

Interview with Robert Kjellberg:

Funding Open Access at Mälarenergi Stadsnät

How local residents were persuaded to help fund the fiber network that serves them – before service started

By Gordon Cook ■ *The COOK Report on Internet*

Robert Kjellberg is now CEO of OpenNet, and was Managing Director of Mälarenergi Stadsnät in Västerås, Sweden. His Warwick Business School MBA dissertation, *Rapid and Dynamic Strategy Development: An analysis of a rapid and dynamic strategy process in a company within an emerging industry*, is based on his Västerås experience. He's won several marketing awards; the open-access Mälarenergi Stadsnät won a Cornerstone Award from Broadband Properties in 2005.

The system was the first showcase for Packetfront's BECS system, which controls network switches from "layer 3" of the network stack. BECS made it fairly easy for the network administrators to promise open access.

Kjellberg's vision, in his words, was to *create a meeting place characterized by many services, freedom of choice and openness, where everybody can reach everybody instantly at great speed at all times, "The virtual society."* The vision is portrayed in the city portal, www.malarnetcity.se.

Mälarenergi Stadsnät was formed in July 2000, as a company owned 40 percent by ABB and 60 percent by **Mälarenergi**, a utility company. Because it is the local utility, it has ownership of, and access to, the rights of way.



Malarnet home page, at www.malarnetcity.se

Cook: Is it reasonable to say that you were trying to build a large system project that needed coordination and integration of multiple engineering and financial planning disciplines that were all used to working only in their own vertical silos?

Kjellberg: Yes. Although the company was owned by two very solid organizations, neither of them had had any control of their would-be fiber-building subsidiary for close to nine months. When I started, I found out they had been running the project at double-

speed without any concern for generating any income in return.

I was given three months to make a totally new strategy for the company. I said we had to... focus on building out one area at a time. We would focus the sales force on a single area and then get the LANSs called for in that area built, and then get the actual build-out for the network. This was in September 2000.

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Cook: When you went before your customers and said they must pay in advance, did you tell them why?

Kjellberg: I did not, but I had no choice. I was able to move forward with the presentation of a totally new strategy. We would focus on a single area and get people who lived in that area to sign up. We were able to articulate a vision for what we wanted them to buy. They had a 90 day time limit to sign up, after which we would move on to another area.

From being a captain in the military for ten years, I know that you have to concentrate your resources on one place at a time. And then because we didn't have any money we had to have creative financing. With very good marketing material I was able to make people pay for service before they actually got service. I was selling the vision of this Metropolitan Area Network that was coming into existence and would transform many things. It would be – for users – like they were all sitting in the same office sharing services. They bought this vision.

We approached the first area we sold with the criterion that a 60 percent take rate would be needed before we would build. I was thinking like this: If you are only at 50 percent that means you really lack a majority commitment from

the area in question. It will also be much more costly for you if you have to go in and connect them afterward. Therefore we spend as much of our time and effort as possible getting as many people in an area as we possibly can to subscribe.

We had some interesting methods. For example, when we had a certain commercial building owner whom we wanted to sell, we sent a letter to all the tenants saying we were ready to give the building owner a very good offer, and if you want to help him make this decision please sign this and send it to us. Then we would go to the building owner and say, “look your tenants really want to have this network you know, you must help them out.”

After we had sold several buildings in an area, we went to the other building owners and said, “since virtually everyone has signed up, so should you. You need to sign up now because we are moving on and afterwards joining up will be much more expensive.”

Initially we did not get full cost recovery because we did not know the cost at that time. When we moved to the next area we actually increased the cost. This philosophy I got from a bed manufacturer in Sweden that said this product has not yet reached its market value. Some of the building owners had been holding out because they were thinking it would eventually be cheaper.

I said to them that what would be cheaper was the services that would run on these roads but the infrastructure will never be cheaper. To the contrary, it will be more and more expensive because it is costly to dig in the ground. I acted very quickly to separate the infrastructure from the services. We told them “here is an offer to invest in the infrastructure in your building. Here is what it will cost. You must decide within 90 days or we will move to the next geographic area and increase the price.” We did what we warned we would do and pretty soon word spread that you better buy now while the price is reasonable.

This came together out of a crisis situation where we didn't know if it would work or not, I went to Västerås because this is where the original effort had been started. With quick thinking and a lot of work we stabilized the situation. This was a challenge that I enjoyed because no one had ever done this before.

In most other cities people who were

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doing this sort of thing didn't have any control at all on how resources were being used. Some of the cities will never get the money back on the infrastructure that has been invested because they have never put in professional management and a professional board focused on marketing.

Rethinking the Market Model

What we had to do was rethink the market model. We were considered idiots because what we were telling the monopoly guys who wanted to rent dark fiber was "Stop. We want to build a common network here. We will let you use the airport because we don't have any city-favored airlines here. It is open to everyone."

Cook: Everyone was thinking in vertical silo terms rather than horizontal layers?

Kjellberg: Yes. We said that we think that infrastructure is something that should be shared and that sharing should be coordinated.

Now in buildings that already had commercial businesses it was the business that needed to be sold and we had to develop the ability to teach each business why it should care about fiber.

We were very successful. We started

selling in the center of Västerås with the goal of needing to sell 60 percent. We sold 95 per cent. We started selling in one three month period and began to build in the next quarter. We did our initial planning in September 2000 and rolled out the sales campaign between October 1 and the end of the year. We were close to bankruptcy, but during the final quarter of 2000 we got 95 percent of the building owners to pay in advance for their connection. That turned our cash flow problem around and from that point on we did not need to ask for money in advance.

Selling to MDUs

In 2002 we added the health centers in the county council. We also started selling to apartment buildings. There was fierce competition because you had the cable TV guys and ADSL was already available. Both could deliver Internet. We had to sell the apartment building owner on the need to buy a new infrastructure and provide his tenants with a new LAN. But we were quite successful in getting the biggest building owners to buy in, and after that, it was easier to sell the smaller owners.

Cook: Did you promote telecommuting in the area?

Kjellberg: I hooked all of these guys by doing a strategy workshop with the large building owners, to develop a vision of the future of Västerås. We were able to present a comprehensive picture of what would be possible when the build was completed. This was very important because for example the biggest building owner was the municipal housing authority with 13,000 apartments. At that time they were thinking about connecting to Bredbandsbolaget, a competitor who actually gave the building owner a connection and LAN for free.

At the workshop, I proceeded to explain the vision of an open access fiber network, showing ... in detail why it was better than alternatives because they as building owners did not [have to] make the choice of what kinds of communications services their customers could and couldn't have.

They were receptive just to be buying services at serious discounts because otherwise they knew that every three or four years they would have to sign new contracts with the cable companies at higher prices and that they would also have to sign new telephone agreements every year. The building owners had previously taken a big part in providing services to their tenants, but more and more they were just becoming building owners and seeing their buildings just as investments. Other companies come in and offer services. The building owners provide the infrastructure.

Cook: So the building owners are themselves making a transition from the vertical silo ownership view to the horizontal service model?

Kjellberg: Yes. But when I initially brought up the question they absolutely insisted on knowing what was in it for them. They asked, "How much money do we get from you?"

I said that if you want to have money from me, which I get from the service provider, then you have to take some

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part of the risk. Do you want that?

And they said: "Oh no. No we don't want any added risk, thank you."

I said, "OK, then you have to buy this connection and you have to build a LAN in the building and then we provide the network and see that it works. We provide the service level agreement to the service provider and for that they pay us."

In this manner we sorted out a new business model quite clearly by establishing the rules that each of Västerås's major constituencies would play in reaching the vision that we had set up. We also went further and developed the different kind of offers for different customers.

We developed a process that was designed to be seamless, that told the village association in detail what they had to do to get from the beginning to the end of the project. The association had to begin with a meeting where they decided that broadband should be part of the association's future. Then we showed them how to turn that goal into reality. They would come to an organizing meeting and we would give them a questionnaire to give to their neighbors so that they could go out and ask who was interested.

We arranged these big meetings and once we got them there, the results were remarkable because we had answers for all the questions that they could possibly ask. We gave them the information packs for their neighbors. They said, "Oh this is fantastic," and they went out and worked so hard to make the necessary sales. As soon as they signed up 60 percent of the neighbors or more, we connected them. This was in 2005.

Cook: An amazing process. Could you franchise it? Is it exportable to other countries?

Kjellberg: Possibly. I have been working on mapping of bids and processes. Everything is well documented in Swedish

and we sell it to other cities in Sweden. We get about half a million Swedish Kronor for our concepts when another city buys them. **BBP**

About the Author

Gordon Cook is sole proprietor of the COOK Report on Internet Protocol: Technology, Economics and Policy. The

COOK Report, currently in its 15th year of publication, is the oldest ongoing independent Internet newsletter. Back issues from 1992 through 2004 may be downloaded from cookreport.com. Summaries of current issues are available starting at cookreport.com/15.07.shtml. A longer version of this interview is published online in The Cook report last year.

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