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Telsyte: Vodafone and 3 to become "credible No. 3"

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Telecommunications

The merger of Vodafone and Hutchison's 3 creates an entity to take on mobile incumbents Telstra and Optus, serving up to a third of 3G customers, analyst said.

But doubts remain on its ability to become a full-service telco for the lucrative business customer.

The 50:50 joint venture, to be called VHA Pty Ltd, will market its products and services under the Vodafone brand but will retain exclusive rights to use the 3 brand in Australia.

Vodafone chief executive officer Vittorio Colao said to equalise the value difference between the respective businesses, Vodafone will receive a deferred payment of \$500 million from VHA.

Warren Chaisatien, research director at local market research consultancy, Telsyte Research, said analysis based on market data for last June reveals that VHA would serve a quarter of Australian mobile users and 30 percent of 3G customers.

"The combined entity would be relatively strong in the consumer segment with an estimated 25 percent market share, while remaining a small player in the business segment with an estimated share of only 15 percent," he said.

"With Vodafone and Hutchison finding it difficult to grow market share on their own, Telsyte sees this merger as a marriage of mutual interest."

Chaisatien said it gives the telcos a chance to become a "credible No. 3", rather than a trailing No. 3 and No. 4, as they have always been.

"The merger will undoubtedly continue to enjoy unsurpassed brand awareness and innovation in the consumer market," said Chaisatien.

"Nonetheless, various critical issues remain unaddressed, including how the combined entity plans to attack the more lucrative business market and how it will embrace a future fixed-line strategy to compete with full-service rivals Telstra and Optus."

He said it was hard to see how this will lead to more competitive offerings for Australian mobile users.

"A lack of integration between Vodafone and Hutchison's ... networks would also pose a challenge to the companies' operations and, perhaps more importantly, the merger synergy which promises to deliver cost savings and more value to customers," claimed Chaisatien.

It is to be seen if savings will be passed on to customers in the form of more competition and better value. The two telcos have been reliant on price differentiation. Chaisatien said the merged business has its work cut out as it integrates the businesses and readies to tackle full-service rivals.

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