

*Securing the benefits of globalisation • Part III, Chapter 5***Conducted
by****Catherine Distler (PROMETHEE) and
Reinhold Fischer (Unisys)***Strategic
conversation
with***Dr. Horst L. Lennertz**
*Chief Technical Officer, KPN Mobile***Improving
time-to-market;
optimising networks**

Could you explain which types of initiatives have been taken in order to make sure that KPN¹, in general, and its mobile division, in particular – a middle size company when compared to most of the European incumbent operators and to other European mobile operators like Vodafone or Orange – can remain profitable in the very competitive European telecom market?

Dr. Horst L. Lennertz: KPN has conducted a far-reaching internal restructuring over the last three years under the leadership of CEO Ad Scheepbouwer. This is especially evident in the mobile division, directed by Guy Demuyndck, and in which I am Chief Technical Officer, overseeing IT networks and platforms. Our key concern was, and remains, how to increase this division's profitability in all three countries in which we operate.

The challenges we have encountered when looking for synergies between the three mobile subsidiaries, however, derive from the historical and techni-

1. Royal KPN N.V., in addition to its fixed telecom operation in the Netherlands, has mobile communication subsidiaries in three different European countries, KPN Mobile in the Netherlands, E-Plus in Germany and BASE in Belgium.

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cal particularities of each network. Starting greenfield activities in three countries, for instance, would have been much easier. But, to *align existing infrastructures and processes*, one has to be extremely persuasive to motivate such organisations to optimise costs. This is no easy task.

Consider the case of E-Plus in Germany. For more than five years now, E-Plus has utilised an excellent Unisys voice mail platform, which has proved to be a major revenue driver. So, when KPN Mobile The Netherlands started discussing investing in a new voice mail system, we knew the time had come to integrate the various service platforms, including BASE in Belgium, so as to maximise cost efficiency. A team called 'Future IT' was then created primarily to address this issue and it has since designed a clear road map toward integrating all voice mail activities onto a single platform located in Germany. Within this system, whether voice mail traffic derives from our mobile operations in the Netherlands, Belgium or Germany, it all ends up on the mainframe located in Leipzig. So, an expert team gathering voice-mail competences is now located in Germany, while smaller teams are based in the two other countries to assist with the local adaptation of these services for our operations there.

In the future, this *common platform* can also accommodate the customers of our fixed telecom division in the Netherlands as we anticipate voice mail to become an increasingly attractive service for them. Beyond the use of a common platform, we are now creating common advanced voice services for implementation in all three countries. And it is our goal that through these present initiatives, KPN will soon offer the best voice-mail service. This is one example of the type of synergies that a company like KPN may want to develop between countries and different activities in order to increase the efficiency of international operations.

As you describe it, KPN has been able to unlock shareholder value by adopting an integrated approach on some project planning. Is KPN exploring the same type of synergies in other technical fields?

HLL: KPN's mobile division has chosen the i-mode technology – a high-speed mobile-phone Internet and multimedia service – developed by Japan's NTT DoCoMo for the next generation of network and services. We are very confident in this product and have introduced it in all three of our countries of operation. Moreover, as the i-mode services are based on a single technical platform located in the Netherlands, we only need one competent team to run

and maintain it. When this project is completed by year-end 2004, this cost-effective strategy will have reduced our investment costs considerably. Thus, we benefit from DoCoMo's expertise and have alliances with all the other i-mode operators in Europe, such as Bouygues in France, Telefonica in Spain and, more recently, COSMOTE in Greece. This is a second example of the type of synergies that can be pursued across borders and we anticipate this i-mode family to continue growing over the next months and years.

Has alignment between the three mobile subsidiaries been successful enough to provide KPN a strong buying power *vis-à-vis* network equipment manufacturers and handset providers? How do you compare your buying power to your main competitors in the European mobile market?

HLL: One of our priorities has been to centralise procurement policy to increase the buying power of the whole mobile division. Within this scheme, each country has a different set of competences: one is taking care of network equipment; another focuses on switches, and the last on innovative platforms. Of course, the final decision is the responsibility of division management, who then applies it to the entire company.

This centralisation is both successful and necessary and we feel our operations have benefited immensely from it. Consider that although we have over 18 million mobile customers while our competitors like Orange and Vodafone have approximately 50 and 100 million ones, respectively. However, our alignment is very strong and we perceive this as a major strength.

Are regulatory constraints limiting the synergy opportunities that you seek?

HLL: No. For example, we did not encounter any regulatory obstacles in our drive toward a unique voice-mail platform. Minor differences between countries will remain, such as using different servers for each country, but the platform will remain unique.

In the future, we plan to run on a unitary platform and system for our operations in the three countries, but we are not there yet. In this endeavour, we aim to capitalise on the fact that our operations are located in countries next to one another: it is easier to cross one border rather than to interconnect two distant countries like Germany and the UK.

Time to market is an especially important factor in generating shareholder value as a response to the continuous pressures of globalisation and tech-

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nological innovation, especially with regard to mobile telephony (from GSM² to GPRS,³ to UMTS⁴). Which difficulties have you encountered in transition phases between network generations? The choice of i-mode is different from that of your competitors in Germany, Belgium and the Netherlands. Do you think this technological choice will provide KPN with a competitive advantage?

HLL: Indeed. *Vodafone Live!* is a highly competitive service, but our tests, and those of others, show that i-mode is more advanced in terms of services and products on offer and technological wherewithal. Additionally, it is also easier to use, and as technology gets increasingly complex, the importance of this feature cannot be understated. As a result, customer satisfaction is very high with i-mode users. According to a recent survey in the Netherlands, 80% of the i-mode users are satisfied with the service; i-mode customers with the newest handsets are even more satisfied and use more data.

In response to the first part of your question, the rollout timing of a new network depends upon the general competitiveness and the license conditions in each country. For instance, we have started UMTS in 2004 in Germany and the Netherlands. Belgium will come later on, but the exact timing depends on the competitive situation.

It is significant that, while UMTS is an entirely new technology, we have decided to work with the same vendors who provide GSM infrastructures and this will allow us to optimise networks across borders. Thus, while E-Plus' German GSM network is based primarily on Nokia technology, and eventually on Siemens' as well, in the Netherlands, we work with Ericsson; for UMTS, KPN will work exclusively with Nokia and Ericsson in Germany and with Ericsson in The Netherlands and Belgium. Undoubtedly, there are scores of network parameters to be assessed and planned, but by limiting the number of companies with whom we interact, we can capitalise on our strategic relationship with them to improve service throughout. The same is also true concerning our relationship with handset manufacturers.

In total, we have one innovation team for the whole group that takes care of handsets, services and network innovation. Decision makers from the three countries work together on this team, providing us with one road map for the entire company. It is not easy but it works.

2. Global System Mobile communications.

3. General Packet Radio Service.

4. Universal Mobile Telecommunications System.

We already mentioned the importance of regulation in the telecommunication business. Since the beginning of the '90s, European directives have been adopted in the telecom field that provide the overall regulatory framework. However, these directives are translated into national legislation, and national regulatory agencies still supervise their implementation. Is KPN satisfied with the current level of regulatory harmonisation or do you consider that it remains an obstacle to seamless organisation in Europe?

HLL: Convergence of regulatory framework is a long road that we, as Europeans, have not yet finished travelling. There will always be room for improvement, and with 15 countries, not withstanding those added in the latest enlargement, we shouldn't expect to reach full harmonisation soon.

One has to also remember that even in the US – defined by one culture and two primary languages, English and Spanish – differences still remain between individual states. Given the fact that the EU has accommodated such diverse cultures and languages so rapidly, I think we can be proud of the job we have done thus far, irrespective of our inability to achieve full harmonisation.

Having said so, we should realise we're talking about international business with large international players. Regulation must strive for consistency within Europe. Off course, the *European Regulators Group* (ERG) is working actively in this direction. But I see a need for improvement.

You mentioned the different languages and different cultures that coexist in Europe. Is this a big handicap for KPN?

HLL: English is definitively KPN's language. All Dutch and Belgian people speak excellent English, and in Germany, everybody speaks, or attempts to speak, English, especially the younger generation. Again, harmony is not perfect, but English prevails and we do not see language as a hindrance of any sort.

Additionally, there is also an awareness of cultural differences within the mobile division that coincide with the various nations we represent. However, no attempt has been made to consciously align them into one organisational culture. At the end of the day, a company can only be successful by implementing the right decisions with shareholders' interest in mind and the correct decisions can only be made with careful thought for all three countries and cultures.

In terms of decision-making, political considerations play no role, especially with regard to our investments. Profitability is the single most important determinant here and we feel that political compromise tends to promote poor decisions.

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Centralizing and synchronizing activities will always take some time, but this is where our joint teams come into play. We study and identify the best options for KPN, based upon cost considerations and time to market. Furthermore, we believe that implementation time should not exceed nine months; our industry is moving so fast that any solution requiring more than this duration to implement runs the risk of becoming obsolete as a consequence of technological or competitive changes.

Indeed, innovation is a permanent feature of the telecom industry. As you mentioned earlier, KPN is competing with much larger organisations that can devote more resources to R&D and innovation. Is not your size a handicap in handling innovation and anticipating changes in standards?

HLL: Big companies have activities in many countries, but they are not inherently better equipped than us to adapt their networks and to implement changes. As a smaller company, KPN is more flexible and can adapt faster than the others.

Your question deals also with new technologies. In the past, KPN had more than 1,000 R&D employees developing new functionalities to streamline our business. In the new global environs characterised by increased transparency, we no longer need to spend such money on R&D. Today, we merely need a team of people able to understand it, to anticipate future trends and to translate R&D into new business. If there is a new vendor in China or South Korea doing something different, we are aware of this almost immediately, which means there is no competitive disadvantage between us and the larger organisations in terms of knowledge sharing. To see the trends, to feel the future, we only need to speak frequently with handset or infrastructure manufacturers.

Is your cooperation with DoCoMo one way to get preferential access to up-to-date R&D and evolving technologies?

HLL: We frequently visit their R&D centre and have access to the new technologies they develop. Indeed, with more than 1,200 excellent R&D personnel they generate some very dynamic solutions and I am extremely pleased about this cooperation with NTT DoCoMo.

Today, however, what is key is the development of new functionalities and not necessarily new infrastructures; standardisation and services are the primary issues here. And it is only by promoting a healthy combination of these features that everybody can truly jump onboard and that the competitive advan-

tage of the large corporations taking part in the various standardisation processes will be eroded.

My problem today is not innovation as such, but the fact that innovation cycles are getting shorter. The rolling out of a new infrastructure in countries like Germany or France takes approximately a year. Costs are excessive, and innovation is so rapid that a new technology may be available before the end of your payback period. In order to keep pace with such cycles, flexibility is essential and this has nothing to do with the size of the company. To rapidly deliver new technologies to the market is pointless if the corresponding services are not available.

What are the key challenges KPN Mobile is facing? How do you plan to address them?

HLL: For KPN Mobile the two primary questions are: can we improve our time to market? And, can we reduce our costs?

Based upon these criteria, I am convinced that in the future, the key for competitiveness will be cost effectiveness. Importantly, we are looking into all possibilities to make this a reality and refuse to let political or historical hurdles deter our efforts to maximise profitability across our three territories. Customer satisfaction is, of course, our other priority, and for that we seek to propose and implement services of the highest quality.

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Lucio Loubet

8^{ème} série de la Métamorphose n° 44
(92 x 65 cm)