FRANCE'S FREE

BROADBAND INNOVATION

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The debates in Australia about national policy and operational complexities of the Rudd government's bold National Broadband Network (NBN) plan have recently shifted focus towards issues about end users. Many questions arise, such as what services might be offered, by whom and who is likely to have access to the new broadband services at what cost. A continuing examination of different case studies of international broadband experiences to see what best practices might be applied to Australian circumstances could be valuable. This paper offers a case study of one of the most successful broadband companies in Europe: Free in France. Three major factors seem to be behind the success of Free: its remarkable founder and financier, Xavier Niel, its contribution to the implementation of constructive changes to the telecommunications regulatory regime since 2001, and the creation and development of widely accepted consumer services. So might any of its experiences be transferable to Australia's NBN challenges during the next five years?

ILIAD-FREE IN FRANCE

There is an old cruel joke about French telecommunications that 'while half the country waits to be connected to a telephone system, the other waits for a dial tone'. Today, the French can make a good case for having advanced network developments and valued customer services. During a private discussion with expatriate OECD senior researcher Dr Sam Paltridge in Paris in November, 2006, he asked – what would you expect to get for the equivalent of $A50 a month for broadband services in Paris? His own answer was:

> 'Internet download speeds of up to 24 megabits a second and unlimited downloads, at least 100 television channels in the basic package (and the option of another 100 channels if you pay extra) plus unlimited Voice Over Internet Protocol calls within France, and phone calls to other countries that save heaps – all offered with no maximum contract period for customers'.

So how could France have achieved such apparent impressive success?

The company Free in France has pioneered attractive offerings of Internet and broadband services, especially IPTV, in recent years to its customers. Free (derived from a free Internet service named Free.fr) was established by the remarkable entrepreneur Xavier Niel in 1999, and the company is now a 100% subsidiary of the Iliad group. Niel's stake in Iliad is 66%.

One has to be cautious in offering a critique of Free because of hyperbole that has been created about its conduct and success. Free has been variously depicted as the 'broadband maverick', the 'troublemaker of the Internet', a 'do-it-yourselfer', a 'pioneer in IPTV', a 'truly disruptive company', the 'broadband rebel', 'one of the greatest French industrial successes of the last twenty years', a 'Silicon Valley success story', a 'Robin Hood', and a 'nightmare vision for Orange, SFR and Bouygues' (Free ISP Wikipedia 2009, 2)

Free's success can be attributed to its remarkable founder and financier, Xavier Niel, as well as its contribution to the implementation of constructive changes to the telecommunications regulatory regime since 2001, and the creation of consumer value for its services.

XAVIER NIEL

Xavier Niel started his career as a teenager with companies associated with France's telephone-based precursor to the Internet, called Minitel. Launched by France Telecom in 1982, Minitel enabled consumers to search data from telephone directories and stock markets, and they could make on-line purchases and travel reservations. It did not go unnoticed by Niel that a critical reason for the strong take-up of Minitel by end users was that the government funded millions of free terminals distributed to telephone subscribers. Niel was involved with the provision of chat and dating services on Minitel in 1984 that he said provided 'enough money to retire for life' had he not become so bored (news.ft.com 2004). Xavier Niel's subsequent contributions to telecommunications services in France may be summarised:

- Co-founded the first Internet service provider in France, SCT World-NET, which became the leading provider in France in 1994.
- Launched the company Free.fr in 1999, a name derived from the Freebox, a uniquely designed set top box that allows customers to access the Internet and the telephone.
- Sold World-NET in December 2000 to Kaptech for 40 million euros, capital which provided a rich investment base for future diversification into broadband.
- Was one of the first to conceive of the idea in 2000 of providing television over DSL and eventually found a way to make it operational as part of Free's services.
- Launched a DSL broadband service in October 2002 using lines wholesaled from France Telecom. Free was able to lease fibre capacity at a comparatively low cost due to the telecom bubble burst that occurred around that time. From the beginning Free was seen to be 'fast and clever' using the 'gimmick of a free service, made possible by a clause in the French regulations that requires France Telecom to share connection revenues with services that transit its lines' (Business Week 2005).
- In 2002 was the first Internet service provider to offer triple play services (IPTV, VoIP, broadband internet) to the French market.
- Introduced the first high definition IPTV video services in Europe via the new Freebox (modem) in March 2006 (OECD 2007, 23).
- Launched a 28Mbps triple play service based on ADSL2+ technology in 2007 (Iliad 2007).
- Introduced a FTTP fibre-based triple play bundle with 100/50 Mbps speeds on 1 April 2009, though mainly to apartment buildings.
- Is a tender candidate in the forthcoming auction of France's fourth 3G licence.
- Iliad expects to cover 70% of Paris with its FTTH service by the end of 2011.

So Free progressively built a burgeoning broadband business around attractive innovative services as its platforms were upgraded, to become France's second largest telecommunications provider to France Telecom. By 30 June 2009 Iliard's ADSL service had 4.4 million subscribers (up from 3.1 million a year before) while Alice, in the process of full integration into Iliard, had an additional 782,000 subscribers at the same date (Telegeograghy 2009).

Niel is that rare combination of a 'hands on' technologist, high risk taking financier and astute corporate strategist all in one. But primarily he has put into practice the notion that customers really do come first – with service offerings they choose to need, with systems that are user-friendly for them all offered at competitively affordable cost. He has articulated his key strategy: 'We are a broadband provider'. Everything else – from voice to IPTV to storage – is just a feature that rides on the data service' (Malik 2007). Malik argues that Niel's key differentiation from his competitors is that for 'the rest of the telecom industry … long addicted to metered minutes and billable items, this is rebellious thinking' (Malik 2007).

COMPETITION POLICY: SEWERS ARE VALUABLE ASSETS

Gruelling telecommunications regulatory battles of the past decade between incumbent carriers and new entrants have inhibited the development of broadband services in many developed economies, including Australia. France though has been able to unlock some of the key regulatory bottlenecks regarding its access regime better than many of its European counterparts.

Competition policy in recent years, despite ongoing setbacks, has generally been a catalyst for the growth of French telecommunications in the past decade. Briefly, in April 2000 the European Commission called upon member states to take 'all legislative and regulatory measures to implement unbundling of the local loop by the end of 2000 (ARCEP 2008, 12). Consistent with European competition policy in recent years, the French telecommunications regulatory authority, *L'actualité de l'ARCEP*, has the authority to ensure that the pricing and operational conditions of local loop access promote fair and sustainable competition. It was empowered to impose changes on the reference offer for the unbundling of France Telecom to competitors, to settle disputes between operators, and to punish breaches by operators (Articles L36–8 and 26–11 of the Code of Posts and TelecommunicationsARCEP 2009). In September 2000 a decree on access to the local loop was published announcing that unbundling would be set in force on 1 January 2001.

What followed over the next few years was a protracted cut and thrust amongst the incumbent carrier France Telecom, the national regulator, and multiple new entrants – so typical of regulatory practices in Western democracies. France, however, has been more successful in implementing its telecommunications competition policy than most of its counterparts in Europe. The Authority showed tenacity in removing uncertainties and obstacles that impeded the implementation of unbundling, and considered 'most of the requests of France Telecom as unfounded' (ARCEP 2008, 12). By the end of 2001 nine alternative operators had signed access agreements to the local loop with France Telecom and by October 2004 there were one million unbundled lines. By December 2007 the total access purchased from France Telecom by alternative operators was 7.5 million unbundled access lines – and notably two thirds of them were without subscription to a telephone service. For Roland Montagne, head of broadband research at IDATE, 'Free brought competition to the French market' by spurring the regulators to open the market to competition thereby prodding France Telecom to respond with aggressive price cuts and new services (Business Week 2005).

Rolling out the fibre in Paris is relatively cheap because the process can involve stringing the fibre cables through the sewers, an option open to all operators. The Paris sewers date from the 1850s when Baron Haussmann introduced them to sanitise and ventilate the city as part of a

transformation plan (the original plan was that the sewers would stretch in length from Paris to Istanbul!). Transformation has taken on new meaning now in the form of imaginative public policy with the Paris Digital City Plan, which has facilitated the roll out of fibre by any operator. This includes a 90% reduction of the fee for use of the sewers for broadband companies laying fibre (Chicheportiche 2006, 7). Free is one of several companies to take advantage of this infrastructure initiative and this will be a continuing factor driving its cost effectiveness.

SERVICE INNOVATION: IT'S THE CONSUMERS, STUPID

The combination of a brilliant entrepreneur and a company that played a key role in solving regulatory network access bottlenecks would surely not alone have ensured the success of Free. The third critical factor in Free's success was the overall astute assessment of customer needs, together with a considerable ability to design new services that were both attractive and affordable. Again, much of the credit for this is attributed to its founder who consistently attracts high praise from competitors, politicians, regulators and other industry people, independent of the company Iliard Free itself (rapid TV news 2009). For Marc Simon, founder and CEO of Meetic, Xavier Niel played a lot of attention to understanding what products and services his customers might want. Simon says 'He spends a lot of time with R&D teams working on trials, plugging in components and making sure that everything works. For me he is everything an entrepreneur should be!' (Investment Managers 2009,1)

A case can be made that Free's track record is one of situating innovation within the realities of user needs in a competitive market place. Notably:

- Free offered untimed local calls beginning in 2003, at a time when other ISPs in France charged by the minute for telephone calls made by their customers (Iliad 2003, 14).
- Free's unique set top box and modem, called Freebox, offers 'Triple Play' services – voice, video, and Internet – as a bundled broadband connection, and also 'Quadruple Play' – adding mobile as the fourth option – as a broadband unbundled or FTTH connection. An update of the Freebox device is free of charge to customers after three years of subscription.
- The customer charge of 29.99 euros a month for Free's 'Triple Play' package is the lowest among developed economies, and that rate has been maintained while new services have been added. That customer charge, substantially lower than what so many other broadband suppliers throughout the world offer, is now matched by Free's competitors.
- Its 'TV Perso' service, launched in 2006, offers Freebox HD – high definition television to subscribers an in-house version of You Tube. Free says that 'users can become producers, presenting their own channel and sharing their content either live or via play back to all or part of the Free box subscriber community' (Free 2006, 2).
- Its Telesite service, launched in 2008, offers the opportunity to Free subscribers, through Freebox, to broadcast their own web sites to all Free users (Free 2008, 1).

Clearly the constant experimentation and integration of systems and services here, together with a critical ongoing assessment of what works, and does not work, for its customers, has been crucial to Free's apparent success. Entrepreneur Serge Soudoplatoff, formerly of France Telecom and Co-founder and Strategic Manager of Almatropie (at http://blog.hyperdoxe.net),and a sub-

scriber to Free, praises the customer interaction processes at Free. According to him (email 25/08/09):

> 'Free has always attracted those innovative customers as you can see through the numbers of users' forums and association of fans (I call them 'passionate') who are very active.
>
> As an example, ADUF (http://www.aduf.org), an acronym which means "Association des UTILISATEURS de Free" (Association of Free Subcribers), freenews, another very active site (http://www.freenews.fr/forum), freenaute (http://www.lefreenaute.net for the forum, http://www.journaldufreenaute.fr for the journal), Univers freebox (http://www.universfreebox.com), freebox news (http://freebox-news.com), and some others, with fewer users, but very clever, like this one about the fiber optic deployment (http://freebre.org). Add too the Freephonie (http://www.freephonie.org), the community site devoted to SIP protocol'.

Few companies in the world promote and foster this level of interaction with their customers.

In summary, what Free is able to offer its customers in its basic package – for 29.95 euros a month – is:

- Free national calls and free international calls to 70 destinations.
- Over 30 telephony services including voice mail and standard PSTN functionality.
- Unlimited downloads via a 22 Mbps download/ I Mbps upload connection.
- Access to 250 TV channels.
- Access to over 1000 VoD movies and various radio and concert streams.
- Unlimited web email and 10 GB of personal data storage (Cannon 2008, 13).

IPTV

France is widely regarded as the most advanced IPTV market in the OECD, with Free as a major driver of innovation. France has nearly ten times as many IPTV subscribers as does Spain (the second highest in Europe), and has nearly 75% of all subscribers in Western Europe, which had 6.9m subscribers at the end of 2007, or 57% of the global market (Jacques 2008).

The OECD report on IPTV gives the French definition of television services under the Broadcasting Law of 9 July 2004 (which transposed EC Directives) as 'services destined to be received simultaneously by the public and whose main programming is composed of an organised series of programmes with images and sounds'. Under this law any television service channel provider is required to sign an agreement with, or make a simple declaration to, the *Conseil Superieur de l'Audiovisuel* regardless of the underlying transmission infrastructure (unless its annual budget is below 150,000 euros). According to the CSA, video-on-demand is not a television service due to its two-way interactivity. But an Internet video service that streams television services one-way from an Internet website to a subscriber's computer over the public internet, is regarded as a television service (OECD 2007, 24).

By the end of 2006 Free had become the most successful IPTV operator in the OECD with 1,260,000 subscribers. Furthermore over a third of broadband subscribers in France now take

an IPTV service. It has been suggested that the Free case 'may provide an example of service-based competition inducing facilities-based competition' (OECD 2007, 15).

LESSONS FOR AUSTRALIA?

It is difficult to escape the conclusion that in terms of national telecommunications policy Australia could have followed some of the French experiences to better effect. Australia introduced open competition policy in 1997 which then enabled competitors to access the network of incumbent carrier, Telstra, on agreed regulatory terms in broadly the same way that new competitors were able to access network incumbent carrier France Telecom. But whereas France created a company as creative and successful as Free, and several others, many of Australia's new players since 1997 have remained focussed on the resale of leased capacity from Telstra.

No players have emerged in Australia since 1997 with levels of new investment comparable to that of Free in France. In August 2005 Telstra offered the Commonwealth government a new investment of $4 billion to build a Fibre-to-the-Node FTTN network, but later withdrew its offer on the grounds of unacceptable regulatory conditions. Optus, the second largest Australian telecommunications carrier, did make a significant investment in building a new hybrid fibre coaxial (HFC) network in the 1990s. However according to Paul Fletcher 'financially the exercise was a disaster, almost bringing Optus Vision – and its parent company Optus – to its knees … and (bringing) the integrated HFC network into its overall business' (Fletcher 2009, 37). Perhaps Xavier Niel had deeper pockets.

So what might be transferable 'lessons' from this French case study to the Australian situation?

Parallels with Australia are not easily made because of the different institutional histories and operational dynamics in the telecommunications industries. One of the critical factors which drove Free's commercial success was its single control of 'triple play' services, enabling it to use internal cross subsidies to build a business case, especially by offering free Internet access to sign up customers for additional 'value added' services. Though Telstra is strongly vertically integrated, and offers customers bundled discounts across voice, Internet, pay television and mobile services, it has never been a triple play company in the same way. It remained, or has had to remain, divisionalised with the DSL broadband, cable broadband and wholesale groups. Also its subscription television provider, Foxtel, is only 50% owned by Telstra. Optus too failed to develop the opportunity to introduce triple play services with its hybrid fibre coaxial (HFC) network from the 1990s. Canberra based TransACT Capital Communications is one of the few companies that offers broadband access, fixed telephony, cable television services, and mobile phone services – by using the Vodafone Network in Canberra.

And what of the pending implementation of the bold vision of the Rudd government's National Broadband Network (NBN) for Australia? The new wholesale network company, NBN Co (which will sell capacity to retail service suppliers only), is to be at least 51% publicly owned. The Commonwealth government has an ambitious target to sell down its equity in NBN Co five years.

By contrast most French broadband companies, apart from France Telecom, have a 25-year span return of asset value on their networks. The commercial incentive for NBN Co management is clearly to get as many operators and services onto their network as quickly as possible to build

their strong wholesale business. So might we see major new broadband competing suppliers offering their version of triple play services via NBN Co during the rollout of the NBN?

There may be real value in a continuing examining of other case studies of international broadband companies to see how best practices could be adopted by Australia.

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