

Interview

The Innovation Chain

An Interview with Didier Lombard,
Chairman and Chief Executive Officer, France Télécom



Didier Lombard

EDITORS' NOTE *Didier Lombard was appointed to his current post in February 2005. He joined France Télécom in 2003 as the Executive Director of the mission for technologies, strategic partnerships, and new uses. Lombard began his career in research and development at France Télécom in 1967. From 1988 to 1990, he was the Scientific and Technical Director at the French Ministry of Research and Technology and then served as Managing Director of Industrial Strategy at the French Ministry of the Economy, Finance and Industry from 1991 to 1998. Prior to his appointment to France Télécom, Lombard also served as an ambassador for international investment for several years and was the founding Chairman of the French agency for international investment. He is also a director of Thomson and Thales, and a member of the Supervisory Boards of STMicroelectronics and Radiall. Lombard is a graduate of the École Polytechnique and the École Nationale Supérieure des Télécommunications. He is also a Knight of the French Legion of Honor and an Officer of the French Ordre National du Mérite (national merit order). Lombard recently released his new book, entitled The Second Life of Networks.*

COMPANY BRIEF *Headquartered in Place d'Alleray, Paris, France Télécom-Orange (www.orange.com) is the main telecommunications company in France, the third-largest in Europe and one of the largest in the world,*

currently employing about 190,000 people. In 2008, the group had revenue of €53.5 billion. The four key platforms France Télécom operates are: fixed-line telephone, broadband access, mobile phone telephony, and IPTV, known as Orange TV. France Télécom is present in the U.S. through its Equant enterprise services, as well as two R&D labs, one in Boston and the other in South San Francisco, California.

Would you provide an overview of France Télécom's products and services and your outlook for growth during these challenging economic times?

France Télécom is present in 31 countries around the world, mostly in Europe, the Middle East, and Africa. Its enterprise division, Orange Business Services, delivers world-class global communication services in over 220 regions.

Two-thirds of our 182 million customers lie under the umbrella of the Orange brand, one of the top brands worldwide. Our group pioneered the integrated operator model in the telecommunications field, which today is used by many of our peers.

Our products and services have substantially evolved over time, moving from a technology approach to a service approach. Our promise is to deliver to our customers a consistent and effective service, independent from where they are physically located or where they gain access to the service, be it at home or on the go.

In the context of the current economic crisis, we have observed a stronger resiliency in our sector than in many others. That said, the growth perspectives for the industry as a whole obviously must be viewed in the context of the current climate. At France Télécom-Orange, our strategy to handle these challenging economic times has been to enter new areas such as content aggregation, advertising, and e-health to generate new revenue streams for future growth. Our ambition is to increase the revenue share of these activities from its current level of 9 percent to around 20 percent by 2012.

How would you describe the target market for France Télécom?

Our world has become more and more connected. Our customers are fully integrated in their respective social and business networks. Our aim is to provide innovative services, which allow customers to connect to those communities in the most efficient and convenient way possible.

In the consumer space, we historically have had a strong footprint in Western Europe and in our home market, France. Our proportion of customers in emerging markets has risen from 14 percent to 29 percent within the past three years. The majority of our subsidiaries are number one or two in their respective markets.

Our enterprise division, "Orange Business Services," which in fact also has a significant office presence in Atlanta, has been recognized as the best global telecom provider for the third time in a row this year.

In such a competitive marketplace, what makes France Télécom unique, and how do you differentiate the brand in the industry?

Our strength lies in a powerful innovation chain, which we have built since the company's founding. This innovation chain extends from our Orange Labs network – with 18 locations around the world, including Boston and San Francisco – to the "Technocenter" in France, which is building complete customer service lines to be deployed across our footprint.

Innovative services paired with a powerful commercial brand are the fundamentals of our success.

With a growing global footprint, we also have been able to amortize our innovations on a broader scale. France Télécom-Orange is the third largest operator headquartered in Europe today.

What opportunities do you foresee in emerging markets for France Télécom, and can you provide an overview of the global footprint for the brand?

The Internet has become a major cornerstone in our society and it is creating significant value. But only a fourth of the world's population has access to the Internet. Connecting more people will not only bring us additional business, but will also enrich the overall global economy.

The emerging markets are clearly attractive to us, as they still provide substantial opportunities to expand our penetration rates for mobile phone and Internet access. Within France Télécom, we follow a very basic principle with regard to footprint expansion, especially in new geographies: We want to create value by building efficient operations that flow uniquely through France Télécom-Orange channels.

With Orange, we have a very strong and well-recognized brand. The majority of our

■

Telecoms are part of people's lives and make the world a "global digital village." So we naturally care about our customers, our employees, and about anyone who is part of this "digital conviviality" we're building every day.

■

operations already operate under this unique brand, which was not necessarily the case a few years ago. We are progressively moving along that path. By 2012, France Télécom will be fully Orange.

What do you foresee as the biggest challenges facing telecom companies over the next five years?

If we observe the environment in which we operate, we can see that there is a significant transformation happening. Customer demand is evolving to include more and more personalization, with an increasing degree of interaction and increasingly sophisticated services. It requires expanded bandwidth to be able to transport a permanently rising amount of data, as well as very fast response times for a great user experience. Investing in modern telecom networks is the only way to cope with this demand.

On the other hand, audience-based business models for Internet services are an established reality today and our customers do not see why they should pay tomorrow for something that they get today "for free."

We therefore need to find ways to generate revenue streams that help us to fund our future investments. As a response, France Télécom is actively developing activities in the service layer, like content distribution and advertising.

Do you envision increased consolidation in the industry, and will one need to be a truly global player with size and scale to survive in the future?

The consolidation cannot be attributed exclusively to an appetite for growth, but rather should be viewed as a necessity, resulting from the overall evolution of the telco ecosystem, which is calling for globalization and new business models, and blurring borders between traditional players such as telecom operators and Internet service providers, for example. Therefore, scale matters.

What can consumers expect from new technology in the coming years, and how is France Télécom a leader in regard to innovation?

We live in a time where innovation is generated at an incredible speed. Every day, new applications emerge on the Internet. People receive tremendous information and value from the networks to which they are connected.

Our role will be to help our customers to find their way through the richness of the global

Internet and to provide them with the relevant services, whenever they need them and wherever they need them. On the other hand, we see the privacy of our customers as a key priority. We intend on being very attentive to each of these aspects.

Additionally, connectivity of all kind of machines and appliances can increase productivity and efficiency to a tremendous degree. The life expectancy of human beings is increasing all

■

Customer demand is evolving to include more and more personalization, with an increasing degree of interaction and increasingly sophisticated services.

■

I think it has to be embedded in our core business. But this is not difficult for a global telco like us. CSR is in our DNA. Telecoms are part of people's lives and make the world a "global digital village." So we naturally care about our customers, our employees, and about anyone who is part of this "digital conviviality" we're building every day.

We work primarily on digital inclusion, which aims to increase the number of inhabitants of this global digital village. We are also working towards the preservation of our environment – for example, through lowering our CO² emissions. To our business customers, we can propose effective communication tools which avoid travel and reduce not only costs for them, but also CO² emissions. When designing our devices, we're attentive to low power consumption and recycling aspects. In our networks, we have a large amount of IT infrastructure deployed and are also working to develop Green IT solutions.

Finally, we try to turn risks into opportunities in the fields of privacy, child protection, connecting the disabled, and a variety of other endeavors.

What are the key priorities France Télécom is focusing on to maintain its status as an industry leader?

Just a few weeks ago, we announced Orange 2012, a program that is designed to focus on the execution of our strategy on three essential elements: First, the incredible progress made in the field of telecommunications and in the Internet has introduced an enormous amount of complexity to our systems. But that complexity has also affected our customers, usually in a negative manner. We now need to fashion our products and services in a simpler and more accessible manner, which will allow the largest possible amount of customers to benefit from them. Second, the speed of innovation is permanently increasing. I believe that we need to become as agile and flexible as an Internet start-up in order to seize opportunities and bring them to the market first, or to adjust to difficult times such as the present. And third, we are in this business for the long-run. Thus, we have to create a robust framework around all conditions and innovations so that we are able to execute on our strategy. We still have a lot of potential to leverage the power of our status as a big and integrated global player. ●

the time, and along with that comes a huge cost for health care. E-health solutions can help to reduce those costs, for example, in the area of monitoring chronic diseases.

France Télécom has been a leader in corporate responsibility. How important is this to the culture of the brand, and can you highlight some of the key programs and areas of focus that you have in regard to corporate responsibility?

I have very precise convictions about CSR: