

Vodacom takeover of Neotel vital to SA's competitiveness

By [Shameel Joosub](#)

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Public hearings by telecommunications regulator the Independent Communications Authority of SA are due to begin next Thursday to discuss Vodacom's acquisition of Neotel. I believe the takeover is vital to SA's competitiveness.

The final decision will have far-reaching consequences with the potential to either accelerate or inhibit the rollout of high-speed fibre-optic connectivity and next-generation mobile services in SA.

It is therefore important that the parties involved focus on the positive effect this transaction would bring to the consumer and to the country as a whole.

It might help to start with the basics of the transaction in question.

In May last year, Vodacom announced it had reached an agreement to purchase 100% of Neotel for an enterprise value of R7bn.

On the face of it that sounds a lot like a big company buying out a smaller competitor, which cannot be good for competition or the consumer. Right? Well, no.

Vodacom primarily supplies mobile services to consumers while Neotel's bread and butter is supplying fixed-line connectivity to businesses.

A common network

The key thing that both companies have in common is a network of fibre-optic transmission cables; in Vodacom's case, the fibre connects our mobile base stations while in Neotel's case the fibre connects businesses.

Combining these two companies would enable Vodacom to focus on getting fibre connections to more homes and businesses.

The end result will be an acceleration of the roll-out of "fibre to the home" and "fibre to the business" solutions.

This is exactly what the government has highlighted as one of its key objectives for national broadband in SA.

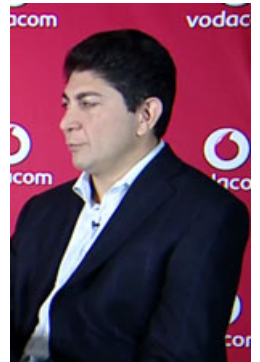
The combined entity would also be able to supply enhanced business services that would provide a strong contender to the incumbent, Telkom.

This transaction would be good for competition, good for businesses, good for the consumer and, crucially, would support the government in its goal to get SA connected with high-speed broadband.

Some interesting objections...

So why are there objections to the deal?

Some of the objections raised so far are interesting in that they highlight that, by acquiring Neotel, Vodacom would be able to roll out next-generation mobile services faster than would otherwise be possible.



Shameel Joosub: Vodacom is simply asking that it be allowed to see through the acquisition of Neotel in order to roll out services and increase competition in the telecommunications sector. (Image extracted from Vodacom video)

It was even conceded in a competitor's submission to the telecoms regulator that, due to this transaction, "consumers will benefit from the earlier and cheaper availability of LTE/4G in SA".

Rather than focusing on the benefit to consumers opposition to the deal is based on a concern that, by combining Vodacom and Neotel and accelerating the roll-out of next-generation services, this would give Vodacom a first-mover advantage.

I do not want to dwell on negative issues because there is far too much to talk about in relation to this deal that is good for SA but I would like to tackle this one point.

The implication of this is that no single operator can progress unless all operators are ready to progress equally and that the whole industry moves in lock-step.

Imagine if that were applied to the airline industry - no airline would be allowed to fly Airbus A380 jets to Johannesburg unless all airlines did. This view will put the consumer last, not first.

Good company, good people, but good funding needed

Coming back to the logic behind the deal, Neotel is a good company with great people, but it needs considerable investment to be a serious competitor in the fixed-line business. It was this understanding that caused the owners of Neotel to start a sale process.

Vodacom was successful in that sale process because it is willing to pay the purchase price, confident of achieving synergies, and because it realises the potential of being able to play a meaningful role in fixed-line communications.

On top of this, by stepping up to the plate and pledging to put significant investment into Neotel, Vodacom is doing something that no other company has offered to do.

By combining these companies and increasing investment, we will be able to accelerate the rollout of fibre-based broadband services to customers.

Yes, those services will compete with those offered by other companies and, yes, over time this will drive down the cost of communications, which is perhaps why there is opposition to the deal, but that can only be positive for the consumer.

More important, this deal talks to the competitiveness of the nation as a whole.

Fixed line a bottleneck

In a recent report by the GSM (Groupe Speciale Mobile) Association of mobile operators, mobile data usage in sub-Saharan Africa was predicted to go from less than 40 petabytes a month (one petabyte > 1-million gigabytes) in 2013 to nearly 800 petabytes a month in 2019. That is a twentyfold increase in data usage over just six years.

While mobile data usage is booming, fixed-line connections are a major bottleneck. To catch up with developed economies, we need to take fixed broadband penetration in SA from the present level of about 7% of all households to about 75%, which is the case in the US, Japan and the major European economies.

It will take investment running into tens of billions of rand to close this gap.

Vodacom has clearly demonstrated that it is willing and able to put major investment into SA, spending about R8.5bn in the present financial year and looking to spend a similar amount next year.

Once the acquisition is approved we can get on with investing meaningfully in Neotel as well. With this in mind we don't

think it is an exaggeration to say that this transaction is crucial to the future competitiveness of the nation as businesses and ultimately jobs will migrate to whichever countries are able to offer the best infrastructure.

Kenya leads the pack, but SA could have...

On the subject of SA's competitiveness, last month Kenyan mobile operator Safaricom announced the launch of commercial LTE-Advanced services that can deliver speeds of up to 300 megabits a second. For the non-techie what this means is that Kenya has true 4G mobile services with the potential to operate at speeds many times that of the fastest LTE services in SA.

The irony is that SA could have been there first. We announced in November that we had completed the investment programme to upgrade all of our base station radio equipment to 4G-ready and the only thing that is holding us back is access to spectrum.

It is clear that as a company and as an industry, we need to keep moving if we are going to keep up with the pace of technological change.

Pulling it all together Vodacom is simply asking that it be allowed to see through the acquisition of Neotel in order to roll out services and increase competition in the telecommunications sector.

The simple fact is that if the transaction is approved our ambition would be to roll out more than 1-million fibre-optic connections within a reasonable time frame.

That's more than the number of old- technology ADSL lines that the incumbent fixed-line operator, Telkom, has managed to deliver in the past 20 years.

The government has set a goal of delivering broadband coverage to 50% of all households by 2020 and 100% by 2030.

The decision based on these hearings will have a concrete effect on whether we are able to play our part in helping achieve this and in so doing having an effect on the competitiveness of our country as a whole.

Source: *Business Day*, via *I-Net Bridge*

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