedia capabilities is all about seeding a market. That's important for any infrastructure vendor - but a particularly profitable exercise for one such as Ericsson, which provides the radio interface, handsets, backhaul infrastructure and more.

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