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Shaking Up France's Mobile Market:
An Analysis of Free Mobile

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ABSTRACT

Free Mobile is a French broadband company. Free offers many services ranging from television, internet, and home phone; only recently Free has come into the mobile market in January 2012. Entering the market, Free offered low-cost plans that were almost four times lower than any other plan on the market at that time. This attracted many new customers and also created a price war between mobile providers in the industry. To set up their network, Free made a roaming agreement with another mobile provider, Orange. Because their initial network was quite small, this agreement allowed Free Mobile customers to use Orange's network when Free's network was not in reach. The three main competitors in the French mobile market are SFR, Bouygues, and Orange. When Free Mobile entered the market, each company was forced to adjust their mobile offerings and come up with new ways to attract and maintain their customers. Free Mobile was able to offer such low-cost plans because of their innovative technology and cost-saving methods. Free set up a network for internet use that allowed smartphone users to automatically switch from using the 3G network to Wi-Fi hotspots. This greatly saved on data roaming costs. To analyze Free's business strategy and which factors make it successful, I will conduct a SWOT analysis, and examine Free's marketing strategies and factors that affect customer loyalty.

INTRODUCTION

Free Mobile burst on to the French mobile market in 2012. With an aggressive low-cost pricing strategy and innovative technology, they attracted the attention of many people very quickly. The prices offered for mobile plans were significantly lower than those of all of Free's competitors, and this was offered as one of the few plans on the market at that time that did not require a contract. This paper will analyze Free Mobile as a mobile provider and the effect Free's entrance has had on the French mobile market. In addition, I will also discuss the benefits and disadvantages of Free's services and whether Free's current strategy will continue to be successful in the future. To do this, I will look at France's mobile market using Porter's Five Forces model, and then examine the competitors within the market. I will analyze the services and products Free Mobile provides, and how these affect and will affect their customer loyalty. I will also conduct a SWOT analysis, identifying strengths, weaknesses, opportunities, and threats to the company. Lastly, some recommendations of how Free Mobile could keep their competitive advantage in the mobile market will be discussed, along with the potential future of the company.

BACKGROUND OF FREE MOBILE

Free Mobile is a French mobile broadband company. Free's parent company, Iliad, is a large telecommunications company in France that provides the financial statements and press releases related to Free. There are a variety of services provided by Free, ranging from television, internet, and home telephone. Since their entrance into the mobile market in January 2012, Free's CEO Xavier Niel believes the company is revolutionizing the mobile market, and is making great strides to continue its long term success. He also stated he thought other French mobile providers “squeeze French consumers dry”, and that it was time for a change in the mobile market (Dillet, 2012). To Niel, this change is Free Mobile –a new offering to the consumers different than anything else in the market.

Within six months of its launch, Free Mobile captured 5.4% of the French mobile market (Wall Street Journal, 2012). This surprising start raised the question: What caused this sudden and rapid change in the market? Being such a new player in the market, Free Mobile offered new low cost, no obligation plans that were appealing to many consumers. Free Mobile initial offers that got the public’s attention were as follows:

- €2 per month plan*: No commitment
- 60 minutes of calls per month
- 60 SMS (text messages)

**Since the initial release, Free has changed this offer to be two hours of calls per month, and unlimited SMS, with the price consistent at €2 per month.*

- €19.99 per month: No commitment
- Unlimited SMS and MMS (multi-media messaging) usage
- Unlimited calls in mainland France and 40 other destinations (including Europe, United States, Canada)
- Unlimited Internet (web, mail, VoIP- Voice over Internet Protocol, on 3G and Wi-Fi networks)
- 3 GB of Data usage

In their January 2012 press release, Free announced these offers claiming these plans to be over four times cheaper than other offers on the market (Smartphone users at this time paid approximately between €40- €65 per month). Customers who already used Free’s home box services could get these mobile plans for even cheaper prices. This created much excitement and chaos as competitors fought to keep their customers.

In 2009, before the official launch of their company, Free Mobile became the fourth 3G mobile operator in France. It then took time to set up the network and prepare for their release in 2012. In the October 2009 press release from Iliad, it was stated that the purchase of the 3G network was made for the purpose of “Speed[ing] up the expansion of mobile multimedia technologies and [to] meet strong consumer demand for more user-friendly, cheaper and more innovative offerings . . . it will trigger significant capital expenditure in France from 2010 and lead to significant job creation”. Free has achieved cheap and innovative offerings to its customers; with its potential future expansion Free has a great opportunity to create more jobs as their company needs more expertise and management.

Free’s mobile network is set up through its customers’ home broadband boxes. The company has offered its home telephone and internet services since 1999, which has allowed their broadband boxes to be accepted into a significant number of customers’ homes, thus making the network quite large. Since the network is connected through home broadband boxes, this means the network is concentrated mainly in heavily populated areas.

There are over four million of these hotspots in France (Dillet, 2012).This Wi-Fi network makes it possible for Smartphone users to switch automatically from using the 3G network to a Wi-Fi hotspot, reducing the amount of data usage. The customer does not have to do anything or enter any information to access these Wi-Fi spots, as the switch between 3G network and the hotspot is automatic. It is seen on Free Mobile's end as a way to cut costs of data, as less time is used on the 3G network. The automatic authentication to access Wi-Fi networks is in the mobile's SIM card –this technology is called EAP-SIM (Extensible Authentication Protocol- Subscriber Identity Module). Free Mobile states: "Each subscriber is automatically connecting to the Wi-Fi network community with a dedicated IP address and whose communications are encrypted" (Iliad Press Release, March 8, 2012).The user merely enjoys the use of internet through their mobile phone when they need it.

Free Mobile demonstrates the many strengths that provide an advantage to them in the market. Their rapid entry into the market was a major factor underpinning their success. This initial success in the market took Free's competitors off guard, and they were forced to quickly adapt and compete with these low-cost plans to maintain their customer base. As stated previously, Free's innovative technology is a huge strength, and one they would not have been able to offer their low-cost plans without.

Iliad's most recent press release, February 28, 2013, announced record growth for the group and the success of Free Mobile. Free Mobile had some promising numbers in this year-end revenue report. Within the first year, Free Mobile gained 5.2 million mobile subscribers, which is almost 8% of the entire mobile market.

Table 1: Key operating indicators as at December 31, 2012 for Free Mobile. Iliad February 2013 press release. Note: "Alice" is an Internet Service Provider, taken over by Iliad in 2008.

KEY OPERATING INDICATORS AS AT 31 DECEMBER 2012

	31 Dec. 2012	31 Dec. 2011	31 Dec. 2010
Total mobile subscribers	**5,205,000**	**-**	**-**
Total broadband subscribers	**5,364,000**	**4,849,000**	**4,534,000**
- Free	5,173,000	4,461,000	3,969,000
Of which migrations from Alice to Free	*140,000*	*85,000*	-
-Alice	191,000	388,000	565,000
Unbundled subscribers as % of the total	**94.1%**	**92.2%**	**89.2%**

PORTER'S FIVE FORCES MODEL

In order to give an overview of the French Mobile market and the competitors within, I began by using Porter's Five Forces Model (1979). The five forces in Porter's model are: threat of new entrants, threat of substitute products or services, bargaining power of customers, bargaining power of suppliers, and the intensity of competitive rivalry.

Threat of new entrants is relatively low in the French mobile market. Free Mobile is the newest entrant in 2012, with there being little change of entrants before this. In order to enter the market, a company must first be established, and then create a network for their mobile usage. A company must also file an application for a network with the French National Assembly, and the licence is then sold to the company, thus making the process quite lengthy and expensive. Generally the number of players in the mobile market is small and the companies are well established with large customer bases. There are four main competitors in the French mobile market - Orange, SFR, Bouygues, and Free Mobile.

The threat of substitute products or services is moderate to high. With the acceleration of technology, it is easy to get in contact with others, even if one does not have a mobile phone. Many consumers simply use land line telephones, email, instant messaging, and Skype or other VoIP (Voice over Internet Protocol) carriers. As Wi-Fi has also become so common, many people simply use their computers or tablets and utilize home and public Wi-Fi hotspots. However, in this day and age mobile phones are incredibly common, with a significant portion of the population having a mobile phone. Therefore, if a consumer does need a mobile phone, they will have to choose from the options in the mobile market, whatever those offers may be.

Bargaining power of customers is also high. Since customers have such a variety of substitute products to choose from, mobile providers are constantly adapting to customer demands and wants in order to keep their products appealing to these customers. The bargaining power of customers is high, as they have a persuasive effect on prices. This concept is blatantly seen in Free Mobile's case. A significantly low cost plan was offered, and many consumers flocked to this new offering. This forced the competing mobile providers to bargain with their customers, and adjust their offerings to attract back their customers.

Bargaining power of suppliers is relatively low. Though suppliers create the technology and phones used in the market, they rely on the mobile companies to promote and distribute these products. There is a lot of pressure on the suppliers to constantly provide new and innovative products for the market. The suppliers are meeting the demand of both the mobile providers, and what the end user desires.

Intensity of competitive rivalry is very high. With so few players in the market, each provider must constantly be changing and evolving to their customer's needs and wants, while watching what their competitors are offering as well. The market is so competitive that mobile providers must react very quickly to their competitors' actions in order to maintain their customers, and attract new ones. The competitors in the mobile market will be further analyzed in the next section, by company –SFR, Bouygues, and Orange.

OVERVIEW OF THE MARKET AND ITS COMPETITORS

Today, the mobile market is huge, with almost everyone having a mobile phone. With the rapid development of Smartphones - iPhones, Androids, and many more – about 40% of French mobile users are now using Smartphones (Mobithinking, 2013), which has also resulted in a large increase in data usage from Smartphone users. Mobile networks are separated into generations. The generations used today are: 2G, 3G, and 4G. The second generation (2G) is based on the first digital mobile system, Global System for Mobile Communications (GSM), which is the most common, and these networks are in most countries. The third generation (3G) is quite common today and is known to many Smartphone users. It is a network made of voice and data digital mobile systems, providing data services. Lastly, fourth generation (4G) is the newest addition which provides mobile ultra-broadband internet access, a step up from the previous generation (Orange website-networks).

The France mobile market has four main players in the market: SFR, Bouygues, Orange, and Free Mobile. According to Mesnard (2011), before Free Mobile entered the market, "Orange has half of the market and the lowest marginal costs, SFR has one-third and its marginal costs are greater than those of Orange while Bouygues Telecom has one-sixth and the highest marginal costs".

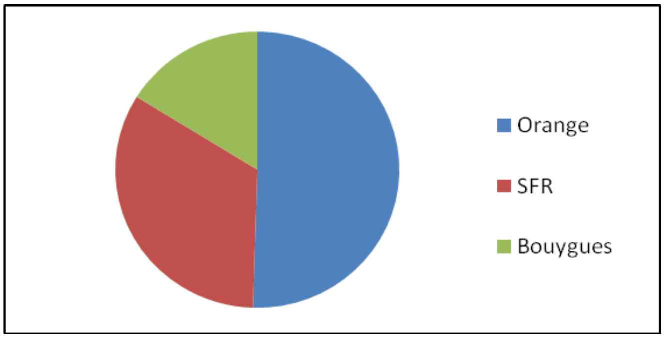

Figure 2: Mobile phone operations in France, 2011 (Mesnard)

France Mobile phone operators market share (%):

Although Free came into the market with very low cost plans, SFR, Orange, and Bouygues quickly cut costs and came up with competitive low cost plans to attract back customers.

SFR

SFR has a variety of mobile plans, the most popular ranging in price from €10.99 to €60, with an additional €140 contract for those who desire international calls and texting. Each plan has a twelve-month or twenty-four month commitment contract. All plans listed on SFR's website include unlimited SMS, showing SFR has realized the importance of text messaging in the market.

To compete in this competitive market, SFR has recently purchased the first 4G mobile network to be available to the public in France. As most mobile providers in France offer the 3G network, SFR is hoping to attract customers with this new and faster technology. Mobile phones that are able to run on the 4G network are fairly new into the market, which will open an opportunity for phone creators. SFR's head stated they are excited to be the first provider of the 4G network to the general public, as it "show[s] that this new, better technology is not reserved for [only a] happy few" (Abboud & Barzic, 2012).With this new technology SFR is positioning itself in the market as a high tech company. As their plans cost slightly more than their competitors, they hope their customer will see the innovation of their network and be willing to pay a premium for a quicker, valued added network.

According to BBC News on August 30, 2012, SFR's profits drastically dropped in 2012, about 7.5% in the first quarter. This was caused by many factors, significantly Free Mobile's entrance into the mobile market at this time. SFR lost many of their customers to the new mobile operator, and was also forced into a price war of lower cost plans to compete with Free Mobile's. Currently, the company is to close 150 of the 850 branches in France this year (Fox Business, 2013).

However, very recently, SFR has offered alternative low cost plans to compete in the new low-cost market. This range of offerings is called the Red Series, which are no-contract plans ranging in price from €4.99 – €19.99.

Bouygues

Bouygues Telecom was created in 1996, as a part of the Bouygues group with its headquarters in Paris, France. Bouygues Telecom, like its competitors, offers a range of products including television, home internet, Wi-Fi, home telephone, and mobile. They have been a 3G operator since 2007, making them very experienced with mobile technology and Smartphones (Mesnard, 2011).

Currently, Bouygues is working on many new innovations to keep them competitive in the market. One recent development is their partnership with Skype, which will allow Bouygues customers to make VoIP calls for free over their phone (Borard, 2013). In addition to this, Bouygues has signed a deal with Devicescape, a company specializing in software for wireless networking, to access its virtual hotspot network. This will allow Bouygues' Smartphone customers to connect to Wi-Fi hotspots all around the world. Devicescape works in a different way than creating its own network. Instead, Devicescape uses crowd sourcing software to create a virtual network along free Wi-Fi hotspot access points (Fitchard, 2012).

The B&You plan is Bouygues' newest offering. These mobile plans are without obligation, and much lower prices. There are two main packages, one offering €19/month with unlimited calls (France and some international), unlimited SMS with 40MB of 3G usage. The second offering costs about €9.99 and is about equivalent in its plan offerings to Free Mobile's €2 plan. In addition to this, B&You also offers a prepaid card option for as low as €4.99.

Orange

Orange has the greatest share in the mobile market, providing for nearly half of French mobile users. Orange is the mobile division of France Telecom. Orange originated in the United Kingdom, and has expanded to France and many countries throughout Europe. A large part of Orange's success is the brand recognition. As Orange is well-known throughout Europe and has approximately 114 million users worldwide (Orange corporate website), Orange has made a name for themselves and upheld a positive reputation. Orange has positioned itself in the market as being widely available in many countries, and therefore making roaming much cheaper in these countries.

According to Orange's Financial Press releases, "Orange was ranked the best network by the French regulator ARCEP [Regulatory Authority for Electronic Communications and Posts] for the third consecutive year". In addition to this, Orange stated they had a "difficult" first half of 2012, but battled back with new offerings and secured their French market share at 37.3%, with 27 million customers (Orange Financial Press Releases, 2012).

Sosh is Orange's newest mobile offering on the market, executed in 2012. It is a non-commitment plan costing €9.90- €24 per month, depending on features. One main feature that stands out is the Unlimited SMS while travelling within Europe (in the higher cost plans). This means a customer is not paying extra fees while trying to text in other places, or to friends or family in other countries in Europe.

ROAMING AGREEMENT BETWEEN ORANGE AND FREE MOBILE

Initially, Free Mobile had problems with their mobile coverage. Mobile phones were often in "roaming" mode as coverage was discontinuous. Free's "indoor" coverage needed work. Since Free's own network does not cover a large portion of France, Free signed a roaming agreement with Orange to cover the gaps in its network. In the July 21, 2011 Iliad Press release it was stated that "Free has signed an agreement with France Telecom-Orange to jointly finance FTTH networks (fibre to the home) to be rolled out in less densely populated areas".

While this has been beneficial for Free, as customers have greater reach and usage in their network, Free also must pay a percentage to Orange for these roaming costs (Fitchard, 2012). As Free has not had ample time to expand its network, it can be said that a large portion of Free's services have been travelling on Orange's network, making profits for Orange as well. This relationship has worked well to help Free's start up, but it also means that Free is very reliant on Orange for support at this point. This agreement says Free should be off of Orange's network by 2018. Therefore, Free does have a deadline to get its own network up and running, as they make their way to being a fully functioning independent company.

MARKETING STRATEGIES

Free has effectively used promotional channels to their advantage. One major tactic is the use of signs and billboards. These signs are plain, simple, and easy to read. They clearly state the price of their plan (usually the two euro plan), with a simple text reading “Merci Free”, with a photo of a happy-looking male, female, or child. This attracts the customer by showcasing their low cost plans (significantly lower than anything else on the market at this point) and makes the customer more interested in the product. These signs and billboards are seen in major cities all over France – many covering bus and train stations, and along the streets in busy cities.

Through its video advertisement, Free has stuck with its simple, to the point advertising. One commercial in particular simply follows a slowly spinning two euro piece, and zooms in with the details of the two euro plan with the Free logo and tagline: “Incroyable mais Free”, which translates to “Incredible but Free”.

Customer loyalty

As Free has thus far succeeded in differentiating themselves in the market, it is important to examine which factors attracted customers to Free Mobile, and ways they can retain these customers.

Loyalty programs are non-existent thus far with Free Mobile. As they are a new entry into this market, Free’s main focus has been acquiring customers. The next step will be to retain these customers and keep them loyal. As other companies are quickly competing with Free’s low cost pricing plan, Free Mobile should be looking for other ways they can retain customers and keep their competitive advantage.

By analyzing certain factors of Free’s services, I have identified gaps and opportunities for improvement. Some essential factors in measuring customer loyalty include: pricing plan, core services, and value-added services (Lee, Lee & Feick, 2001). The following is an evaluation of Free Mobile’s potential customer loyalty, according to these principles.

Pricing plan

At this point, Free Mobile is the price leader in the market, with their plans being the cheapest in the market, and therefore attracting many customers. However, if competing mobile providers offer similar low cost plans as they have already started to, Free will lose their advantage. All of Free’s plans require no contract, making their plans look even more appealing to the customer. However, this is both an advantage and disadvantage. As stated previously, if competing companies offer low cost plans, Free’s no contract customers could easily switch over if desired, considering the switching costs are quite low.

Switching costs refer to the cost of switching from one provider to another. For instance, many mobile companies require their customers to be on a twelve or twenty-four month commitment plan. If the customer wants to terminate the contract earlier than agreed upon, they must pay an exit fee or pay out the contract. In addition, some phones can be used only with certain networks or providers, adding extra costs if the phone needs to be “unlocked” to be used with another carrier. In Free Mobile’s case, the switching costs are quite low to leave the company. As they provide no commitment plans, the customer is free to terminate their phone plan whenever they see fit. If Free’s competitors are offering a better priced plan, customers may easily make the switch to this company. However, Free’s no-contract plans are a selling feature in themselves.

Core services

Free's core services are fairly standard as far as mobile providers go. Free also sells mobile phones – some with payment instalment options or paying in lump sum. Many of the newest models of phones and Smartphones are offered. However, it is clear the mobile phones themselves are not Free's main service, as there is a fairly limited amount offered on their online store. Many customers are able to use their existing mobile phone (if it is unlocked to work with Free's network system), and keep their existing number.

Free offers two main plans, both including core features such as unlimited texting, voice mail, and international calls. However, a potential future issue for Free Mobile could be their coverage of calls. As they focus on heavily populated areas, customers who do not live in large cities, or those who travel a lot may not have the coverage they need. Free's sound quality so far has not had any major complaints; the biggest issue under core services will be the coverage of calls, especially once the roaming contract with Orange is terminated.

Value added services:

Free Mobile's customer service is focused over the telephone and internet. They do not have any physical stores within France as of now, and have none planned for the future. Because Free focuses mainly on the phone plans and not the phones themselves, most customer service can be achieved through non face-to-face contact. Regarding their online interface, there is an online customer space for viewing and paying bills, purchasing plans, phones and additional services. However, they do not provide a contact email for customer questions or concerns. If a customer wishes to contact an employee of Free online, the only option is over Free's Twitter account (@FreeMobile), where many people have asked simple questions. Though this can be effective for some, it is not guaranteed the customer's question will be answered, depending on the quantity of requests and the complexity of the problem. In addition, this Twitter account is not mentioned on Free's website, so there are likely many customers who do not know about this service, or do not have Twitter to access it.

For most issues, customers must call in to Free's service line. This phone line is available from 07:00-23:00, allowing for a decent amount of time for customers to contact them. However, as many know, these customer service phone lines are often very busy and a customer may have to wait on hold for many minutes. Though it is a positive that Free offers this service, it is essential they offer more customer support.

Precision of billing

Free Mobile uses on-line services to bill their customers. Customers are able to access their accounts online and see their individual charges for the month. Payment options are fairly standard with the option of automatic payment every month with credit card. Free Mobile has had no major problems with their billing thus far. However, if a client does want a paper copy of their bill sent to them, they will need to request this. As more and more services are becoming available on the internet, Free's use of online billing seems to be effective, and not a major issue for customer loyalty.

SWOT ANALYSIS:

Based on the research provided, I have prepared a SWOT analysis summary of Free Mobile:

Strengths:

- Rapid entry into the market creating initial success
- Low-cost plans attracting many new customers
- Use of Wi-Fi hotspots to reduce data roaming costs
- Use of advertising and promotion through frequent billboards and signs in public areas

Weaknesses:

- Wi-Fi hotspots are limited to heavily populated areas, not optimal for everyone
- Lack of physical store
- Customer service and technical assistance only available over telephone
- Reliance on Orange for Wi-Fi and 3G network
- Lack of variety in plan offerings

Opportunities:

- Additions of Wi-Fi hotspots
- Expansion of coverage outside France
- Expansion of independent network within France
- Competition: adapting to competitor's options
- Customer Service enhancement
- Customer loyalty plans to increase customer retention

Threats:

- Other industries looking to do the same low-cost strategy by making accessible Wi-Fi hotspots (Example: Bouygues' deal with Devicescape to access its virtual hotspot network)
- Customer loyalty could waver if other companies release similar low-cost plans
- Free's network may not be able to support new 4G network (too slow)

RECOMMENDATIONS AND CONCLUSION

Free's lack of solid customer service and physical presence in France could be a problem for the company in the future. Customer loyalty is an important factor, and while Free provides low cost, no-contract mobile plans, they must also provide quality customer service to retain current customers. As there are other mobile companies who are moving in on Free's idea of Wi-Fi hotspots, Free will not have this advantage that differentiates them in the market for much longer. In addition, Free must build on the opportunity to expand their Wi-Fi hotspot areas, as those living in less populated areas are not able to take advantage of Free's plans.

Regarding Bouygues' new network and agreement with Devicescape, it will be a great advantage for Bouygues and a possible threat to Free Mobile. However, while a threat, Bouygues' network targets a different kind of hotspot than Free Mobile:

> *"Free Mobile and Bouygues' Wi-Fi networks won't have much overlap as they target different kinds of hotspots. Free's network is built into the home broadband set-top boxes Iliad installs in residential customers' homes. So its coverage is limited to areas where people live and is*

optimized primarily for indoor usage . . . While Devicescape's network does include some open residential access points, it also incorporates the free Wi-Fi offered by local governments, restaurants, coffee shops and retail businesses". (Fitchard, 2012)

As of now, Free is generating success with help from Orange's network. Orange is also benefitting from the partnership by receiving cuts of the profits from Free's roaming costs. However, this will not be an opportunity for Free Mobile for much longer. As the roaming contract between the two companies expires in a few years, Free will have to have a strong network, something their competitor Orange clearly already has. Orange takes up the greatest percentage of market share, with its network and internationalization being huge advantages. In order to compete with their once ally, Free will have to make great strides in their network development. One major concern is whether Free's network would be able to keep up with new trends, such as the 4G network. Free must continue in innovating through its technology, and improving and maintaining its processes in which they differentiated themselves.

Free Mobile was released in France's mobile market with the intention of making a big splash to disrupt the market. With their extremely low priced plans, Free Mobile attracted many new customers and forced its competitors to adapt their pricing strategies and re-evaluate how to compete in the market. As new entrants to this market are rare, it is interesting to see how a new player can cause so much change. Free has had a very successful starting year, but they must continue to innovate and create value for its customers to keep an advantage in the market and keep growing. At this point France is waiting to see what Free's next move will be, and if their success will continue far into the future.

As a new entrant into the market, Free Mobile jump started a more competitive environment – creating price wars with each provider coming up with cheaper plans with more services, and the expansion of 3G and 4G networks. Customers are certainly much happier with the changes and the new offers they are receiving. Though Free Mobile shook up the French mobile market, perhaps it was a disturbance well-needed to benefit France's mobile users.

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