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Hutchison and Vodafone to merge Australian operations

Hutchison and Vodafone are to merge their Australian operations into a 50:50 joint venture, to be named VHA Pty Ltd.

VHA will market its products and services under the Vodafone brand, for which it will pay Vodafone one percent of service revenues, but will retain exclusive rights to use the 3 brand in Australia during a transition period and beyond. To equalise the value difference between the respective businesses, Vodafone will receive a deferred payment of \$A500 million from VHA.

The transaction is expected to close by mid-2009, subject to the approval of the Foreign Investment Review Board, clearance from the ACCC and HTAL shareholders' approval.

The deal will create a stronger mobile operator better able to compete with Telstra but particularly against number two player Optus. It will have approximately six million customers and combined revenues of approximately \$4 billion, for the 12 months ended 30 June 2008.

Initially it will serve at least 95 percent of the population of which 63 percent will have access to 3G services. Plans are in hand to increase 3G coverage to 95 percent. "Economies of scale across procurement, product development, IT, network, commercial operations and administrative expenses are expected to generate strong value and deliver significant cost savings," the two companies said. "The net present value of operating expense and capital expenditure synergies is currently expected to be in excess of \$A2.0 billion, net of integration costs," they said, but gave no indication of how long they expect to take to achieve these savings.

However both companies have long claimed that their membership of global businesses give them strong benefits in procurement, product development and IT. If anything these benefits are likely to be reduced as the new entity is not wholly-owned by either party .

Stronger in consumer than business

Market research firm Telsyte said that the combined entity would serve one in four Australian mobile users, and 30 percent of all 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, Telsyte said.

According to Ovum analyst Nathan Burley, "The operators' customers bases are largely complementary, 3 has strength in postpaid and non-voice while Vodafone has strength in prepaid."

Warren Chaisatien, Telsyte's research director, said: "Telsyte sees this merger as a 'marriage of mutual interest' - a positive move for both companies as it gives them a chance to become a 'credible number three', rather than a trailing number three and number four, as has been the case since their inceptions.

Chaisatien suggested that the merged entity would need to embrace fixed services in order to compete with Telstra and Optus. "The merger will undoubtedly continue to enjoy unsurpassed brand awareness and innovation in the consumer market. 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."

Burley said: "We believe this deal is neither primarily a casualty of the global financial crisis, nor the beginning of a 3G exit strategy for Hutchison, although it may raise prospects of more deals between the carriers. Rather this unique coming together of the third and fourth placed mobile operators in Australia will create a player with enough scale to sustainably compete in the Australian market.

Spectrum will be key

Maurie Dobbin, managing director of consultancy, Teleresources, told *ExchangeDaily* that the merged entity would make important gains in spectrum, including gaining access to 850MHz across Australia which matches that used by Telstra for Next G.

"Telecom NZ [a shareholder in Hutchison Australia] has access to the 850MHz band in country areas and has been debating investments...Hutchison has this in the metro areas." (AAPT, now part of Telecom NZ got the country areas in the auction of the former AMPS-A band and used it for its CDMA network for a number of years.)

Dobbin added "Hutchison has 1800MHz spectrum it has never used and [by merging] they have doubled up on 2GHz spectrum." He said that the merged entity could replicate Next G if it chose, but he suggested the merger was aimed more at countering Optus. "Telstra's strategy is different and will unfold as the NBN rolls out. Next G will be the alternative NBN...It would be much more expensive for Telstra's competitors to match Telstra's very extensive backhaul network."

He added: "I think they will aim to be more competitive with Optus than with Telstra. The name of the game here is access to spectrum. This will be key, particular as we move to LTE. It will be LTE that will be able to deliver the high data rates, particularly that match where the population centres are."

Dobbin said he expected most synergies flowing from the merger would, in the early days be in the areas of sale, marketing and administration. "There will be some horrendous issues in trying the merge the two networks. Vodafone's own network is pretty complicated and includes a joint venture with Optus. - It is going to take years to untangle all that.

Ovum's Burley commented "We believe the Vodafone/Optus joint venture will be simpler to unwind. Since, the 3GIS joint venture between Hutchison and Telstra includes all 2100MHz 3G spectrum and network assets. Vodafone Australia is also building 3G/HSPA to 95 percent of the population, based on 900MHz spectrum, while 3 has a roaming agreement with Telstra for 3G services, at 850MHz, to 96 percent of the population."

Despite the two companies' announcement suggesting that the merged entity would use the Vodafone brand, Dobbin speculated that the 3 brand could live on as 'down market' brand. "You could compare this to Optus and Virgin [Mobile - an MVNO that is owned by Optus]. Virgin uses the Optus network and delivers particular benefits but does not degrade the value of the Optus brand."

IDC Australia telecommunications market analyst, Mark Novosel said: "[Hutch and Vodafone]were pretty vague about what will happen in the long run but said that for now services will continue as they are." He added: "Optus will need to attract as many customer as possible, so the new JV will have to be even more competitive [than its members], at least in the initial stages to prevent Opts from cannibalising its customer base."

Stuart Corner

eServGlobal gives telcos access to 650m social networkers

eServGlobal (ASX: ESV) has launched "a revolutionary social relationship manager (SRM) software," that joins mobile telephone networks with popular Internet social networking sites.

According to eServGlobal, the software - which is compatible with most popular social networking sites - allows telco operators to launch value added mobile services which provide incentive to their subscribers who choose to share their personal profile information. eServGlobal says that, between them the top 10 social networking sites have some 650 million users.

eServGlobal chairman, Ian Buddery, told *ExchangeDaily* "The phone companies are really struggling with social networks and they're being left behind. If you talk to 18,19 and 20 year olds not a day goes by without them being on Facebook, whereas five years ago they would have been on the phone to their friends, now they are on Facebook and this is creating serious revenue erosion for telcos...Today you can get a 3G phone with a browser and log on to Facebook and do all your social networking and all the mobile phone company is doing is providing access to the Internet. They are not adding any value."

Buddery said that SRM represented "a way to get phone companies into the Facebook business that nobody had thought of before." He explained: "Our SRM allows the subscriber to very easily upload their Facebook contacts into a repository in the mobile network or vice versa: to download their phone contacts into Facebook.

"This means that the mobile phone becomes an extension of Facebook, and because the phone company now has access to those connections it can analyse them and then try and get the subscriber to help it recruit those contacts, by offering the subscriber some rewards. It helps the operator build a more loyal subscriber base and build very large networks of friends within their subscriber network."

eServGlobal will demonstrate SRM at the GSM Congress in Barcelona next week and Buddery was confident of early sales. "SRM has been designed to operate on other intelligent network platforms. We can offer it to a customer who has, for example, an Ericsson IN platform rather than pushing our own IN platform and that is a different mode of deployment for this type of software. It means much less capital cost, much less disruption to the network and much faster time to market. There is no reason why and mobile operator cannot deploy SRM and start capturing revenue form some of those 650 million social network subscribers in a matter of weeks."

Stuart Corner