

# KPN Grows SMB Business with Managed IP PBX Solution

By S. Loe



Eric Tigchelaar,  
KPN's Managed Services  
Business Market Manager

KPN is the incumbent service provider in the Netherlands and a major player in the telecommunications industry worldwide. In 2006, the company decided to migrate its entire infrastructure to a new, all-IP network over the next four years.

The main driver for this complete network transformation was the highly competitive state of the Dutch telecommunications market. Mobile operators are moving rapidly to take market share from incumbent providers by rolling out services based on fixed/ mobile convergence. New entrants – like Google and Skype – have achieved success as VoIP technology becomes more mature.

The result: KPN is experiencing declining share and margin erosion for its traditional offerings.

## New Strategy Needed to Reverse the Trend

KPN developed a new and innovative strategy to maintain its leadership in the Dutch market.

The new, all-IP network is a key enabler of a strategy that will see legacy networks replaced by a nationwide fiber-to-the-curb infrastructure. Alcatel-Lucent was chosen as a strategic partner to provide various elements of the new network.

## Reversing the Trend Leads to New Opportunities

The new strategy has already allowed KPN to identify a market sector that can be addressed with its new infrastructure. For the past few years, KPN's share of the SMB voice market had been in steady decline, due in part to competition and to the rise of new VoIP services.

By listening to its customers, KPN identified several factors that were key to attracting, acquiring and retaining SMB voice service customers (Table 1).

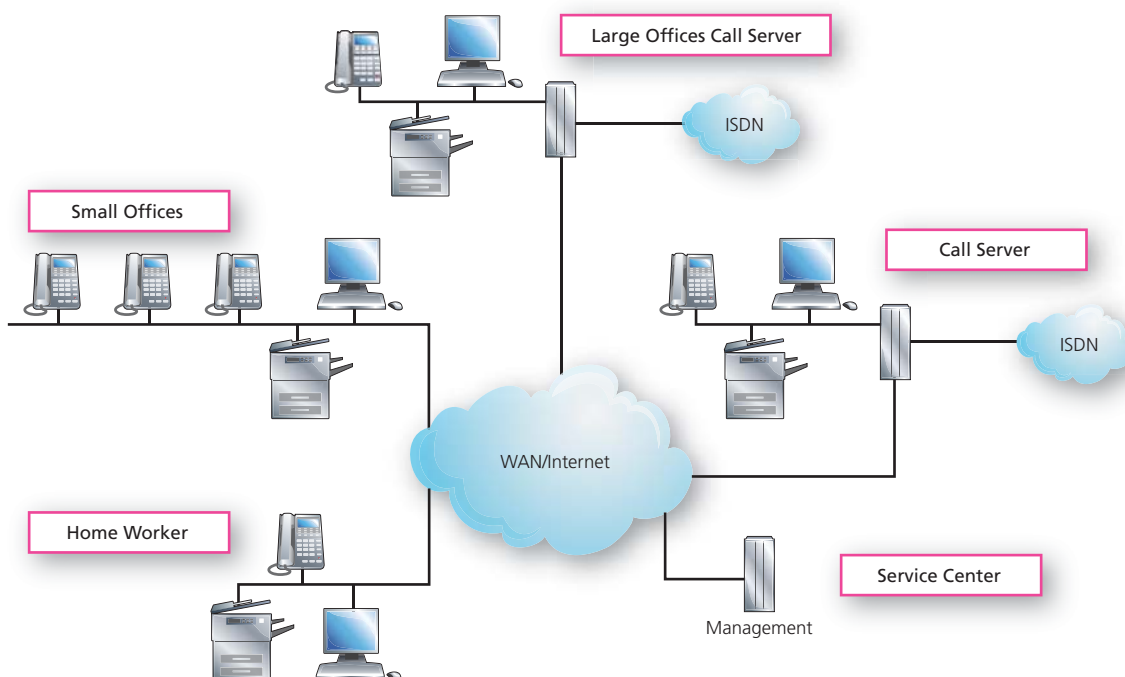
Table 1: The Value Proposition of KPN's Managed IP PBX (© 2007, Yankee Group)

End-User-Value Proposition	Highlights of the KPN Solution
Flexibility	Enables expansion and contraction of users as business conditions change pace
OPEX Pricing Model	No upfront investment Pricing on a per-user basis
Out-Tasked Maintenance	Reduces SMB administration and management resource requirements

SMBs wanted a voice service that works seamlessly between office-based staff, home workers and nomadic employees, while minimizing their Capital Expenditure (CAPEX) on communications equipment. Rather than investing heavily in equipment themselves, this segment prefers an Operating Expenditure model that allows them to pay a monthly fee to a service provider for voice service on a per-user basis.

Further, SMBs were looking for scalable systems that let them expand or contract the number of “seats” (users) as business conditions change (Figure 1).

Figure 1: The FlexiBel offering for SMBs scales seamlessly from 10 to 400 seats, covers single or multiple sites (© 2007, KPN)



Finally, many SMBs indicated a preference for outsourcing necessary but non-core activities. This includes tasks like configuration, operation and maintenance of equipment.

In response to these market trends and opportunities, KPN determined that a managed IP PBX solution would effectively satisfy the needs of this important and growing market segment.

### Partnering for the Long Term

“We knew that the market was there, and we knew that an IP-based solution was the way to go,” said Dr. Eric Tigchelaar, KPN’s Managed Services Business Market Manager. “Not just because of our transformation strategy, but also because of the flexibility and scalability offered by IP-based, managed voice services. After considering offers from Nortel, Cisco and Alcatel-Lucent, we eventually selected Alcatel-Lucent’s managed OmniPCX Office IP PBX solution.”

KPN was also looking for added value from its partner. “We wanted a supplier who could do two important things. First, we wanted help in training our sales force to sell services, rather than boxes and maintenance contracts. Second, we needed a supplier willing and able to integrate their managed

IP PBX platform with our existing services and product platforms. Alcatel-Lucent could do both, allowing us to sell the concept of managed services more effectively and to continue managing customer support via our Central Remote Resources Center. This means KPN can fully manage the customer experience, ensuring that we continue to maintain an excellent relationship with our SMB customers,” Tigchelaar said.

Technology also featured in the selection process. “Alcatel-Lucent’s solution was the only hybrid solution available at that time, able to cope with both IP-based and legacy systems.”

Strategically, KPN needed a commitment to the long-term success of a managed services offering. “We needed a partner that was ready to provide deep and ongoing support to our success in this market – someone willing to share both the risks and, eventually, the profits of the partnership. Alcatel-Lucent committed to developing a business case with us, and we now have a solid marketing and strategic partnership that sees us working together to develop and implement our services and messages for this market sector,” said Tigchelaar.

KPN is becoming the leading multimedia and managed ICT company in the Netherlands. It provides consumers and consumer households with fixed and mobile telephony, Internet and TV services; and business customers with voice, Internet and data services, as well as fully-managed, outsourced ICT solutions. Both nationally and internationally, KPN provides wholesale network services to third parties, including operators and service providers. In Germany and Belgium, it pursues a multi-brand strategy with its mobile operations and serves multiple customer segments in consumer as well as business markets.

© 2006, *Annual Review*, KPN



### **Fine-tuning the Solution to the Needs of the Market**

KPN launched the service as FlexiBel in the second quarter of 2006. Further functionality was added to the IP PBX service to offer DECT, Softphone and home worker support, and by working with Alcatel-Lucent, KPN was able to improve the commercial attractiveness of the offer. “We started out with a conventional pricing model, based on price and implementation costs of the IP PBX, plus monthly communication charges. Over time, Alcatel-Lucent worked with us to develop a more appropriate, per-user-based pricing model. This offered our SMB customers a simpler pricing structure that more accurately reflected their needs and offered us some direct benefits,” explained Tigchelaar.

The jointly-developed pricing model made it attractive for customers to move to longer contract periods. The typical contract length for the FlexiBel service is five years, compared with the average three-year maintenance contracts associated with PBX hardware sales. KPN has not only increased the average PBX contract length, but also the value of the average contract by selling other services as part of the bundle.

“Our managed IP PBX solution is yielding 10-20% more profit than comparable non-managed product sales,” according to Tigchelaar. “Also, we were very happy with the results of our first year after service launch – we exceeded our initial sales target, and in 2007 we anticipate a 400-500% increase in seats.”

### Customer Focus Yields Results

That wasn’t the only pleasant surprise for KPN. “Introducing managed IP PBX services meant that we had to refocus sales and marketing toward selling the benefits of the new solutions,” pointed out Tigchelaar. “This led to deeper customer discussions and renewed interest in voice services generally. As a result, sales of our non-managed IP PBXs also started to grow, where they had been declining.”

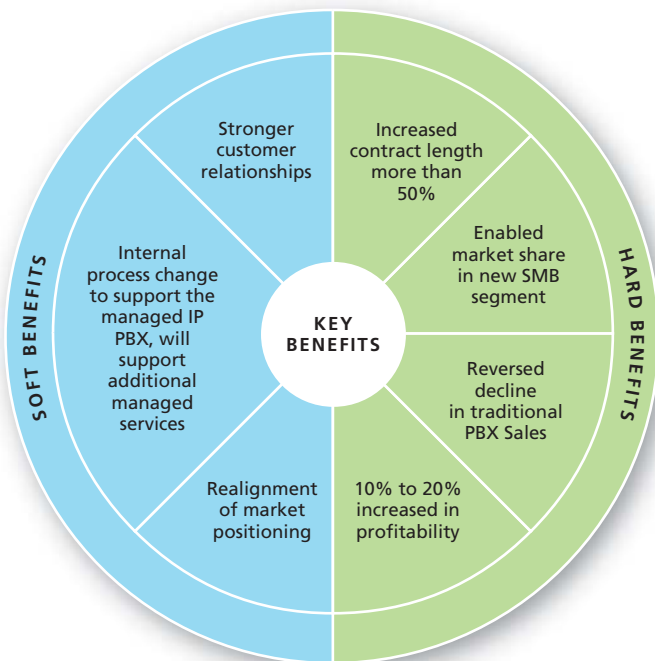
KPN attributes this to two factors. First, its new sales focus meant that sales teams were having meaningful discussions with customers, rather than making a sales pitch. Second, many SMBs liked the idea of managed IP PBX, but weren’t quite ready to take the plunge.

“We think that some of these customers may have stayed with us rather than go to the competition because at some future point they will want to migrate to our managed service option,” said Tigchelaar.

### Advantage KPN

The benefits to KPN of selecting the OmniPCX solution were immediately apparent (Figure 2).

Figure 2: KPN’s Realized Benefits of Alcatel-Lucent’s OmniPCX Office Managed IP PBX Solution (© 2007, Yankee Group)



KPN was able to use the managed IP PBX offering to reposition itself successfully in the marketplace. This repositioning will act as a building block for KPN's future success, offering the opportunity to market other enhanced, unified communications services to the new customer base within the managed IP PBX service.

The solution also allowed KPN to develop its business within a new SMB market segment: those SMBs which by and large like to outsource and to experiment with new, innovative business models. With managed IP PBX services, KPN was able to appeal to this enterprising approach and create a new market for its products.

In addition, the shift required in the sales process – away from simple product and technology messages, toward more meaningful discussions about the role services can play in delivering business benefits to the small business customer – acted as a model for KPN's entire SMB marketing organization. Being able to show a customer the impact of a managed service and the potential savings (both CAPEX and ongoing management time) has rejuvenated the sales process and accelerated widespread acceptance of the solution.

### **A Steep Learning Curve that's Worth the Climb**

"We learned many lessons along the way," said Tigchelaar. "One of our toughest challenges was sales training. Carrier salespeople are used to selling PBXs and a maintenance contract and selling more for less: by which I mean that as IP transformation accelerates, they're selling more bandwidth at a lower price.

"We had to invest time and money to change their mindset to selling business benefits and value, which was a steep learning curve for them."

Overall, the whole process has yielded benefits for KPN beyond the establishment of a new line of business. "The concept of selling services and benefits has helped the sales force generally. Since there is a limit to the amount of future business to be derived from traditional connectivity services, up-selling added-value services is the way to go, and the sales refocus demanded by selling managed services has supplied that expertise."

### **The Future's Bright, the Future's... Managed!**

Future enhancements to the FlexiBel service are in the pipeline to build on its initial and continuing success. "Fixed/Mobile Convergence (FMC) is the next step," said Tigchelaar. "We will be introducing this service for the business market late this year and aim to combine FMC with our managed services during 2008."

Longer-term projects under discussion include the development of a management platform for mobile devices; deeper integration of telephony, presence and instant messaging within the business applications environment; and contact center management as part of a broader enterprise offering. "By 2010, we predict that half of all our new IP telephony sales will be on a managed basis."

## The Voice of Experience

So, what advice would he give to other service providers considering a move into offering managed IP PBX services?

- “Start by selecting a vendor who is committed to long-term success. This goes beyond technology; vendors must be willing to work with service providers on business models, pricing models and go-to-market strategies.
- “Be prepared to invest time and effort in the proposition. It’s not just a question of changing your pricing model; you need to invest in your operations and salespeople.
- “Executive commitment is crucial to success, due to the changes required in the sales cycle.
- “Be realistic about what you can achieve at the customer’s premises. You need to find the right balance between the standardized package that you want to sell and the level of customization that every customer will demand.
- “Finally, you need 5-10 champions who support the concept and are willing to spend the required effort in making it successful. The bigger the group of supporters at the start, the quicker the implementation will be and the quicker the return.

“If you are willing to put the time and resources in place to underpin the success of managed services, they will pay you back handsomely and provide many benefits in terms of revenue potential, customer retention, market share and new, converged services,” Tigchelaar concluded. ☒

Simon Loe is a Senior Marketing Manager for Alcatel-Lucent, based in Maidenhead, UK.  
Email: loe@alcatel-lucent.com