Luís Filipe Reis, Optimus:

“We don’t think ‘mobile – we just see customers who need internet access”

Two years ago, executives at Portugal’s Sonaecom found themselves with a brand new 3G network that hardly anybody used. Their mobile subsidiary, Optimus, was struggling to catch up with Portugal’s two leading mobile carriers. With Sonaecom´s COO, Luís Filipe Reis, at the helm, Optimus decided to try what nobody had done before: use the 3G system for mobile broadband, marketing it as a simple extension of fixed broadband – without any high-tech hype. It was a gutsy strategy, and it worked.

REIS, A 44-YEAR-OLD marketing whiz with experience from the retail, pharmaceutical and telecoms industries, has no patience for engineers who want to talk data cards with consumers. Reis called Optimus’s mobile broadband service Kanguru and said that all consumers needed to know was that they now had internet that could jump – from the PC to the laptop – anywhere they went.

Indeed, when the service was first rolled out, Optimus’s price for mobile internet mirrored what consumers paid for fixed services. That helped blur the line between the two technologies and ease Kanguru’s entry into the mass market.

“There is nothing special about mobile broadband,” Reis says matter-of-factly, sipping the double espresso he has just ordered for breakfast. “We didn’t invent anything; we just launched a new positioning. From a marketing perspective, we didn’t speak about HSPA or speeds; we just used the concept that is on consumers’ minds, broadband, except this broadband has a distinct advantage – it’s available everywhere.”

An up-and-coming telecom player, Optimus was the first operator to offer mobile broadband in Portugal. It was necessity, rather than inspiration, that drove the company to rush the service to market, Reis concedes.

“We were in a fighting mode,” he says. “We basically had two big problems. It was very difficult to unbundle the incumbent operator on the fixed side. It was a lengthy and very difficult process that took, in the beginning, 150 days. And we had a new, useless UMTS (Universal Mobile Telecommunications System) 3G network. If you look across the world right now, you can find many useless UMTS networks.”

What Reis describes is the painful truth many operators have learned in the past few years. Third-generation telecom networks did not deliver an immediate rise in revenues because consumers have shown only scant interest in video calls or internet browsing with their mobile phones. While such 3G services appear to finally be catching on, voice calls still account for as much as 90 percent of average revenue per user (ARPU) in Western markets.

The situation was aggravated by the fact that the UMTS phones Optimus made available to customers to make calls on the 3G network were clunky devices with a shorter battery-life than traditional GSM phones. As a result, customers simply continued to use the GSM network to place voice calls with their GSM phones.

“We were forced to build the UMTS network because we had to comply with government regulations,” Reis says. “So the network was there. And we had hundreds of millions of euros hanging on poles without any users.”

HE AND THE other executives at Sonaecom were not prepared to wait for economics and better phone models to catch up and bail out their mobile operating company. In early 2005, they decided something had to be done – fast. It took them a few months to revise their strategy.

By adding mobile internet services via the 3G network to their fixed DSL offering (known as ADSL2+, or Asymmetric Digital Subbroadband’

scriber Line), Sonaecom hoped to enhance its total broadband package in the eyes of consumers. By subsidizing the cost of the modem that consumers needed to buy for their home, which costs about EUR 90, they also made the offering affordable.

In industry lingo, they were turning Sonaecom into a truly converged telecommunications and media provider. Optimus would sell wireless phone and broadband services, while Sonaecom Fixed continued to offer fixed phone, television and broadband services to Portuguese households.

It was a bold strategy, and it worked. One week after Kanguru was launched, more people were accessing the internet wirelessly through the modem in their home than through the DSL copper line offered by Sonaecom’s fixed division.

“Even our vendor friends were amazed because we really hadn’t changed a thing,” Reis says. “What we offered was a broadband product that was similar to any other broadband product in the world.”

Reis recalls a buying meeting, not long after Kanguru was launched, that his mobile operator held together with France Telecom, which owns a 23.7 percent stake in Optimus. Buyers from France Telecom offices around the world were placing their orders for the data cards that are inserted in computers to give users access to mobile broadband.

“Our order for 10,000 data cards was as big as the order for all Orange countries put together,” Reis recalls, referring to the France Telecom brand. “They were looking at our guy, asking, ‘Are you sure you’re not mistaken?’ And he replied, ‘Actually, I may not have enough.’ ”

TODAY, OPTIMUS claims to have 2TB of information going across its 3G network every day – a huge increase in traffic so soon after an initial rollout. “Just a year ago, data cards were a niche product for business customers – we transformed it into a mass market for consumers,” Reis says proudly.

Kanguru’s instant success was not lost on Vodafone and Portugal Telecom – the country’s two largest telecom operators. They followed with their own mobile broadband offerings a few weeks later in Q3 2005. Optimus’s share of the market has since shrunk from 100 percent to 50 percent, but this is still not bad for a company of its size, Reis notes.

With 2.5 million subscribers, Optimus could soon be getting much bigger. In September, Sonaecom confirmed that it had made a hostile USD 14.8 billion bid for its biggest rival, Portugal Telecom. With the merger already approved by the regulators, Optimus is expected to combine with Portugal Telecom’s mobile operation, TMN, boosting its subscriber numbers to more than 7 million.

The technology fueling Optimus’s continued success is High-Speed Packet Access (HSPA), which allows the company to gradually boost the speeds with which customers can download and upload information. Optimus is also investing in IMS (IP Multimedia Subsystem), the architecture that allows operators to provide IP-based mobile and fixed services with telecom-grade quality and control.

Starting in early 2007, Optimus plans to launch mobile broadband with speeds of 7.2 Mbps, up from 3.6 Mbps, and the plan is to move up from there. At 7.2 Mbps, the speed remains far behind Sonaecom’s fixed broadband offering, which can deliver broadband at speeds up to 24 Mbps.

Another challenge – and Reis’s biggest worry – is the fact that Optimus still cannot deliver consistent speeds across its network.

“Our basic challenge – other than selling a new product – is the UMTS network itself,” he says. “The industry is not prepared to support the volumes of data and the speeds that we need. Both our vendors were amazed at the amount of traffic we received, and have been doing successive upgrades to the network to accommodate this. But the speed is still not there. The real customer experience is still not there.”

Some subscribers living near the edge of the network still only get 2 Mbps. Others get no service because the network has holes, due to the fact that more than 10 percent of Portugal’s households

Reis’s guide to how operators can speed up the adoption of broadband

1. The first way is to supply the pipe, plain and simple. “It’s not a very sexy business, but it’s a good business.”
2. The second way is to charge differently for different levels of services, just as a restaurant does for bottled water. “Do you want Perrier, Voss or Evian? Differentiating is a very good strategy for operators.”
3. The third way is one where you open the pipe according to customers’ special tastes. “That is a seamless world where customers are used to a particular kind of champagne, and anywhere they go they can get it. What’s being offered are integrated services and content tailored to each customer. I see vendors trying to push us in the third direction, but we never know which product will become a success. This road is more uncertain and more challenging from an investment perspective. It’s more sexy, but as operators we have to be careful. When we ask vendors to show us the money, the only thing they’ve shown us so far is the invoice!”

remain outside the 3G network. This leads to customer complaints and churn.

On the upside, Sonaecom's total fixed and mobile broadband subscriptions are growing at a healthy pace. And the market still holds great potential – only about 20 percent of European households have broadband today, Reis notes.

"In the future, each home will have broadband," he says. "It will be as important as having water or electricity. Three or four years from now, I don't see any houses being built without a broadband connection."

BUT BROADBAND can also cannibalize traditional voice revenues. A popular website with Optimus broadband customers is Skype, the IP-telephony provider that lets customers place long-distance calls for free between computers, or extremely cheaply from a computer to a fixed phone. Does this worry Sonaecom, a company that built its business on fixed and mobile voice services?

"Yes, it's a threat, but it's a give-and-take situation," Reis says. "We have to manage pricing to ensure that we have a profitable business. And it's better to have thousands of customers using the network than nobody using it."

Indeed, Optimus continues to grow at a rapid rate. The company added 200,000 customers between Q3 2005 and Q2 2006, a 9.7 percent increase. Data revenues, which made up 11.5 percent of the company's service revenues in Q3 2005, accounted for 14.1 percent a year later, according to Sonaecom financial data.

Things are going well for Optimus, despite the company making a few mistakes along the way. Operators today need to be selective, Reis says, because the market is full of hype and promises that may never materialize. He speaks from experience.

"Have you heard of push-to-talk? Big mistake," he says. "Have you heard of ringback tones? Big mistake. Video calls? Big mistake. How many video calls do you see people making? Those are the kinds of mistakes we need to make, but operators cannot afford to make hundreds and hundreds of them."

Karin Rives

The company and its market

MAIN OWNER Sonaecom, part of Portuguese conglomerate Sonae Group.
HEADQUARTERS Senhora da Hora, Portugal.
SUBSCRIBERS 2.5 million.
REVENUE (2005) EUR 627.4 million.
EMPLOYEES (Q3 2006) 1056.
Service area: nearly 90 percent of Portuguese market.
COMPETITORS TMN (Portugal Telecom) and Vodafone.

quote

» Just a year ago, data cards were a niche product for business customers – we transformed it into a mass market for consumers «