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Speech at the 2nd Biel-Bienne Communication Days

Economic recovery in telecommunications- Is land in sight?

Keynote speaker: View of the international operator

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Guten Morgen, Bonjour, Buongiorno and Good Morning. It really is a pleasure for me to be here and as was mentioned, this is really my first time speaking externally since I took the job here at Orange. So today I get the chance to talk a little bit and share a few thoughts with you about my view of the industry. And my view of what I think a lot of us have been thinking about over the last few years as our industry has moved in transition.



Solomon Trujillo

And I say in transition because we went through a period in the mid '90s to the year 2000 or so and we found that many things changed and at the same time we learned that many things do not change, in terms of business and how you operate businesses.

So what I would like to do is share some of my thoughts about how our industry could develop over the next five to ten years. And I am going to emphasise and stress the word could because my vision for how we can sustain and build on our phenomenal past triumphs is not going to happen by itself. And to the minister I think I will make a commendment to you that we wont spend much time at least as ATTAG with a lot of those acronyms whatever they might be.

And I think he has laid out a challenge for us. And I think that the theme of what I am going to talk about perhaps addresses a little bit to what he was talking about perhaps in a humorous way. But I take it very seriously in terms of a message there about our obligation and our duties as people involved in the communications industry.

I believe is our industry is starting and standing at one of those great crossroads you encounter perhaps once a decade or so. We've got some big decisions to make historic decisions that will shape our industry for years to come. And their decisions that at this moment in time perhaps will take a little bit of courage and they are decisions, that like it or not we are going to have to make fairly soon.

And for those of you that have been in the industry you know that we have had to deal with some of these kinds of decisions before. And I would encourage us to look back perhaps to the early nineties when we as an industry made a great leap into the GSM digital standard. I think those of you that were around at the time might remember the mood that accompanied that change and there was a lot of uncertainty, there was doubt but there was also the year of the tremendous excitement about the possibilities that were about to be unleashed.

And you can feel that same uneasy combination of conflicting emotions in the air today, the excitement, the anticipation and the fear. It is almost palpable. I guess it is inevitable and as I would like to say we're now at those crossroads. And the decisions we now need to make, as

I am sure you are all very aware are in essence about how we think about moving forward within the mobile data business and the mobile data services part of our business. And I would like to be clear about this. Mobile data is the key to our future growth and prosperity.

It is an incredible opportunity. And all you have to do, if anyone has any doubt that maybe I am being a little bit narrow in terms of my thinking is, I just encourage you to think about what's happened to all of our lives, in the last 5- 8 years with the internet, because that has been about essentially data.

But if you think about it just in the context of that word data it kind of doesn't mean a lot. But when you think about it in the context of our life, of our lives and of our lifestyles whether we are at work or whether we are at home, or whether we are on the go, it takes on a much different meaning.

And so when I talk about mobile data as being a key to our future growth and prosperity, I really do mean that seriously. I believe that it is an incredible opportunity for those of us that are within the industry. Properly integrated with voice, delivered on the right devices with the right mix of content and functionality, it's got the potential to transform the way that people use and the way that people relate to almost anything in their life, but in particular facilitated through these devices that we all seem to have in today's world, these devices that we call the mobile phones.

If we get it right we can turn the mobile phone in to the delivery mechanism for an incredibly vast array of interactive life services. These devices can put everything in your world essentially at your fingertips. You can set your VCR, DVD, whatever the device is at you home, when you are stuck on a train, or turn on the oven, turn on your heating, turn it down, do whatever it is that you choose to do. You could literally be turning on an internet-radio station or watching some video that you have chosen to watch while you're stuck on a train or stuck in a car or wherever you might choose to be. You could be using your phone to pay your credit card bill or to get a drink from a vending machine. You could be accessing your office based electronic diary to change an appointment or to book a meeting with your team. A lot of this is beginning to happen here and now, some of it's still in place for the future. And it's probably true that the data empowered mobile device is going to evolve in ways that we can't even imagine yet.

But one thing is for sure, the day is coming when people will find it strange that they just used to use that device for voice calls. Making this vision into an everyday reality will open up whole new revenue streams for us, for operators and for content-, services-, and technology providers. And I believe that it can continue to transform the economics of our industry. And I believe that all of us that are participating today are in the ideal place to make it happen because now most of the technology-pieces are really in place. And many of the relationships that are necessary are in place, including those with their customers and including some of those that we've started establishing across the industry, to turn our dreams of mobile digital services truly into reality. But again we've got some other decisions to make first and as I look around our industry, I am not convinced yet that we're fully understanding or totally serious yet, about making some of those important decisions.

As a lot of you know and as was mentioned, I have been in this job for about 60 days. I was on the board of Orange for the last couple years and prior to that I ran a 'baby' Bell in the US. So I have been fairly engaged over a number of years in terms of this industry and I have had a chance to see a lot of things happen. Both in the fix line business, as well as the wirefree or wireless business as well. And right now I've spent the last 60 day trying to be in what I call a sponge mode, trying to absorb everything that I can, observe and see about our business called orange but also more importantly about the market place, in particular here in Europe. And getting around that, getting my hands around that has been essentially a full time job, but I am now at a point where I do have my own conclusions, some of them I've brought with me, some of them I have developed and some I've learned from others as we've looked at the environment that we are now operating in.

I do have to say that it has been fascinating to watch and learn and observe and at the same time I could say that it is fairly sobering. In business we like to think of ourselves as cool headed, rational beings who always make rational, cool-headed decisions. That's how we like to see ourselves, I think but I think that all of us know that this is a flattering self-image, at times maybe a long way from reality because what really matters is emotion or as I like to say- passion, if you like. And I believe that with passion that's the force that drives when you're talking about your business to the financial markets. It is what is driven over the last several years the market's started recognising the value in your business as we've seen in the past. And it's the same force when we loose passion that drives the markets down the other was and passion of course at work, everywhere within your business. It's at work with you customers, in terms of how you treat them, how you feel about them, how they sense that. It's important to work with your people in the business, in terms of how they think about you as leaders, business people, making decisions about your business.

And so sometimes there is that ebben/flow. That's important and we swing for many quays when we are bursting with reckless confidence and then unassailable sense of we can conquer the world to depressive lows when we talk helplessly about the inevitability of co-modernisation of our businesses or about market saturation. We're either running around chasing our tails or plumped in a corner prophesying our own doom. And neither of those two extremes is a good place to understand where we need to be and more importantly it is very important where we need to go. As we've been riding on this roller coaster of this industry. In particulars you think about it for the last 10 years or 15. It's always important to think back to fact that it is always up to us to determine and make happen what happens in the future and so we determine how we do, whether we succeed or we fail.

But I also want to say that one of the most important ingredients that I think has been missing for the last few years in this industry has been an important, important perimeter. In fact it's always been there and at times it rises to the top and sometimes we tend to forget about it. And it happens to be the person that is most important to us, as business people, and that is our customer. They hold the key to our destiny; it's an old business cliché but true all the same. The customer truly is king. In giving this you think we'd be devoting all our energies on the customer. You'd think we'd be lavishing attention on them. You'd think we'd be focusing entirely on giving them everything that they want. But that's not happening, if you look at how customers view what we do in our industry today.

When I listen to us in a lot of our industry conferences, you hear us talk about things that minister was referring to UMTS, GSM, CDMA, Edge, 21/2 G, GPRS, and that tends to be the centre point of a lot of our conversations. And if you ask a customer about those things, they either will give you a quizzical look: what are you talking about or they may just simply say: I don't care. Here's what I want and whether any of that stuff matters is a whole different issue. And so I do believe that one of the things that we have to do is focus more in terms of our conversations with all these technological advances, on what is important for the customer. And focusing on them will start helping us see some of the things that we need to do.

Because I do believe we are at a crossroads when we all hold up the devises, whether you are at Orange or whether you are at any of the other companies that are providing these services. There is so much processing powers in this device, there are so many things that you can do with it. But we all tend to do a couple of things. We make voice calls, and we may do some short messaging, some of us and that's about it but there is so much more. So then you have to step back and say- why? Why not more? And the answer is: we as an industry have not really solved the issue of the customer having to read a manual to figure out how to do to the other hundred or a thousand things that you could do, or that I may have to sit down with somebody for an hour and have them explain it all to me, which I generally don't want to do. So as most consumers, we are stuck. And you can look at any other industry and see the kinds of evolutions they have gone through in order to make things more simple for their customers, using and levering technology, as we tend to do within this industry.

So, we are moving forward with the great opportunity, but clearly at a crossroads because if we can solve some of those problems, some of these issues, some of those limitations as to

why people don't take advantage of all the capabilities that we have technically speaking available. There is huge opportunity ahead of us. So what I would like to do is share a few thoughts that I gained from my time in the fix line business. Over the last few years it has stumbled into its own point's crisis. And the solutions the industry came up with have given me some invaluable lessons for how we can go forward. Around 20 years ago, the fix line business in the US seemed to have hit a wall of market saturation. We put a telephone line into pretty much every single house in the country and a lot of people then said there is just no where else to go.

But some bright sparks weren't getting depressed. They were looking for answers. And they came up with an opportunity to transform the business focusing on all these opportunities with this stuff called long distance and with the introduction of fibre-optic technology. There was this opportunity to lower cost of carrying calls. And smart operators began passing the savings on to the customers. Overnight the customers found they could call London, from Denver for only 30 cents a minute instead of 3 Dollars, and they started talking. And they started talking a lot. Volumes rocketed, everyone was happy but then the industry hit another wall. Most of that was done and over, everyone was talking, everybody saw the prices drop and the margins were still good given the changes in technology.

The economy as a scale created by fibre-optics were used up and even the cheapest or perhaps some of the most chattiest customers couldn't talk long distance 24 hours a day. So then people said well where's the next big wave of growth coming from? We've run out of customers, we've run out of time in their day, so what do we do next? Well another bright spark realised that they hadn't run out of customers at all, that the customers were still there, there were million of them. And this bright spark started coming up with new services and features that would give all customers a better experience. And then we saw this massive wave of all these, what we called CEO-based features- central-office-based features, call waiting, selective ringing, voicemail, caller-id, all kinds of services, and customers loved them. And those happy customers opened up new revenue opportunities that have transformed the economics of the fix line business.

And you just have to compare a phone bill from 20 years ago with one from today to see how. Back then all the items on the bill were from call revenues, now call revenues are just a small part of the overall total. The rest is made up charges for the new customer focused services and features and the key was making them easy for the customer to use.

So what does that say to all of us, at least those of us that are now in the mobile arena? Look at our revenue streams. Today mobile operators are heavily relying on voice, depending upon the operator you could argue 80-90, 95% of the revenues come from voice. Then you get a small percentage on income, more recently from some of the short messaging services, and that's about it.

That wouldn't be such a problem except that in many of our markets now we're facing what some people would characterise as saturation. Seen penetration rates of around 75% across Europe and Luxembourg you've got penetration of a 101%. And we are seeing these penetration rates feeding through to customer-based-growth. Our UK business at Orange added just 1000 new net-subscribers in the first quarter of this year. Other operators perhaps will tell us a similar story. So here comes that cry again: what do we do now? Well we can start by putting this into perspective. Just as the fix line operators found new ways to generate revenues from that big customer base that they had, we've managed in the mobile industry to continue the revenue gross-strand, even when the explosive growth in the customer-base was tailing off; once by accident and once by design.

So, we can look at things like text messaging and we're seeing the evolution of that now occurring within the industry. But there are other things now that we need to build upon, in terms of how we make it happen, in terms of these other capabilities that are imbedded in what we do. And so, we now have to look at how we package some of the pricing, how we package some of the services so that we can make things easier for our customer, more attractive for the customers, to create more volume, more growth and therefore ultimately

better margins for us. So we've come full circle, voice to text messaging. And now we have to move further in this State of Rome. And that is the next growth-wave.

And I would like to just give you a few examples of some of the observations we now have with our introduction of this device that we have, that you've seen me hold it up here. I would ignore the fact that this is a device that kind of looks like a lot of other devices. But what's more important is that this device is what we call an SPV. And again the SPV part of it isn't critical either, the most important thing is thinking about the capabilities that are built into this device.

We've created a device here that has an operating system; it happens to be; in this case a Microsoft Os embedded here. We now can simplify the functions, the features, the use more importantly, where a customer can look at an icon on the screen just like you do with your computer, click on it and get at where you want to go. Or you can in fact ultimately move through and scale through with single bottom, single touch, single screen, single whatever type of capability. Well, I can say that and you can say well you know that's Orange promotional stuff but that's not my point.

My point here today is not to promote Orange per se. But it is about what we as an industry are starting to see. And we are starting to see the fact that customers behaviour, using this kind of device, that has a different software capability built into it, with a different kind of logic, fed by network intelligence that's imbedded in the network all of a sudden now changes some of the experience for our customers. And so when we see and look at the data's so far in terms of what our customers are experiencing. We've won over almost 6500 users here in Switzerland; they're active users.

They're saving their information on our database. They're accessing news and content on the move, they are enjoying video clips and cinema trailers. All streamed to their phone and they've been working with us, to help us iron out the bugs. That I think those of us that have been in the industry know, that happens when you start introducing new capabilities but best of all the customers have rewarded our hard work by giving us more of their business.

An average SPV customer has an Internet or web session 5 times per day, which is 3 times higher, compared to a non- SPV customer. But despite all of this we know we could do a lot better. The SPV contains more processing power, obviously than PCs did a decade ago, when we call these thing Smartphones we really mean it. They are smart. But the customer hasn't begun; yet begun to explore the full potential. So for the next part or for the most part the customers are going to start doing things differently and doing more things. Now, there is still a lot of new ground that we all have to plough here. The question is did you know that 80% of phone owners over the age of 40 have never sent a text message? And it's amazing how many people have never learnt to do more than use the red and green buttons on their phone. They've got this amazingly sophisticated piece of technology in their hands, it's the accumulation of a lot of investment, billions of dollars of investment that many companies have put forward and to think that they still only use two buttons. I've been asking myself again and again how did we, we the industry allow this to happen and again it comes back to this notion of the customer. They are always right and the answer is we haven't made it easy enough. So, we're going back to the customer and rethinking essentially everything that we're doing is in this space from a customer's perspective.

And I would encourage all of us to go through this step by step, through the customer's experience of interacting with your services and how they in fact use it, use it more, use it less. Why do they use it, why don't they use it? And just keep on driving the improvements that are necessary. And one of the convictions that we have at Orange and that I'm driving in the last 60 days that I've been there is that I am believer in some of the technology that's available. But not to talk to the customers about the technology but more focused on how we enable what customers want to do with that technology. And the thing that we see over and over again, in researches is simplicity.

All customers seem to always want is simplicity and we've also seen historically across the industry simplicity tends to drive usage. We've got a very clear demonstration of that

principal when we simplify even things like tariffs and here is more strong supporting evidence. We've segmented our customers by the type of handsets that they have had, there are a lot of different kinds of handset out there and you might have thought that they are all broadly similar. And that people use them to do the same things. But that's not what we have found. We've looked at how different handsets influenced the customer's usage of SMS or the messaging service. We thought that there might be marginal differences, we were wrong. The average owner of a Motorola handset was sending 14 text messages per month but the average owner of an equivalent Nokia handset was sending 45 texts per month.

That's anything but a marginal influence on usage and it translates to 4 Euros of lost potential revenue per customer if they happen to be one of the users of that Motorola phone. That soon adds up. But that's just texting. When we compare the relatively user-friendly SPV to other Smartphones we're seeing equally dramatic differences in how the customer interacts with different devices. SPV customers use the phone to access content via GPRS 5 times a day that's in comparison to the industry average of 1 GPRS session every 3 months. Again simplicity drives usage because I can tell you, even I can use this.

I learned to use it the first day I got it because all I had to do was look at a screen and push a button. That's how simple it was. And I have what I call the 60-second rule. That says if I can't figure it out in 60 seconds or I can't explain it to somebody else in 60 seconds, it's not good enough. And that is what we are going to be driving our business around in terms of the Orange business, as we know it today. And again the mantra is making it easy for the customers. And I would argue for all of us the implications are huge and will impact everyone in terms of how we run our business.

But I would say now to the point of the serious part of the decisions that have to be made. There are some barriers to this simplicity and to this customer being able to do whatever they want to do, wherever they're at, whenever they chose to do it. And one of those core issues that we all have to deal with is this notion of interoperability. We're only beginning to make our move in this whole mobile data space as an industry and there is a lot of interoperability issues that are throwing up barriers in a lot of our way. We introduced new data services, we introduced new features, technology, interoperability problems are going to mean more and more barriers for us. And there is nothing mysterious about this, we are all busy pursuing our own technological solutions.

And across the world, the industry is carrying out hundreds of technical experiments with new highly sophisticated features and services. And that's obviously how progress happens but as human nature is for all of us, we're all very attached to our own home-grown innovations. They are the products of significant investments of time, inspiration, sweat and in hard, cold, hard cash terms in most of our cases, they don't come cheap. Given the level our financial and emotional investment in this technology, it is hard to let go. But that is exactly what we are going to have to consider doing in many cases. As we think about the customers: what much all this frantic innovation look like from their perspective?

We see our cherished, hard won technical innovations; they see an increasingly complex mobile data environment. They see a confusion of conflicting standards. They see incredibly smart devices that do things that they don't necessarily want to do and they see devices that don't work together, complexity, irrelevant technology that's hard to understand and harder to use. Now that's not exactly an enticing vision of the mobile data future so in some cases no wonder people are still only using those two buttons. But if we want to turn them on we have to deliver a vision for mobile data that talk to customer's deepest needs and aspirations.

It has to be relevant to the way that they want to lead their lives. It has to make sense, it has to be coherent. So it is up to us to fix some of those interoperability issues. It is up to us to make it simple and secure for customers to send messages, access content, conduct payments, irrespective of the device or of the network, platform or location. We would never have dreamt of launch voice services without interoperability on other networks. It was common sense. So why go against common sense with the next generation of database services? Fixing interoperability means we are going to have to be more open to

collaboration. Operators and content providers need to be co-operating to build that truly mobile data experience, a truly compelling customer experience. And there are some clear immediate areas for this collaboration. Obviously with my apologies to the minister, GPRS, MMS, [...], in fact I wish we'd have started collaborating a lot sooner on MMS and I can't help but feel we should have held back on the release of MMS until we fixed all the interoperability issues. It was a classic example of our industry's inability to see past preoccupations with technology. Yet again we got carried away. We're on one of those highs and we've forgot about the customers, and the customer experience. And again I am not trying to stand here and say that all of that is easy and there is a nice prescription for everything.

We operate in an incredibly competitive environment. I'd go as far as to say that in Europe the mobile industry has achieved perhaps a state of optimal competition. In most European National Markets, the customer has a real and meaningful choice between three or four highly viable operators and over the years we've developed a fierce competitive instinct. So I think it is fair to say that collaboration doesn't come naturally or maybe easily to us and there are some barriers along those lines that we have to overcome. And I don't mean to underestimate the scale of the technical challenges that we have as well.

Getting individual operators, content providers and manufacturers to decide on shared standards and then making our diversion technologies and services comply with those standards will take a lot of head scratching and probably some investing dollars. But with commitment and courage we don't have to leave them as barriers as they are and I'd like to encourage all of us to think about the size of the prize. Fixing interoperability is all about making a better mobile data experience for the customer. It's all about making their lives easier and about putting them in control. And we know what happens when we give the customer what they want. They give us their business, remember GSM. As I said at the outset introducing GSM to encourage, it was anything but straightforward but it helped transform the industry here in Europe because it transformed the customer's experience.

I could tell you as a person living in the US when you have CDMA and TDMA and all these other standards the customers lives were much more difficult then they were here in Europe. And that was a good thing and people had to make some tradeoffs in order to get there. But it was the right thing for the customers. And obviously the development accelerated here faster and again better in my opinion than in the US for a period of time. And so again as we think about our challenges here in this forum and with this gathering I would encourage all of us to think about that. I would also encourage us to think about some of the other opportunities that are ahead of us. We have unprecedented take up for new technologies, we can achieve the same levels of take up for our new generation of mobile data services. We can give the customer greater experience, one that will convince them to explore the mobile data space and make it their own. I encourage us to keep on looking at the Internet. The basic infrastructure was there from the last 60s but it was a pretty hostile environment for anyone other than a dedicated computer nerd as we use the phrase here.

Then along came the World Wide Web and the standard browser and suddenly the internet environment was literally easy to navigate. Suddenly it made sense for the rest of us, and suddenly millions of people were rushing online. We're still seeing the fallout from that. Whole industries like travel, retailing, music are being turned. Their whole economic models are now changed, then the whole electronic environment that only 10 years ago was off limits an unexplored by the customers is now a place they like to hang out. It's a library, it's a huge social club and it's a world wide shopping mall with household names, like lastminute-dot-com and amazon-dot-com that you only find online. Where will the Internet go next? Who knows. But again, the lesson for all of us in the mobile industry is very clear. Make things simple, make them intuitive and the customer will jump in with both feet.

But to make this happen will require an act of will again on our part. And as an industry we are standing at the crossroads. We are facing a big decision, one of the biggest that we have had to make. Now again we can either decide to collaborate and go forward, hand in hand with our customers into this new era of data services. I believe a bright future built for and around the customer or we can continue to dither and pull in other directions, continue to

push new and incompatible technologies into a confused and indifferent market place. Ultimately I know that we will make the right decisions. Speaking just for Orange- we are very confident and we're incredibly excited about the future that we are starting to build. Our brand as you saw in our opening piece here has always been about championing the customers. They've always been our guiding star and they've reward our commitment to them. As we go into a bright future we redoubling our commitments to the customer. They really do know best and we have decided to trust them. And I can tell you as the new CEO there, there isn't anything were going to do that isn't driven by our customers.

But I do have to say that we at Orange, we can't do it alone. No single player can do it by themselves and none of us can afford to wait. We all have to make these decisions and move forward. And I would encourage all of us to show that kind of vision, that kind of commitment, perhaps that courage and lets start working these issues faster, more aggressively on behalf of all our customers. Thank you very much.