France Telecom and Deutsche Telekom Marry for the Money

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France Telecom and Deutsche Telekom declared the establishment of a procurement joint venture that will oversee almost $13 billion in combined annualised spend between the two groups. Operator partnerships of this type are typically and justifiably met with some scepticism, but on the surface the deal appears well thought-out, clearly structured and highly focused. The greatest risk to the success of the joint venture lies in its execution, but with both partners highly committed to the partnership and sharing well-matched motivations, those risks appear to have been recognised and mitigated.

Nothing motivates like money and the goal of securing €1.3 billion in annualised savings by 2014 will certainly give strong impetus to the joint venture. What is more, the procurement plans announced today only cover the one-third of the two groups' combined annual spend of around €40 billion that is deemed "immediately accessible", a sure sign that there is scope for additional synergies further down the line.

The deal is very much a sign of the times. Europe's largest operators have been cosying up to one another more and more as they seek to strengthen their hands at a time when competitive pressures have emerged from an increasingly diverse range of players, most notably from players based out of Silicon Valley and China. As they roll out smart networks, distribute smartphones to the users, this type of smart industry cooperation can only help to strengthen the negotiating hand when dealing with suppliers that in many cases are also deemed competitive threats to their business.

Although there's an inevitable downside for vendors, things certainly won't change overnight. The joint venture will not be up and running until 4Q11 and will require sign-off from both respective boards as well as, more trickily, from anti-trust authorities in a number of markets where the two operators compete. Furthermore, once the JV is in place, not all contracts will face immediate scrutiny with the operators committing to a step-by-step approach to renegotiate each contract as it comes up for renewal.

The two industry giants also alluded very clearly to the prospect of their "strategic

suppliers" being able to use this change in procurement strategy both as a way to develop more proactive and deeper relationships, but also as a way to sell more efficiently to the operators themselves. A key aim is to speed up the process of bringing innovation to market, whether that's in the form of new technologies, devices or services, and that can only be achieved by agreeing contracts built on mutually-acceptable terms.

The benefits for consumers are harder to pinpoint today, but ultimately will be found through reinvestment of the proposed savings into better performing networks and through bringing smartphones to market faster and, potentially, at lower cost. The deal will affect the purchase of roughly 45 million devices annually across the two groups.

Europe's mobile telecoms industry has just turned thirty and is growing up. As the industry matures, it's started to look outside the borders of the telecommunications sector to understand how other industries have gone through that same process of growing up. In particular, France Telecom and Deutsche Telekom must learn the lessons of best practice from the automotive industry, where strategic procurement deals of this type have long since been common place.

With FT and DT now sharing networks in some markets, carrying out joint procurement across their entire footprint and constantly talking up the benefit of scale, the question of what's next must be asked. As the industry grows up and as operators make the migration to LTE, it's inevitable that further consolidation of operators will take place in Europe. Whilst huge corporate mergers are off the table for now, the prospect of rational consolidation on a market-by-market basis is likely to be very much on the table as discussions take place.

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