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Analysts: Thodey has major work ahead to turn Telstra around

Telco needs to up its game to turn around a poor showing in its most recent financial results

Tim Lohman (Computerworld) | 11 February, 2010 16:29 | [Comments \(2\)](#)

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Following the release of Telstra's half year results analysts agree the telco's CEO David Thodey has some major work to do to turn the ailing company around.

Foremost among these issues are the massive decline in PSTN revenues, a falling market share in fixed and mobile broadband, and the need to reap tangible returns from the telco's massive investment its IT modernisation program.

According to David Kennedy, research director at Ovum, addressing the rapid deterioration in Telstra's revenue guidance, which in the space of only three months had fallen from single digit growth, to 'flattish', to single digit declines, was of paramount importance.

"This is a consequence of the acceleration in PSTN decline, and demonstrates the sensitivity of Telstra's performance to its PSTN business," he said. "Telstra's PSTN performance has been good by global standards, but its recent deterioration seems to have caught Telstra by surprise."

This also underlined the importance of the NBN negotiations for Telstra, which had the potential to disrupt its entire fixed-line business, Kennedy said.

Commenting on the results, Warren Chaisatien, director at Telsyte said Telstra's broadband revenues were being hampered by both smaller, more competitive ISPs such as iiNet and TPG, and through cannibalisation via Telstra's mobile broadband offerings.

"When it comes to wireless broadband, Telstra is not only canabalsing its fixed line broadband revenues but is also losing share to players such as VHA," he said. "Last Christmas also saw pre-paid wireless broadband dongles come in to play which is attractive for casual broadband users. Smartphones, such as the iPhone, are also being used as wireless modems."

Another issue, Chaisatien said, was the extent to which Telstra had been able to manage its \$13.5 billion IT transformation project.

"My reading is that the transformation project has lost focus," he said. "It was essentially Sol's baby [former CEO Sol Trujillo], and at the time it was announced he had grand objectives, but in reality the integration is much more challenging than anticipated."

"Despite what Telstra says about the integration, when you look at their financial results, they still report in silos - by product division - and that reflects the thinking of the organisation itself. It will take a while to fully integrate and get to that 'one bill, one click' approach."

Following Thodey's comments that a deal with the Federal Government around the separation of the company could be months off, Chaisatien agreed that a deal could be at least six months away.

Concurring that the complex negotiations behind the deal would take a number of months more, Ovum's Kennedy said that uncertainty around the separation of Telstra was effectively becoming the new normal.

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"We've almost gotten to the point where uncertainty around Telstra has become the 'business-as-usual', uncertainty around the NBN," he said. "However, if you look at the number of ULL lines that ISPs are renting from Telstra, we're not really seeing any decline at all. Ericsson is also saying their sales are quite healthy... so the market isn't seeing the uncertainty around Telstra as a reason to stop investing."

Looking to the positives in the results, Kennedy said healthy cost savings from the IT transformation, such as a reduction in the need for labour, going directly to the bottom line was a good sign.

"If this continues as expected in the second half, it will underpin consistent profitability and cash flow performance," he said. "Other good news was that fixed broadband and mobile revenues were resilient. In particular, fixed broadband revenue performance recovered in late 2009, despite its long-term decline in retail broadband market share."

However, Telstra's difficulty in differentiating itself in the consumer market would be an ongoing weakness in the medium term, Kennedy said.

"In addition, ongoing profitability performance will depend on Telstra's ability to keep the cost base moving downwards and using its transformed capabilities to get new customers and higher revenue yield in its major markets."

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REFERENCES

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Comments

1 Old Bob
Thu 11/02/2010 - 17:52

They still dont treat their customers right. About 14 months back my mobile phone came off contract. After talking to Telstra I agreed to a certain plan. About 2 months back my mobile bill increased but I did not know about it because Telstra failed to issue a bill in December. When I got the January bill I could see a price rise. I called them and asked why. It seems that I was put on a 12 month contract that expired In December. All I could say was what contract and why did they not contact me to tell me it had expired. No answer to that. It seems that they still have the old "we are the only game in town" mentality. No apparent customer focus.

The other customer unfriendly trick they pull is when you change mobile plans any blocking of unwanted options, such as international calls and Premium SMS, is removed without warning.

Is it any surprise that people who know there are other suppliers, are finding more friendly telcos.

2 PaulR
Fri 12/02/2010 - 11:25

When I moved to Naked DSL with another telco, it worked perfectly for about a week then just stopped one day. I tried everything with the helpdesk but they ended up having to lodge a truck roll for me. Then I took the dog for a walk and found some Telstra guys in my local pit. So I asked them if they knew anything about my outage. They initially denied anything but then "noticed" that they hadn't reconnected one cable pair in their pit. Guess whose cable that was! I got them to reconnect it and my Naked DSL has been working perfectly ever since. Why would I shop with Telstra when they go spitting chips like that when they lose customers? (they're customers to Telstra, not customers, in my view)

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