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KPN - Business Services Europe

Company Assessment

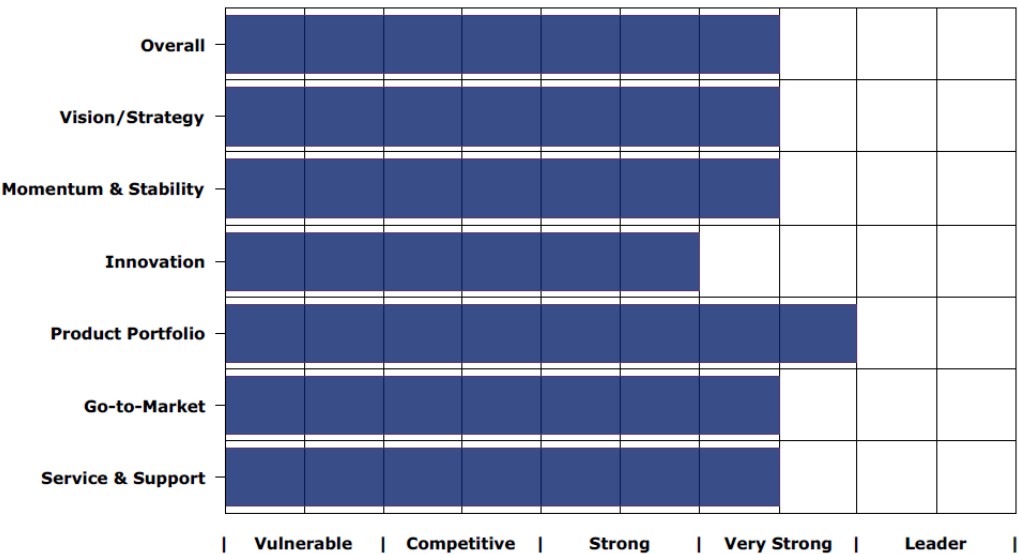
Report Summary:

Continued growth in business services has validated KPN's strategy, which is focused on strengthening its portfolio and positioning KPN as a one-stop shop for all enterprises including small businesses and large corporates.

What's New

- **November 2024:** Following its "Extra Safe Internet" product, KPN launched its enhanced KPN SME Cybersecurity. The package includes endpoint protection for laptops and PCs, Microsoft 365 backup, security training for employees, and a password manager. It also launched KPN Extra Safe Mobile, adding secure internet to business mobile data.
- **October 2024:** KPN announced that its business services revenues increased +5% YoY in Q3 2024, or +5.9% organic, with contribution to growth from all product and customer segments including IoT, SME, large corporate enterprise, and tailored solutions.
- **September 2024:** KPN launched KPN Internet at Work, which enables businesses to subsidize internet connectivity for their employees working from home by automatically crediting the worker's home internet account while adding the cost to the employer's business account, enabling teams to work more efficiently while also lowering the cost of remote working for employees.
- **July 2024:** KPN acquired 100 MHz of 3.5 GHz frequency licenses in the Dutch spectrum auction for a total consideration of EUR58.4 million. The licenses have a duration up to and including 2040 and enable KPN to work toward upgrading its existing 5G network to 5G standalone.
- **May 2024:** KPN launched the KPN Campus portfolio for mission- and business-critical applications, integrating 5G services with on-premises computing, indoor localization, and LAN. The portfolio includes hybrid options combining public and private infrastructure, tailored for industries like logistics and healthcare to support advanced technologies such as AI and automation, and real-time operations with enhanced reliability and security.

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Rating Update Summary

Rating : Very Strong

Continued growth in business services has validated KPN's strategy, which is focused on strengthening its portfolio and positioning KPN as a one-stop shop for all enterprises including small businesses and large corporates.

Perspective - Essential Analysis

Strengths	Limitations
<ul style="list-style-type: none">• Broad, Converged Portfolio: KPN offers a comprehensive range of modular solutions for businesses, including access and connectivity, networking, cloud and workplace, security, and IoT, catering to both SMEs and large corporate enterprises with integrated solutions.• Strong Secure Connectivity: KPN provides robust security solutions for all customer segments (including the new "Cybersecurity for SMEs," and the established SD-WAN, and secure connect offerings) that support secure, resilient hybrid work environments, a key requirement for enterprises today.• Advanced Fiber and 5G Infrastructure: KPN's extensive fiber network (targeting 80% coverage by 2026) and 5G standalone investments strengthen its position to support high-speed connectivity for data-intensive business applications.• Innovation and Local R&D: KPN's Fieldlabs and partnerships with startups drive innovation in areas like Industry 4.0, urban infrastructure, and mobility, allowing KPN to meet specialized needs with locally tested solutions.	<ul style="list-style-type: none">• Limited Geographic Reach: KPN's business operations are primarily focused on the Dutch market, which restricts its growth opportunities compared to multinational competitors with broader international reach.• Elephant(s) in the Room: The local presence of hyperscale cloud providers Amazon Web Services (AWS), Google Cloud, and Microsoft Azure in the Netherlands creates opportunities for KPN, but it also represents a threat as the US giants continue to innovate in a broad range of increasingly easy-to-consume digital business solutions.• Intensifying Competition and Price Pressure: KPN faces strong competition in the B2B space from established telecom players and new market entrants, which can drive down prices and impact profitability, especially in the SME segment.

Category Ratings and Justification

Vision/Strategy

Rating : Very Strong

- In November 2023, KPN announced its 'Connect, Activate & Grow' strategy, emphasizing its continued enterprise market expansion. It aims to drive sustained revenue growth by strengthening B2B offerings, positioning KPN as a one-stop shop for all enterprises including small businesses and large corporates. With advanced solutions like private campus, multi-cloud services, and IoT applications, KPN is phasing out legacy systems to enhance its role as a systems integrator, leveraging its deep market expertise and a comprehensive suite of managed services.
- In addition to pursuing a converged, simplified portfolio, KPN has transformed operating platforms and implemented lean and digital operations, enabling it to innovate more quickly and strengthen partner relationships. By connecting its existing network and platform engines to Microsoft and other third-party platforms, it has positioned itself to sell more cloud and network-enabled services.
- In alignment with its broader growth strategy, KPN is also investing in modernizing its infrastructure, with plans to roll out fiber reaching 80% of the Netherlands by 2026. This rollout supports enhanced connectivity for both consumer and business segments and helps secure KPN's position as a leading provider in the Dutch market.

Momentum & Stability

Rating : Very Strong

- KPN reported strong growth overall in adjusted revenues in Q3 2024 and in the year-to-date period, with increases of 4.2% and 4% respectively during the two financial periods. Adjusted business service revenues also maintained healthy growth, including an increase of 5.9% in Q3 2024 (+4.9% year-to-date), driven by growth in all enterprise segments (e.g., SME, large corporate enterprise, and tailored solutions) and a number of product areas (e.g., broadband, mobile, cloud, workspace, and IoT).
- Like other companies, KPN is challenged by global inflation, reflected in an increase in the cost of goods sold in Q3 2024 (7% YoY), including third-party fiber network access costs, an increase in lower margin hardware sales, and higher costs in IT, personnel, and marketing/sales.
- KPN maintains strong positions in cash, debt, and cash flow, and it remains well-funded with ample liquidity to cover debt maturities for the coming years. CapEx was up slightly in 2023 at EUR1.25 billion with plans to keep it stable at EUR1.2 billion through 2026.

Innovation

Rating : Strong

- KPN is now focused on six areas for innovation: digital service aggregation, cybersecurity for all, converged hybrid working, secure data exchange, mission- and business-critical platforms, and network platform-as-a-service. In most of these areas, KPN has demonstrated some innovation already (e.g., SASE KPN, 5G application priority, KPN Health Exchange, and a data services hub).
- KPN Fieldlabs are innovation hubs across the Netherlands where KPN collaborates with partners to develop and test cutting-edge technologies in real-world scenarios. Each lab targets specific sectors like urban infrastructure, Industry 4.0, and mobility, transforming ideas into practical solutions. Through these labs, KPN advances technology leadership, supports ecosystem growth, and drives societal digitization.

- KPN's commitment to innovation extends through partnerships and a collaborative ecosystem, which includes fostering early connections with startups and scaleups via KPN Ventures. This allows KPN to support emerging businesses while gaining fresh insights that drive its own innovation.

Product Portfolio

Rating : Very Strong

- KPN has comprehensively streamlined its business product portfolio and now provides business customers simplified, modular, and converged propositions that combine network, ICT (e.g., cloud and workspace), and security services. Virtually all business customers have migrated from traditional fixed voice and legacy broadband services. In the cloud and workplace domain, KPN offers a variety of workplace, public, and private cloud solutions, including the sovereign KPN CloudNL.
- The new KPN Campus proposition incorporates private and hybrid 5G, edge computing, indoor localization (asset tracking), and secure LAN for on-premises use cases. KPN's business mobile portfolio includes 5G services for guaranteeing coverage, bandwidth, or application priority as well as its KPN Things modular IoT portfolio serving more than 10 million IoT SIMs with access to 600+ roaming partners. Fixed access and connectivity services include fiber (available to 62% of the Netherlands in Q3 2024, expanding to approximately 80% by 2026), XG-PON, and secure internet, along with mobile backup.
- Within KPN Secure Networking, KPN combines services such as internet, VPN, SD-WAN, SD-LAN, and security. Services include a centralized firewall, elastic interconnect (interconnectivity solution based on KPN's internet exchange), SD-WAN Premium (based on VMware), and Secure Connect (network-based solution for secure hybrid working). KPN has also launched the cloud-based Censornet and Cybersecurity solutions for SMEs and developed solutions for converged B2B/B2C use cases in support of providing secure and guaranteed business services at home. KPN partners with Cisco Meraki and VMware on SD-WAN.

Go-to-Market

Rating : Very Strong

- KPN's go-to-market strategy is based on modular and converged segment-specific propositions. For small office and home office (SOHO) customers, KPN offers KPN Small Business, combining internet, fixed voice, mobile, and television. For SMEs, the KPN EEN MKB solution provides connectivity with a robust blend of internet, fixed voice, mobile, television, security, cloud, and workspace services, designed to ensure businesses stay connected, secure, and productive.
- For large and corporate enterprises, KPN provides KPN Smart Combinations, a suite of solutions including internet, VPN, SD-WAN, SD-LAN, and network security. Additionally, it offers cloud communications, including mobile, VoIP, unified communications, and contact center capabilities, alongside cloud and workplace solutions, such as modern workplace, private cloud, and public cloud options.
- At the top of the market, KPN also delivers bespoke solutions that intelligently integrate its portfolio at scale. This can include co-innovation with customers and management of third-party services, with KPN taking care of operational IT processes and supplier management.

Service & Support

Rating : Very Strong

- KPN's customer service provides a single interface to business customers; its customer service model includes a self-service portal, a management portal, and a 24x7 service desk. Its service proposition provides modular add-ons for large corporate enterprise customers with multiple IT stacks in place, providing, among others, in-depth security/compliance and architecture services as well as simplified integration of both KPN and third-party services.
- Following its business portfolio transformation, KPN has reported a (mostly) consistent positive Net Promoter Score (NPS), a strong indicator of improving customer satisfaction. KPN claims to have a market-leading NPS in the Netherlands, leveraging work put in via customer experience labs and co-creation programs. In 2023, KPN reported a B2B NPS of +5, representing an increase of +4 YoY, but it has slipped back slightly in Q3 2024 to +4.

Segment Ratings

Market	Perspective
Business Network and IT Services - Europe Region	Very Strong
Collaboration and Communications	Very Strong
Data Center and Cloud Services	Strong
Mobility	Very Strong
Network Access and VPNs	Very Strong
Security	Competitive

Threats and Barriers

- **Intensifying Competition and Market Saturation:** KPN faces strong competition from existing telecom providers, new market entrants, and over-the-top (OTT) players. This competition limits KPN's ability to differentiate on technology standards, often driving down prices and eroding profitability. For B2B, this can mean reduced average revenue per user (ARPU) in the SMB space and challenges in retaining high-value business customers.
- **Customer Expectations for Seamless Digital Experiences:** As businesses increasingly digitalize, customers expect fast, reliable, and personalized digital services. KPN's B2B customers, in particular, are likely to prioritize connectivity providers that can support their digital transformation goals with integrated solutions and advanced analytics capabilities. Any lag in digital service quality, personalization, or responsiveness could impact its market-leading NPS and drive these customers toward competitors with more agile and data-driven service models.

- **Geopolitics and Economic Environment:** Even though it is focusing solely on the Dutch market, KPN operates in a global ecosystem, which has been challenged over recent years by the pandemic, component shortages, Russia's war in Ukraine, and now an unpredictable new US administration - all of which can impact costs and time-to-market. While the Dutch economy continues to grow for now, KPN must be prepared to face both internal and external market impacts as they arise.

Sustainability

- **Environmental:** KPN's climate targets were validated by the Science Based Targets initiative in July 2024. By 2030, KPN aims to reduce its absolute Scope 1 emissions by 84% and in 2033 its absolute Scope 3 emissions by 75.6% compared to 2015. KPN is committed to continuing to purchase 100% renewable energy annually (Scope 2). KPN aims to be net-zero for its total emissions by 2040, including the impact of its suppliers and customers (Scope 3).
- **Social:** KPN reached 50% gender diversity at board of management level but fell short of reaching its goal of 33.5% women among all senior management by 2023.
- **Governance:** KPN has instituted a code of conduct for its supply chain with a focus on circular economy. Suppliers need to comply or have their own equivalent policies around recycling, consumption, design, production, and distribution.

Recommended Actions

Vendor

- **Industry-Specific Solutions:** KPN should build on the KPN Campus portfolio by developing tailored offerings for high-growth sectors like manufacturing, logistics, and healthcare, emphasizing the integration of AI, IoT, and edge computing to address specific operational challenges.
- **Service Reliability:** KPN can maintain and enhance its strong NPS by prioritizing service reliability and proactive issue resolution. To do so, it should invest in predictive maintenance tools, AI-driven customer support, and advanced network monitoring to ensure consistent performance and to minimize disruptions. Highlighting these efforts in marketing communications can further reinforce customer trust and loyalty.
- **Professional Services:** KPN should further develop its professional services expertise to support its ambitions as a systems integrator, focusing on delivering tailored consulting, implementation, and managed services that integrate KPN's connectivity, cloud, and security offerings with third-party solutions. Partnering with technology vendors or acquiring niche expertise can bridge gaps, enhance customer value, and position KPN as a trusted advisor for end-to-end digital transformation.

Competitors

- **SMB Market:** Competitors in the SOHO and small business segment should compete with highly flexible, scalable solutions that allow small businesses to start with minimal investment and grow incrementally as their needs evolve. Focus on no-lock-in contracts, easy upgrades, and transparent pricing, appealing to SMBs wary of overcommitting to KPN's modular, multi-service packages.
- **Global Advantage:** Service providers with international reach should highlight their ability to deliver integrated solutions across multiple geographies, contrasting this with KPN's more Netherlands-focused market strategy. Use global scale to offer better pricing, innovation access, or cross-border operational support, which KPN cannot match.

- **Private Networks at the Edge:** Competitors with and without spectrum can position private network (4G/5G) solutions for campus locations and Industry 4.0 use cases as a sound alternative to KPN's proposition. While KPN has entered the space after some years of pursuing its "private over public" 5G approach, challengers should now be able to meet KPN on a relatively level playing field.

Buyers

- **Full-House Offer:** KPN offers the industry's broadest range of ICT services to enable the digital transformation of Dutch businesses, and its modular and converged propositions (e.g., KPN EEN MKB, KPN Smart Combinations, etc.) that combine network, ICT, and security services should make it easy and efficient to consume.
- **At Your Service:** KPN has not always had the best brand for customer service and experience, but Dutch businesses should pay attention to its track record in recent years measured by its NPS, which remains market-leading for B2B services. For large corporate enterprises, it has introduced experience-level agreements into its service contracts, giving more than lip service to business outcomes for its larger customers.
- **Socially Responsible:** KPN has a strong reputation for being socially responsible; the growing number of customers that regard ESG as a key buying criterion should consider KPN.

Company Details

Company Snapshot

Revenue	<p>KPN's Q3 2024 group adjusted revenues were EUR1.42 billion (Q3 2023: EUR1.36 billion), up 4.2% YoY. Adjusted EBITDA AL increased by 2.3% to EUR643 million in Q3 2024 (Q3 2023: 629 million). Adjusted B2B revenues in Q3 2024 amounted to EUR477 million, up by 5.6% (Q3 2023: 452 million).</p> <p>Q3 2023 B2B service revenue by customer segment was: SME EUR182 million (+8.1% YoY); large & corporate enterprise EUR193 million (+1.4% YoY); tailored solutions (strategic clients) EUR80 million (+7.6% YoY).</p>
Employees	9,724 FTE (year-end 2023)
HQ	Rotterdam (the Netherlands)
Market strengths/solutions	<p>Fixed and mobile access; voice and data products; global access to Central/Eastern Europe and Latin America via Telekom Austria and América Móvil, and via BT elsewhere. ADSL, ADSL2+, VDSL, FTTH, Ethernet, IP/MPLS, SD-WAN, data center and cloud services, workspace services, managed/hosted services, and security services; mobile voice, data, and WAN; unified communications and collaboration; and FMC and IoT/M2M. KPN (group) claims leading market shares in broadband and mobile services.</p>

Network Description

Fixed/Wireline Network	<p>Copper legacy being phased by a next-generation network with four core locations, 161 metro core locations, with the goal of nationwide fiber coverage. In 2022, fiber subscriptions outgrew copper subs for the first time. Three million copper lines were switched off in 2023. This will eventually lead to the full switch off of the copper network and thus save costs. KPN reported 62% fiber coverage in Q3 2024 and aims to reach approximately 80% of Dutch households by the end of 2026 together with joint venture Glaspoort, boosted by the 2023 acquisition of Primevest's fiber network. International reach through MSA with GTT after the acquisition by the latter of KPN International.</p> <p>Architectures/technologies in network: IP VPN offers native Ethernet LAN/WAN connectivity, synchronous digital hierarchy, international private leased circuit, IP transit, and wavelengths. Access technologies: VDSL2, VDSL2 pair bonding, vectoring, bonded vectoring, VPLUS, FTTH, FTTO, XGS-PON. CapEx spend: Approximately EUR1.2 billion planned each year for 2024 to 2026.</p>
Mobile/Wireless Network	Wireless technology: GSM/GPRS/LTE/LTE-A/LTE-M/LoRaWAN (Netherlands only) coverage by 3G/4G/5G NSA networks with 5G standalone rollouts started in 2024.
Data Centers	The Netherlands: Amsterdam, Arnhem, and Rotterdam.

Key Recent Announcements and Disclosed Strategic Plans

Date	Data
September 2024	KPN's climate targets were validated by the Science Based Targets initiative. By 2030, KPN aims to reduce its absolute Scope 1 emissions by 84% and in 2033 its absolute Scope 3 emissions by 75.6% compared to 2015. KPN is committed to continuing to purchase 100% renewable energy annually (Scope 2). KPN aims to be net-zero for its total emissions by 2040, including the impact of its suppliers and customers (Scope 3).
July 2024	KPN acquired 100 MHz of 3.5 GHz frequency licenses in the Dutch spectrum auction for a total consideration of EUR58.4 million. The licenses have a duration up to and including 2040 and enable KPN to work toward upgrading its existing 5G network to 5G standalone.

Key Mergers, Acquisitions and Divestments

June 2023	KPN takes over the Dutch activities of Youfone.
June 2023	KPN strengthened its fiber footprint in larger cities by acquiring the fiber network of Primevest Capital Partners.
January 2023	KPN acquired Itzos, strengthening the KPN Health unit.