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Orange International

The Creation of a 21st Century Patent

INTRODUCTION

Orange has been, without doubt, one of the most successful brand launches of the last decade. From the gloomy predictions that surrounded its launch in 1994, Orange has grown into the strongest contender to become the world's first truly universal communications brand. Such is its global potential that it has proved to be the catalyst for unprecedented corporate predation, a process which still has further to unfold.

The contribution of advertising to this remarkable success story has already been well documented. The 1996 IPA paper charted the contribution of advertising from launch to the Orange flotation as a FTSE100 powerhouse valued at 2.4 billion. The 1998 IPA paper took on the story, calculating the contribution of advertising to shareholder value at 3 billion.

Following the completion of the 1998 paper, Orange went on to become one of the two fastest growing stocks in the FTSE100. Since its flotation, Orange stock has risen over ninefold. Yet it is only in the last 12 months that the extraordinary value of the Orange brand and the contribution of advertising have begun to truly surface, for Orange has been at the heart of one of the most extraordinary events in corporate history.

In October 1999 the German company Mannesmann bought Orange for the sum of 19.8 billion.[1] This bold move acted as a catalyst for the world's biggest ever hostile takeover bid, with Vodafone Airtouch moving in on Mannesmann with an initial offer of 80 billion, rising to 112 billion when the deal was finally completed.[2]

This case will argue that it was the international development of the Orange brand, and the role advertising played in that expansion, that acted as a catalyst for this chain of events. Specifically it will argue that it was the power of the Orange brand as a twentyfirst century patent that forced Vodafone Airtouch into making its hostile bid for Mannesmann. This patent provides its owner with a unique and powerful engine of value creation, and a sustainable and dynamic source of competitive advantage. It encodes an ideology which transcends both national borders and corporate boundaries, an ideology which galvanises an organisation behind a clear way of doing business, and an ideology which engages consumers on both an emotional and a rational level.

Such is the recognised power of this brand patent that Hutchison Whampoa the previous majority shareholders of Orange and the second biggest company operating in Hong Kong chose to rebrand their own Hong Kong network Orange. Mannesmann's intentions were clear and vocal:

'We are studying right now how to use Orange as the Europeanwide brand. The local brands such as Omnitel and D2 are wonderful, but this service is new and different. Orange is the highest growing asset for the Mannesmann portfolio for the next few years.[3] Klaus Esser, Mannesmann CEO *Sunday Times*, January 2000

Orange's ability to span the globe as a single idea, uniting nations and cultures, marked it out as an entirely different property from Vodafone Airtouch.

In combination with Mannesmann's rebrandable assets, Orange had rapidly become the biggest single barrier to Vodafone's own international ambitions. Thus, in an attempt to at least stall the threat, Vodafone embarked on the hostile takeover outlined above. Vodafone, however, cannot delay the threat indefinitely and must instead divest itself of Orange in line with European Competitive Law. At which point the stage will once again be clear for Orange to realize its full potential.

THE CASE FOR CREATING AN INTERNATIONAL BRAND

The growth in the number of mobile phone subscribers across the globe is nothing short of spectacular. In 1990, there were just over 11 million users worldwide. Today there are 400 million, against only 180 million people with personal computers (The Economist, October 1999). By 2004, the number is likely to hit one billion, exceeding the number of fixed phones. Every 3 days 900,000 new subscribers join the world's mobile phone services. In eight countries more than a third of the population own mobile phones.

It is therefore hard to believe that there are no global network service brands anywhere in the world's top 100. Back in 1997 AT&T was, according to Interbrand, the highest ranked telecommunications brand at a lowly fiftyfifth. More recently, AT&T has made it into the top 10 (Table 1).

TABLE 1: THE WORLD'S MOST VALUABLE BRANDS

1. CocaCola
2. Microsoft
3. IBM
4. General Electric

5. Ford
6. Disney
7. Intel
8. McDonalds
9. AT&T
10. Marlboro

Source: Interbrand

Other industries that have witnessed comparable late twentieth century growth, have recognised the importance of building powerful brands. In the IT industry, there are top 20 hardware brands in IBM, Intel and Hewlett Packard. And in software, Microsoft is at number two.[4]

THE BRAND AS A TWENTYFIRST CENTURY PATENT

So why is Orange in a position to exploit this situation? Vodafone's deep vulnerability to Orange is by no means an exception. It would apply, in fact, to all of Orange's current 34 competitors around the world in the seven markets where Orange operates. In each case, as we will demonstrate, the arrival of the brand has delivered massive competitive advantage to the Orange operator.

Many of these competitors are strong, well managed organisations.[5] Orange is seldom, if ever, up against slouches. And yet it transcends them every time. The reason for Orange's apparently unfair advantage isn't magic, although it has something of the magical about it. The reason is that Orange was never conceived purely as a telecoms company. It was conceived as an ideology.

All its competitors are the product of twentieth century logic and industrial marketing. As such, they are defined by competence, function and the prevailing conventions of their time, thus the plethora of sectorled brand names Vodafone, Airtouch, Smartone, Mobistar etc.

Orange was never constrained by this old fashioned, twentieth century logic. It never defined itself by the mechanics of its market. It has famously never featured a mobile phone in its communication. For the simple reason that it has never been a mobile phone company. From the start, it set out to translate an ideology into action, whatever the technological capabilities of a given time.

These mechanics are incidental to the Orange ideology, as are local market conditions or domestic discrepancies. Orange knows that there is much more that unites the world than divides it, and by focusing on these universal truths it has been able to build an inherently universal brand.

The belief in the universality of the Orange brand is not simply one of blind faith. During the course of its international expansion Orange has conducted both qualitative and quantitative research in four continents and 19 markets (Table 2).

TABLE 2: COUNTRIES WHERE ORANGE INTERNATIONAL HAS CONDUCTED RESEARCH

Europe	Australasia	N.America	Asia
Czech Republic	Australia	Canada	Hong Kong
Belgium		USA	India
France			Israel
Germany			Sri Lanka
Greece			
Hungary			
Ireland			
The Netherlands			
Turkey			
Spain			
Switzerland			
UK			

Source: Orange International Research Department

In order to ascertain reactions to the Orange brand, UK advertising has been used in all of these markets (with a translated voiceover where appropriate). Despite this crude UKspecific stimulus, responses are remarkably consistent:

'Orange advertising has a very personal touch you know if you talk to them, you'll be listened to.' Australia, prospective small business customer

'It feels very different, as if they understand what people want. 'Switzerland, mobile user 'Orange is something very dynamic that keeps on running forward.' Israel, aged 2530

It is worth noting that Orange does not only succeed in markets where it has launched; responses are equally favourable in markets which have yet to experience the brand:

'Orange seems strong and self confident, but not aggressive. Stable and trustworthy but also caring about the future and its customers.'Czech Republic, nonuser

'Orange is something new. It makes me feel confident, it seems to be very smart, fast. It will be new and I think it creates interest I want to know what it will be.'

France, nonuser 'I would have trusted that it was an established company that knows what they're talking about.' USA, mobile phone user.

Orange advertising taps into a need that extends beyond any local market dynamics. The Orange brand offers people the opportunity to manage the unknown, something that the whole of mankind can relate to. Even in futureconfident markets like the USA, Hong Kong and Germany, Orange is immediately identified as going beyond a mere mobile brand.

It is the brand's ability to transcend both categories and markets that leads us to defining it as a twentyfirst century patent. A patent designed for the postindustrial era where, instead of what a company does (which can so quickly be copied, franchised, equalised or bettered), competitive advantage is increasingly derived from what a company believes.

This belief system, or ideology, can offer a level of protection akin to the original patent. Since it is processed in the minds of customers it cannot be directly copied and thus ensures a comparable level of sustained competitive advantage (provided the relevant delivery mechanics are also in place) as the brand is rolled out across the world.

No ideology works unless it is successfully articulated through advertising, therefore, advertising has a key role to play in defining the terms for this new breed of patents.

The rest of this paper seeks to demonstrate and quantify the role of advertising's contribution.

THE ORANGE INTERNATIONAL BUSINESS STRATEGY

As a business strategy, the international expansion of the Orange brand offers a number of benefits. There are obvious opportunities for both economies of scale and knowledge sharing. However, the brand's most important asset is its ability to provide a patented framework, maintaining an external focus and, potentially more importantly, driving the internal organisation forward. In its bid to become the first truly global wirefree communications brand, Orange has followed a threepronged approach:

1. Expansion through equity investments in joint ventures. Orange is a major stakeholder in successfully won licences in Belgium and Switzerland, where the brand is licensed and used by the joint venture companies.
2. Brand licensing. The Orange brand has been licensed to new networks in Israel and Australia. In addition, the Hutchison network in Hong Kong and the MaxTouch network in India have both been rebranded Orange.
3. Virtual Network Operator (VNO). Given the limited number of opportunities (and cost) of building and owning local networks, the third strategic option for Orange is to operate as a virtual network. This involves Orange buying airtime from a local operator and operating on their network.[6] From the consumer perspective the experience is completely Orange; with unique customer service and tariffs.[7]

The nature of the Orange brand's expansion overseas is utterly unique, not just in the world of telecoms, but in the world of brands. It has therefore required a whole new approach to international brand development.

THE ORANGE COUNTRIES

Orange International has, to date, facilitated unique and successful brand launches in six countries, with advertising heralding each launch and acting as the public face of the brand. This section will highlight how each country has developed its own advertising campaigns in order to communicate specific messages relevant to the characteristics of the local telecommunications marketplace.[8] This has been facilitated by Team Orange, a collection of individuals comprising representatives from Orange International, WCRS and Wolff Olins. Their remit is to ensure that the brand vision and values are adhered to in all forms of communication.[9]

Throughout the world, advertising has helped establish the brand in terms of awareness (invariably higher than the established competition). In the countries where Orange is well established, we will show how this awareness has translated into brand preference and impressive business results.

Whilst each individual country has the potential to offer an effectiveness case in its own right, the objective of this paper is to look at the advertising payback at a shareholder value level.[10] Consequently, we do not intend to rigorously prove advertising effectiveness in individual countries. Rather, we shall provide a flavour of success, before going on to discuss the implications of these successes for Orange and its shareholders.

UK

The UK remains the jewel in the Orange crown and the advertising continues to play a fundamental role in the continued accomplishment of the Orange brand. Indeed Orange has witnessed its most successful period ever, outperforming its competitors in terms of value and volume for 6 months running[11] (Figure 1).

Hong Kong

The first launch of Orange outside the UK is also perhaps the most extraordinary. Hong Kong is the home of Hutchison Whampoa Ltd (HWL) the original backers of Orange in the UK. Outside the Hong Kong region HWL is an unknown consumer brand. However, within Hong Kong (and increasingly in China) HWL has high visibility. It is one of the largest companies in the territory operating in a host of sectors including shipping, property development, media and telecommunications.

Hong Kong is also the most competitive mobile market in the world with six operators, 11 brands and a penetration of 60%. Whilst the Hutchison brand operated successfully at number two in the market, they were well aware of the phenomenal success of Orange in the UK.[12] Consequently in 1998 the decision was taken to rebrand the Hutchison mobile network Orange. The initial advertising used images from the UK advertising campaign (Figure 2).

Since then, the local marketing team and agency have developed their own campaigns, which retain the distinctive Orange brand values[13] (Figure 3).

The Orange advertising has achieved impressive cut through, despite the confusion created by a marketplace of 11 brands (Figure 4 and 5).

This awareness has also converted into a strong brand preference (Figures 6 and 7).

All of this has translated into impressive business results. Since rebranding, the network's market share has increased from 16% to 21%, an incredible achievement given the stiff market competition. [14] Orange is now the number one operator in Hong Kong.[15]

Israel

Whilst Hong Kong is the most competitive market in the world, Israel has consistently been the fastest growing market in Europe. In the most mobile crazy country in the world, it was decided to brand Partner Communications'[16] newly acquired network Orange. Orange Israel launched on 1 January 1999 (Figure 8).

Awareness of the Orange brand has grown at a remarkable rate, overtaking all of its key competitors (Figure 9).

The brand also has an extremely potent image, particularly amongst the all important Israeli youth market (Figure 10).

Within 3 months Orange Israel had 100,000 subscribers. Six months later this had grown to 280,000. It took the UK 9 and 18 months respectively to achieve these figures.[17] Orange Israel users also have the highest Average Revenue Per User (ARPU) of any of the Israeli networks (source: Orange Israel).

Within one year of launch, Orange was floated on the Israeli and NASDAQ stockexchange, one of the fastest ever IPOs. It is estimated that the brand added 30% to 40% to the value of the recent Orange Israel flotation.

The power of the Orange brand is best summarised by a quote from an Israeli consumer, a mere 10 months after launch: 'Today Orange is the biggest brand in Israel.' Family User, Tel Aviv, October 1999

Switzerland

In April 1998 a joint venture between Orange and the German operator Viag, won the licence to build a third mobile network in Switzerland.[18] Orange launched in June 1999 and, despite the problems of coverage which dog any new network launch (and which is a particularly problem given the Swiss terrain), has been extremely successful (Figure 11).

After just 8 weeks the brand had 90% recognition, and after 4 months 97% of Swiss people knew Orange (Figure 12).

Spontaneous awareness reached 65% after nine weeks and 85% after four months[19] (Figure 13).

A similar pattern of purchase preference is also visible in Switzerland, where Orange is now preferred above the number two operator DiAx [20] (Figure 14).

Orange is now the preferred choice amongst 20% of Swiss intending to connect to a mobile network next year (Figure 15).

Within 3 months Orange Switzerland had a customer base in excess of 160,000. This was 176% over target. The success of the brand has also been reflected in its strong distribution, which is 160% over target.

Belgium

A joint venture between Orange and the Dutch operators KPN, won the bid to launch a third network in Belgium. A soft launch in June 1999 was followed by the full Orange launch in September 1999 (Figures 16 and 17).

It is still early days for the Belgian launch. However, early indications are strong (Figures 18 and 19). Once again, Orange has achieved the highest levels of preference amongst key `switchers' audience (Figure 20).

At the end of March Orange in Belgium boasted a customer base of 150,000, having grown by 64,000 in the preceding 3 months.

Australia

Orange is still very much an infant brand in Australia. In August 1999 Hutchison Telecoms Australia Ltd, a service provider, was rebranded Orange. Whilst data on the rebranding is inevitably still limited, Australia is a particularly interesting example of how the Orange brand can be used to package a complete range of different services. Sitting under the Orange brand umbrella is GSM and CDMA resale, [21] an Internet Service Provider, paging, information and long distance landline calls[22] (Figures 21 and 22).

Despite a share of voice of only 3%, brand awareness has reached 28% and advertising awareness 70%. Whilst the brand has yet to achieve the cut through of some of the better established Australian brands, the brand equity index shown in Figure 23 shows that the communication is achieving a high level of interest.

The response from Australian consumers also remains very positive.

'Orange isn't like Telstra and the others who just sell you a phone and don't care about anything else Orange really broadens the scope of the mobile phone user, they understand how we live and work.' Male, Sydney, aged 2534.

India

The MaxTouch network in India is the most recent convert to Orange (Figure 24). Until February 2000 MaxTouch was the most successful network operating in Mumbai (formerly known as Bombay). Attracting between 4,000 and 4,500 subscribers per month, MaxTouch had a well developed brand identity of its own (a brand identity that had interestingly chosen to use Orange as its predominant colour) with a spontaneous brand awareness of 90% (IRIS research).

Despite the apparent success of MaxTouch, the network was relaunched in February 2000 as Orange with a multimedia advertising campaign (Figures 25, 26, 27). Whilst data is inevitably scant, there are some promising signs. Orange took 9,000 gross subscribers in March and April 2000, compared to 7,000 for its nearest competitor BPL. The change in brand name has also been well received in the press, with the focus on the international success of the brand:

'The brand has succeeded wherever it has gone owing to its corporate and brand ethos.'Business India, March 2000

'The Orange brand has transcended continents and nations.' Business India, March 2000

'Agent Orange: Max Touch brings global brand to India.' The Financial Express, New Delhi, February 2000

PLACING A VALUE ON THE TWENTYFIRST CENTURY PATENT

This paper started by putting forward the case for the value of a brand as a twentyfirst century patent. It then demonstrated the effectiveness of the patent created by Orange in transcending national borders. This final section will attempt to quantify the shareholder value generated by this patent. Focusing on the international potential of the Orange brand, it will demonstrate how the brand has created extraordinary returns first for Orange plc shareholders and then for Mannesmann shareholders and how it is now set to deliver further huge returns, this time for Vodafone shareholders.

It will argue that the Orange brand patent has been nothing short of the Holy Grail of modern business a moneymaking machine which has generated billions of pounds for everyone who has owned it.[23] The valuecreation of the Orange brand occurred in three stages.

Creating Value for Orange plc Shareholders

In October 1999 Orange was acquired by Mannesmann for 19.8 billion. In just over 3 years the value of the company had increased by over 800% from its flotation value of 2.45 billion. The value of advertising and marketing in helping to create this value has been widely recognised:

'Orange is, above all, the product of its advertising, which has been an important reason why it was able to command such a high price. Today it reaps the reward of an unwavering investment in its advertising.' Campaign Magazine, October 1999

'Orange is one of the most potent new brands to be created this decade... It has established a resonance and tone of voice in the market where many of its rivals have spent more on marketing, but achieved far less.' Marketing, October 1999

In order to understand why Mannesmann was prepared to pay such an extraordinary sum for the UK's thirdlargest mobile network, it is important to understand their motivations in acquiring the Orange brand patent. This case will demonstrate how the Orange brand represented the lynchpin in Mannesmann's global expansion strategy transforming it from a competent but largely unexciting German telecoms conglomerate, into a powerful global player.

Several months prior to the takeover of Orange, Mannesmann expressed an interest in acquiring the UK's fourth network One2One. Acquiring One2One would have provided Mannesmann with a foothold in the UK market, a valuable local brand, [24] and a company with a reputation for customerfocused innovation.[25] It would also have provided Mannesmann with a UK player whose market share performance was showing clear month on month improvement compared to Orange's static performance in the 12 months running up to takeover (Figure 28).

Despite these clear benefits, Mannesmann was outbid for One2One by Germany's Deutsche Telekom, who were prepared to pay 8.4 billion for the network. Why therefore were Mannesmann prepared to pay over twice this amount several months later for Orange? Part of the rationale for this was the higher value of Orange customers.[26] Yet a comparison of the actual lifetime value per subscriber, and the implied value paid per subscriber highlights a significantly larger premium paid by Mannesmann for Orange (Figure 29).

Mannesmann paid a premium of over 3,000 per subscriber, compared to just under 2,000 which they would have paid to acquire One2One. This premium represents a real value placed on the relative future potential of the two businesses.

Given the similarities of the two businesses in the UK, this difference represents the additional value created by Orange's international potential visavis the more parochial potential of the One2One brand. Multiplying the premium per subscriber with the number of subscribers at point of acquisition, the premium paid by Mannesmann for Orange represents over 11 billion more than 6 billion higher than the premium charged by One2One (Figure 30).

It was the future potential of the brand as an international patent, as demonstrated at some length in the section on Australia of this paper, which commanded this net premium of 6.3 billion. This was the price paid to acquire what has been called 'the strongest telecoms brand in Europe.[27] This 6.3 billion figure was real value delivered to Orange's shareholders when the company was acquired by Mannesmann a deal which generated a return of almost 10 billion for primary shareholder and founding company Hutchison Whampoa (from an original 1993 investment of 700 million).

Creating Value for Mannesmann Shareholders

Mannesmann's purchase of Orange provided the catalyst to the world's biggest ever hostile takeover:

'A hostile takeover bid for Mannesmann by Vodafone has been prompted by the German company's decision to buy Orange. That move signalled Mannesmann's determination to expand in Europe and around the world without Vodafone. 'Sunday Business, November 1998

'If Mannesmann gets away, the threat to Vodafone's push for European preeminence would be real and serious. With Orange, Mannesmann will reap the greatest rewards from the data communications revolution.' Sunday Times, January 2000

The importance of acquiring Orange was not so much about acquiring a foothold into the UK they could have achieved this aim for much less money by acquiring One2One. It was rather in acquiring an international brand patent which would enable it to rapidly capture market share not only of the rapidly expanding mobile phone market, but more importantly of the emergent 'data wave' of mobile telecommunications.[28]

Mannesmann had followed a strategy of systematically acquiring controlling stakes in telecoms businesses throughout Europe. By holding a controlling stake rather than a minority interest, Mannesmann had created the opportunity to control the branding in each country.[29] Orange was set to be the jewel in the Mannesmann crown, which would have turned the world Orange.

The role of Orange advertising was crucial in convincing Mannesmann of the value of the brand patent:

'Right from the start, Orange has been an international brand by nature although it was just a British operator. You see faces from all over the world in its advertising. You see many children. It is a very human brand.' Klaus Esser (Mannesmann CEO) Sunday Times, January 2000

The combination of Mannesmann's capabilities in providing the technical expertise to deliver advanced data services, and the Orange brand patent to make it exciting and engaging for consumers, represented a potentially fatal blow to global pretender Vodafone Airtouch.

Mannesmann's defence against the Vodafone bid hinged around the value of the synergies created through its acquisition of Orange, which did not form part of Vodafone's initial offer for Mannesmann. Mannesmann argued that whilst as separate businesses the value of Mannesmann and Orange equated to Vodafone's putative offer of 80 billion, as a combined company it was worth as much as 112 billion, i.e. the addition of Orange created an upside potential of approximately 32 billion.[30]

Mannesmann's defence collapsed when both Vodafone and the City agreed with the argument put forward, and simply offered the increased amount putting another 32 billion on the table. Assuming Vodafone would have had to pay a premium in order to effect a takeover of Mannesmann of approximately 33%, [31] the incremental premium resulting from owning the Orange brand patent amounted to 5.3 billion. [32] In other words, had Mannesmann not owned Orange, its shareholders would have received approximately 5.3 billion less as a result of the hostile takeover by Vodafone.

Creating Value for Vodafone Shareholders (and beyond)

Vodafone shareholders were forced to pay a substantial premium to acquire Mannesmann, a significant part of which resulted from the value of the Orange brand patent. However, European competition legislation requires that Vodafone demerge Orange.[33] Hence in order to justify the price paid to acquire Mannesmann, Vodafone will have to deliver the equivalent value without the benefits of the Orange brand patent.[34] Without a plausible strategy to achieve this, Vodafone would not have achieved shareholder approval for the deal.

The basis of Vodafone's strategy is clearly beyond the scope of this paper, yet it is possible to highlight further added value created by the Orange brand patent this time for Vodafone shareholders. Vodafone's takeover bid assumed that it would be able to sell Orange to a trade buyer for the equivalent amount paid by Mannesmann, i.e. for approximately 20 billion. Yet as a result of the unparalleled success of the brand, analysts are predicting a value of up to 40 billion when Orange is sold later this year:

'Whilst Orange could be refloated as an independent company, it is a rich prize for a queue of international telecoms companies... In recent weeks, almost every mobile phone operator in Europe has expressed an interest in Orange.'Evening Standard, February 2000

'Vodafone is in talks with companies about a trade sale that could raise up to 40 billion.'

Mail on Sunday, May 2000 So having created billions for Orange and Mannesmann shareholders, the Orange brand patent is again set to create as much as 20 billion for its new owners and then create further value for whoever ends up owning this remarkable asset. Accounting for the 4 billion of value added by the successful acquisition by Orange of a 3G licence in April, an incremental value of 16 billion will have been created in less than 6 months.

ADVERTISING'S CONTRIBUTION

The emphasis throughout this case study has been on the future value of the brand as a twentyfirst century patent rather than the historic contribution of a particular advertising campaign. Whilst many of the figures quoted may seem extraordinary, the case has been rigorously based around the actual valuation methodologies used by City analysts.[35]

The case has specifically focused on the international potential of the brand, as demonstrated in the various countries in which Orange has launched. Again, the case has not tried to quantify measurable returns based on global advertising activity it has rather attempted to signal the clear global potential of the brand. This has been a key driver in the value created for its successive owners (Table 3).

TABLE 3: THE DERIVED VALUE OF THE ORANGE BRAND

Owner	Additional value created
Orange plc.	6.3bn
Mannesmann AG	5.3bn
Vodafone Airtouch plc	16bn[36]
Total	27.6bn

The value created at each stage has been real shareholder value, based around the perceived future potential of the brand as an international patent to each successive owner. As such it can be added together to create the total amount of value created a figure which amounts to approximately 70% of the suggested value of Orange when it becomes demerged from Vodafone later this year. The value of advertising is an inextricable part of the brand as a twentyfirst century patent. It is the public face of the brand, expressing the brand ideology to all of its key stakeholders customers, employees and shareholders alike. Previous case studies entered into the IPA Awards in 1996 and 1998 have demonstrated the effectiveness of advertising in not only generating sales volumes, but also in attracting high value customers, encouraging customer usage and loyalty, and in creating positive expectations and enormous goodwill amongst key financial stakeholders.

Orange remains in its infancy as a global brand it has only recently launched outside the UK, and its true global potential remains latent until its corporate parenthood is resolved. This case has, however, demonstrated that Orange is proving as successful around the world as it has been in the UK with advertising again playing a similar role in its success.

Since the IPA awards are premised on the basis of advertising effectiveness rather than brand valuation, we will attempt to attribute a share of the 27.6 billion valueadded by the brand patent to advertising. The nature of shareholder value is based on hypothetical extrapolations about future corporate performance so we cannot use any of the traditional models for valuing advertising that use historical records, e.g. econometric modelling.

As a rule of thumb, we have assumed that pound for pound, advertising expenditure is equivalent to a pound spent on any other marketing activity. On average, advertising accounts for 40% of Orange marketing expenditure throughout the world. We might therefore claim that advertising accounts for 40% of the value of the brand patent, equivalent to 11.04 billion. This is clearly a gross oversimplification, yet even if we were to take half of this figure, advertising's contribution would still be a tenfigure sum.[37] It is simply an intuitive method to value advertising's crucial contribution in bringing the brand to life amongst the various key audiences.

A combination of a unique brand patent and a continued commitment to advertising has therefore helped deliver some of the most extraordinary amounts of value to the brand's ultimate owners its shareholders. Without these two crucial factors the story of the UK's fourth mobile network, launched in 1994 by littleknown Hutchison Microtel, would have turned out very differently. The role of advertising has been to deliver in the region of several billion pounds of shareholder value, based on the future potential of Orange as a global brand patent.

As argued at the start of the case, the Orange brand represents a new form of patent a unique and protectable form of competitive advantage in the new hypercompetitive economic order. The case has shown how the ideas and ideology encoded within the Orange brand patent represent an extraordinary new engine of value creation for its shareholders and an engine which truly transcends national borders. It is something which all wouldbe global companies should aspire to own. The future's bright, the future's Orange.

1. More than the combined value of British Airways, Marks and Spencer and British Aerospace.
2. Equivalent to one year's GDP of a middleranking European economy.
3. Hans Snook, the Orange group Managing Director, was even more emphatic on the subject: 'Vodafone don't have a brand that can go around the world. Vodafone Airtouch doesn't travel. Orange would be ideal, but they wouldn't possibly do that, it would be too big a loss of face.' *The Times*, April 2000.
4. The mobile telecommunications market does have international hardware brands: the hardest manufacturers are at number 11 and 39 respectively. Yet no comparisons exist for the networks themselves.
5. The UK is a good example of this. Vodafone delivers excellent shareholder performance. One2One's advertising continues to be popular and engaging. BT Cellnet have recently introduced a number of impressive initiatives.
6. Virgin mobile operates as a VNO in the UK, buying airtime and operating on the One2One network.
7. Whilst Orange has yet to establish a VNO, Hans Snook has stated that by 2005 there will be 50 Orange VNOs.
8. Every country uses the endline *The Future's Bright, The Future's Orange*.
9. Team Orange run regular workshops with local marketing and advertising teams. They provide assistance in the development of new campaigns and sign off all new advertising.
10. Since shareholder value is based around *future cash* flows rather than historical performance, the primary objective of the following section is to demonstrate the clear potential of the Orange brand in all local markets. Analysts' valuations and hence real shareholder value figures are based around these perceptions of future potential.
11. A complete analysis of the 1999 'No Ouch in our Voucher' campaign is provided in the IPA paper Orange Just Talk the campaign that made the competition go 'ouch!'
12. HWL's original 700 million investment in Orange back in 1993 (equivalent to approximately 1% of the company's international investment) was, by 1999, worth 40% of Hutchinson Whampoa's total assets. This is one of the biggest ever returns on an investment in history. It was one of the reasons Li KaShing, Hutchison Whampoa's chairman, was voted global business man of the decade.
13. This was the first campaign that involved the implementation of *Team Orange*.
14. According to Orange HK, customer loyalty has improved since the introduction of the Orange brand. This is inevitably a key battle ground in a market with such high penetration.
15. There is an element of irony to the Hong Kong case study. In 1993 a team from the UK flew over to Hong Kong to persuade Canning Fok, HWL's Managing Director, why they had taken the extraordinary decision to name a mobile network Orange. The team consisted of representatives from the Orange marketing team, WCRS and Wolff Olins. The debate was heated and was brought to a close with Canning Fok proclaiming that the brand advertising might work in the UK 'but would never work here in Hong Kong.'
16. Israeli campaign, April 1999.
17. The UK was at an earlier stage in the market lifecycle, but Israel has a population less than a twelfth that of the UK.
18. 'Orange's experience in the UK mobile phone market ... is understood to have counted heavily with the Swiss authorities.' Financial Times, 21 April 98. This is discussed in further detail in the 1998 IPA case study.
19. The success of Orange has been in no small part due to the unprecedented media coverage it has received. Such was the impact of the advertising, that the launch commercial was shown in full on Switzerland's News at Ten.
20. Swisscom are the original national operators, similar to BT in the UK.
21. Orange resells the airtime of the GSM Optus network, and the Telstra CDMA network. These networks operate on different technology in different regions of Australia.
22. Since 1 December 2000, Orange Australia has begun rolling out its own CDMA network in Sydney and Melbourne. The network operates on a very local level and is positioned as an easy means of gaining a second home line (traditionally a bureaucratic problem inn Australia). It is being introduced street by street and has consequently yet to receive any advertising support.
23. Whilst all of this value has been based on future expectations rather than a historic record of events, this is in keeping with how City analysts establish a value on assets. Hence these billions are not fictitious amounts of money cooked up on computer screens in London and Frankfurt they are real shareholder value.
24. As demonstrated in One2One's 1998 IPA award winning submission.
25. One2One pioneered both payinadvance and prepay packages in the UK market.
26. The 1998 IPA paper demonstrated the role of advertising in attracting higher value customers, and then encouraging usage and loyalty.
27. The *Express*, February 2000.
28. For example mobile Internet access, transactions conducted using the personal mobile multimedia device and the ability to tailor services such as news and information according to the individual's specific needs and current location.
29. Unlike Vodafone, who held a series of minority stakes and hence had no potential to create a true global brand.
30. Source: Mannesmann bid defence document, and Sunday Business articles (November 1999).
31. This was the premium paid by Deutsche Telekom to effect a takeover of One2One.
32. Assuming a base value of 80 billion, as laid out in Vodafone's initial offer to 106.7 billion. The incremental amount paid by Vodafone has been attributed to an additional premium resulting from the international potential of the brand.
33. Otherwise Vodafone would have two of the four networks in the UK.
34. Otherwise the deal would have destroyed rather than created shareholder value.
35. The figures quoted should be considered in the very real context of Orange being valued by Mannesmann at a value which exceeded the combined value of British Airways, Marks & Spencers and British Aerospace. And in the very real context of Orange being the catalyst to the world's biggest ever hostile takeover bid.

36. Current estimate as of May 2000, versus actual figure.
37. It is worth noting that the 1998 IPA paper put advertising's contribution to shareholder value at 3 billion. It is likely that this contribution would have increased significantly.

NOTES & EXHIBITS

FIGURE 1: UK CAMPAIGN, OCTOBER 1999

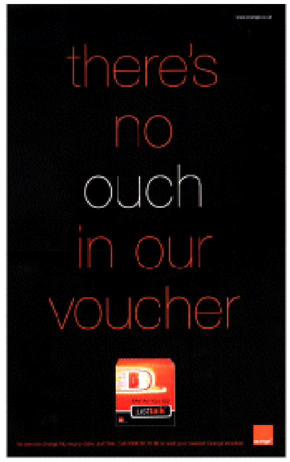
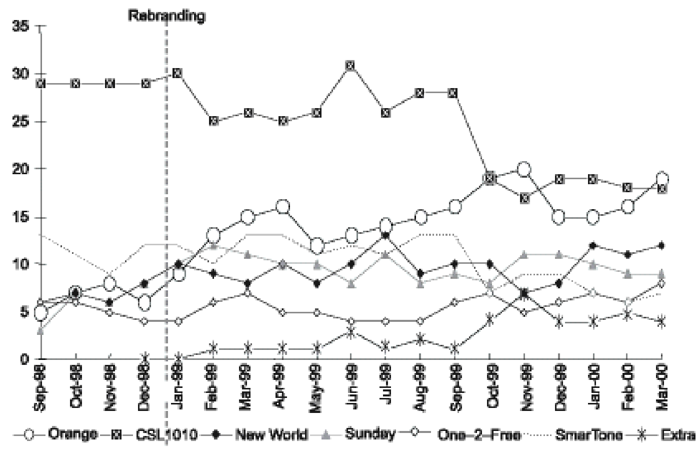


FIGURE 2: HONG KONG CAMPAIGN, DECEMBER 1998

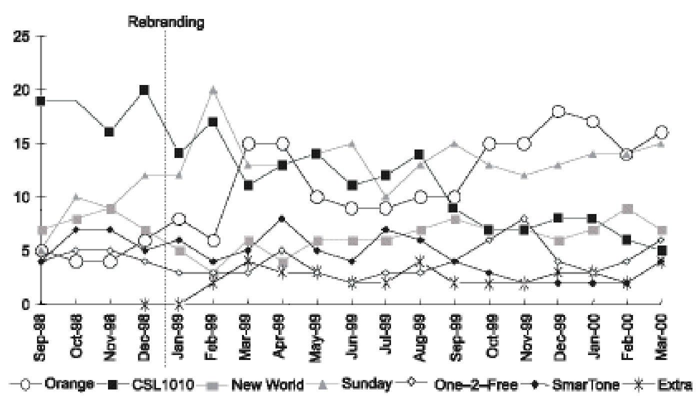
FIGURE 3: HONG KONG CAMPAIGN, JUNE 1999

FIGURE 4: HONG KONG TOP OF MIND BRAND AWARENESS (CURRENT USERS)



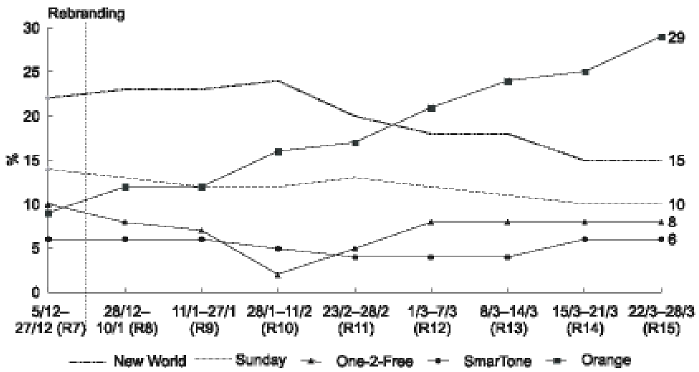
Source: Media by Market Behaviours (HK) Ltd

FIGURE 5: HONG KONG TOP OF MIND BRAND AWARENESS (POTENTIAL USERS)



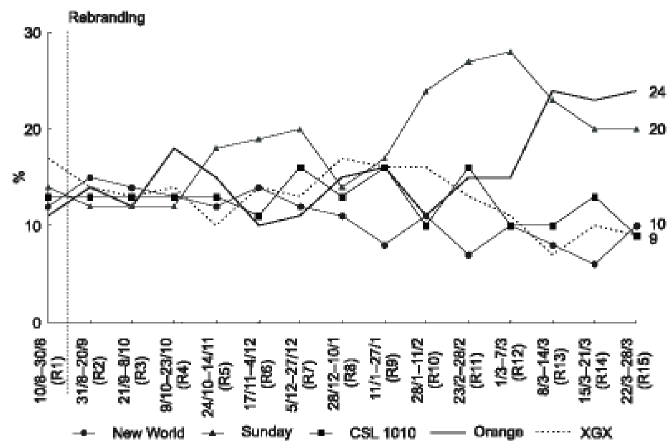
Source: Media by Market Behaviours (HK) Ltd

FIGURE 6: HONG KONG NETWORK PREFERANCE AMONGST SWITCHERS



Source: Market Decision Research, Hong Kong

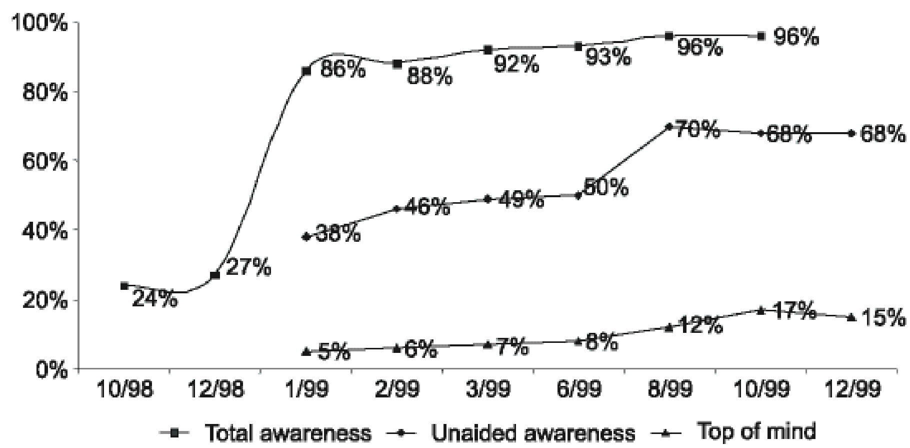
FIGURE 7: HONG KONG NETWORK PREFERANCE AMONGST POTENTIAL USERS



Source: Market Decision Research, Hong Kong

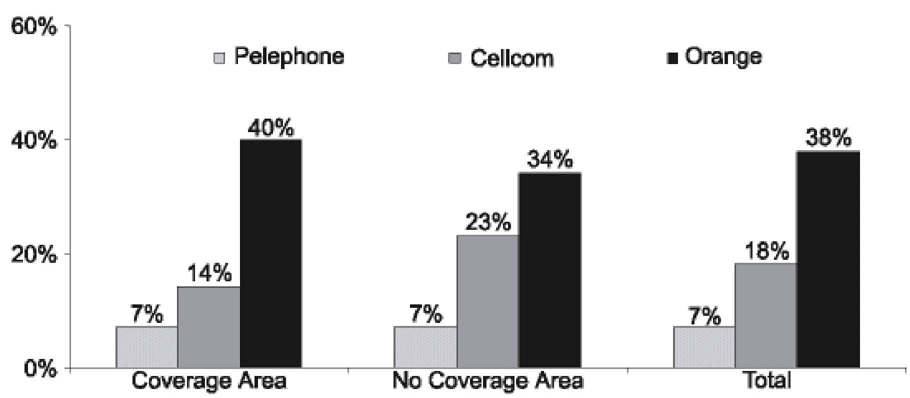
FIGURE 8: ISRAELI CAMPAIGN, APRIL 1999

FIGURE 9: ISRAEL BRAND AWARENESS



Source: Orange Israel

FIGURE 10: ISRAEL – WHICH CELLULAR NETWORK HAS THE BEST OFFER FOR TEENAGERS?



Source: Orange Israel

FIGURE 11: SWISS CAMPAIGN, JUNE 1999

FIGURE 12: SWITZERLAND – ADVERTISING AWARENESS

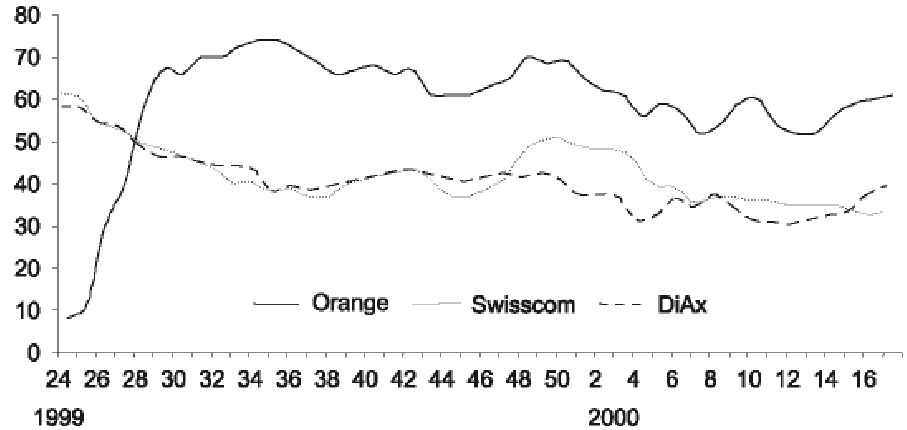
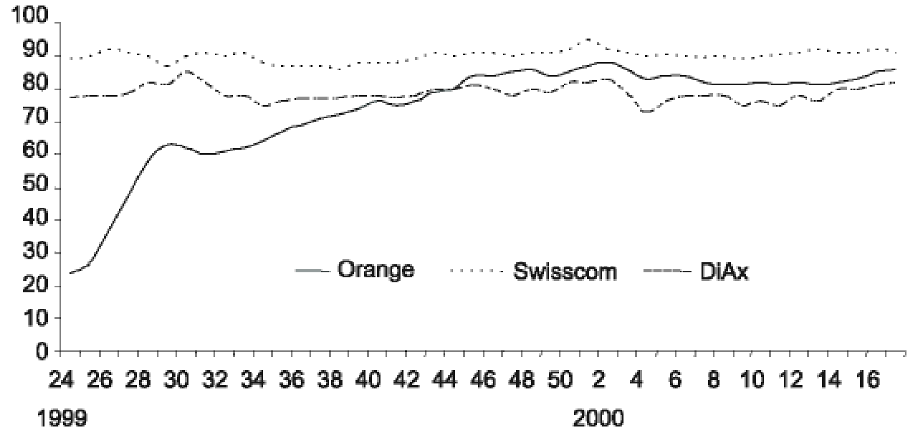
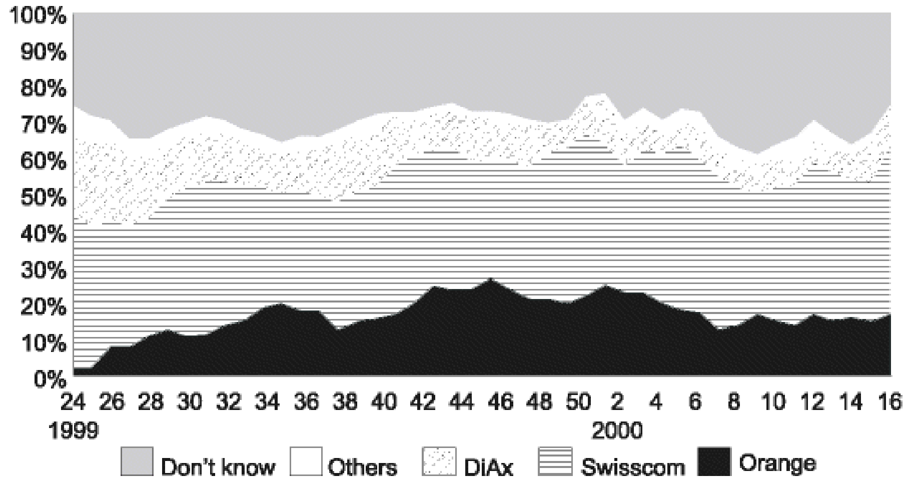


FIGURE 13: SWITZERLAND UNPROMPTED BRAND AWARENESS



Source: Demoscope

FIGURE 14: SWITZERLAND – PURCHASE PREFERANCE



Source: Demoscope

FIGURE 15: SWISS CAMPAIGN, JUNE 1999

FIGURE 16: BELGIAN CAMPAIGN, SEPTEMBER 1999

FIGURE 17: BELGIAN CAMPAIGN, SEPTEMBER 1999

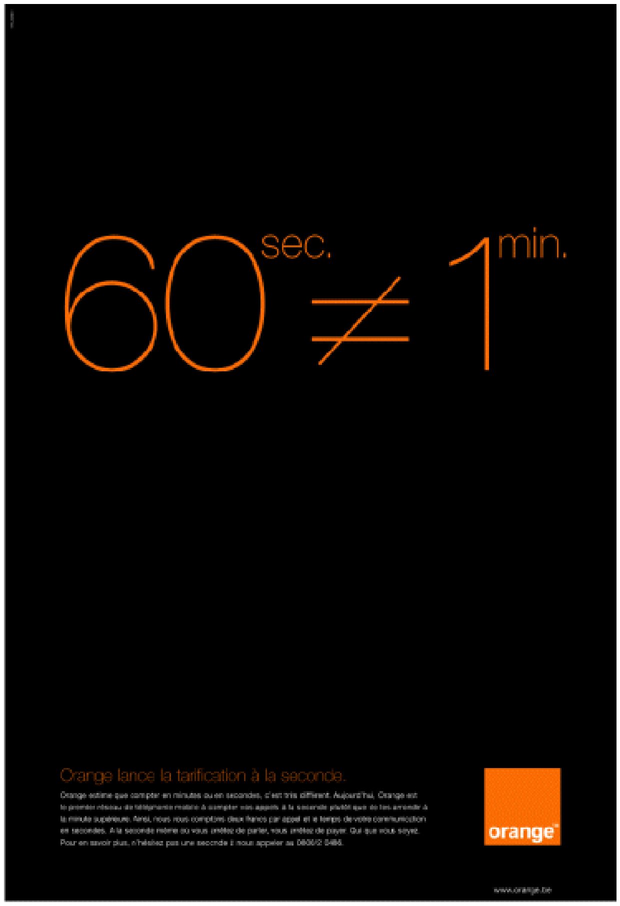
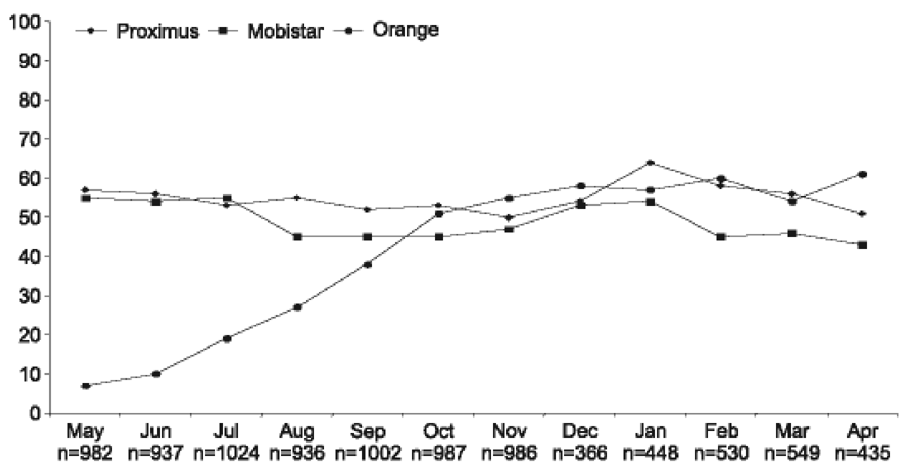
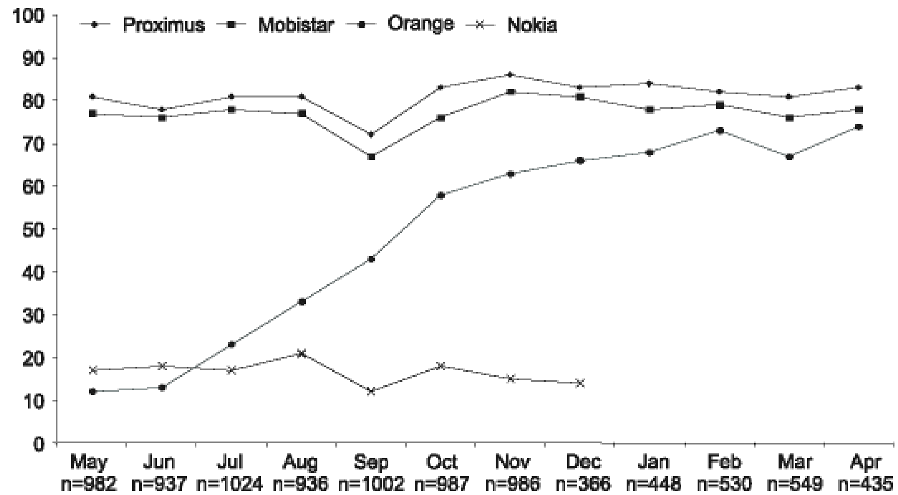


FIGURE 18: BELGIUM – SPONTANEOUS ADVERTISING AWARENESS



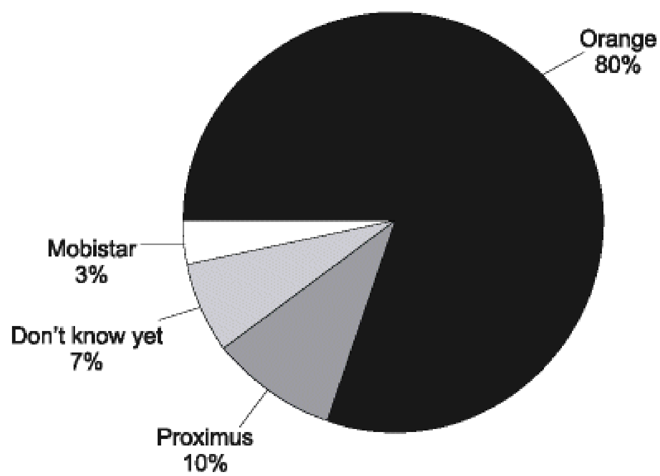
Source: Research International

FIGURE 19: BELGIUM – SPONTANEOUS BRAND AWARENESS



Source: Research International

FIGURE 20: BELGIUM – NETWORK PREFERENCE AMONGST SWITCHERS

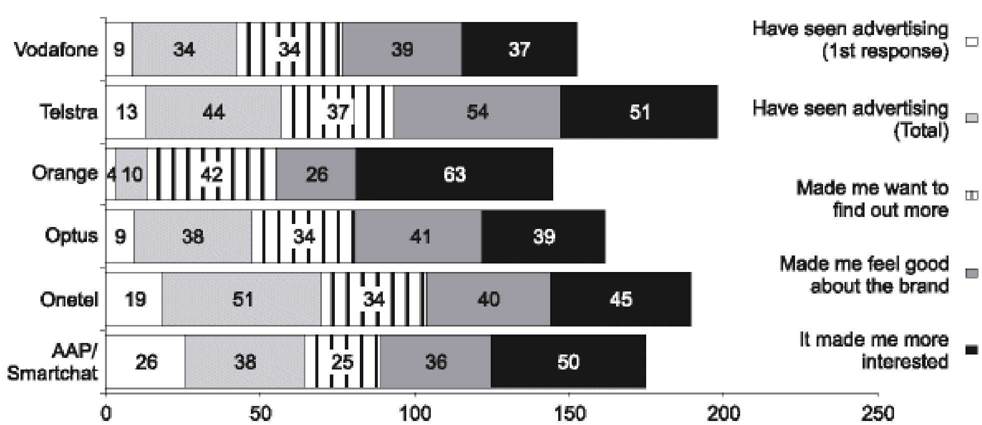


Source: Research International

FIGURE 21: AUSTRALIAN CAMPAIGN

FIGURE 22: AUSTRALIAN CAMPAIGN, SEPTEMBER 1999

FIGURE 23: AUSTRALIA – BRAND EQUITY INDEX, FEBRUARY 2000



Source: Orange, Australia

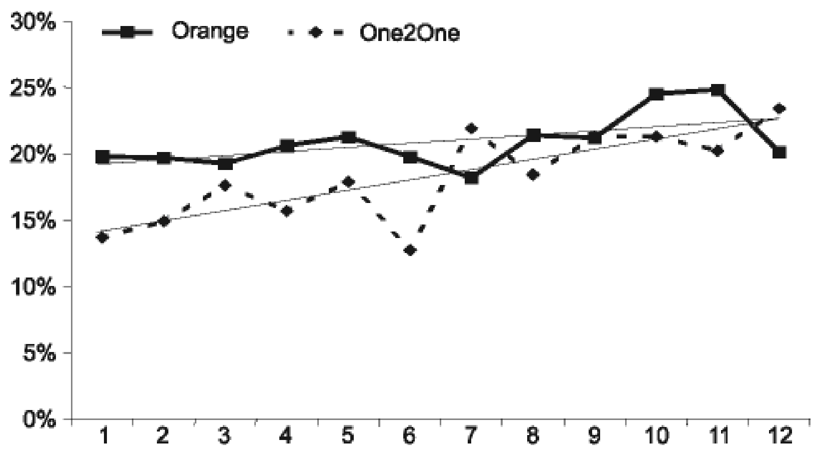
FIGURE 24: MUMBAI MaxTouch CAMPAIGN

FIGURE 25: MUMBAI PRE–LAUNCH CAMPAIGN, JANUARY 2000

FIGURE 26: MUMBAI LAUNCH CAMPAIGN, FEBRUARY 2000

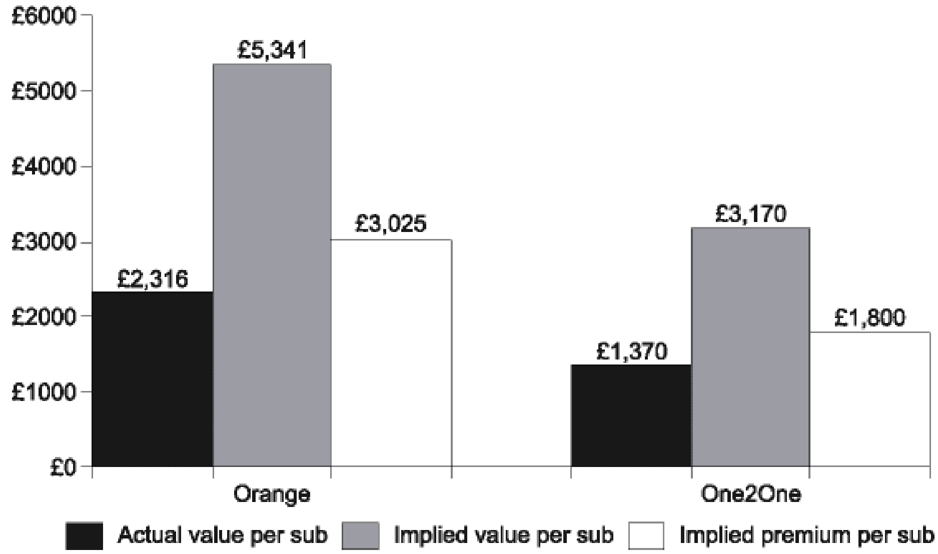
FIGURE 27: MUMBAI LAUNCH CAMPAIGN, FEBRUARY 2000

FIGURE 28: SHARE OF MARKET GROWTH IN TWELVE MONTHS TO ONE2ONE TAKEOVER



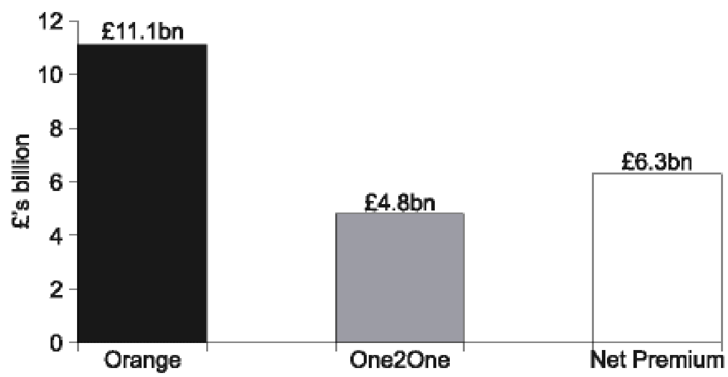
Source: FT

FIGURE 29: ACTUAL AND IMPLIED VALUE PER SUBSCRIBER – ORANGE AND ONE2ONE



Source: FT; Orange Internal Estimates

FIGURE 30: PREMIUM PAID FOR ORANGE (MANNESMANN) VERSUS ONE2ONE (DEUTSCHE TELEKOM)



Source: FT; Orange Internal Estimates