

# Telkom plans to cut R1bn in costs a year

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Telkom aims to cut R1bn in costs every year for the next five years as it restructures its business to revive its fortunes and unlock shareholder value, chief executive Siphon Maseko said.



Telkom's Siphon Maseko says he will start negotiating with unions next week over possible job cuts. Image: Telkom

He said that Telkom will be unable to avoid cutting jobs.

"This is a politically sensitive issue for the company which has in the past failed to reduce the ratio of staff to revenue through forced retrenchments due to fierce opposition from labour unions," he said, adding that in recent years it has offered staff voluntary and early retirement packages.

In an interview with Business Day, Maseko said he would begin consulting with trade unions next week on possible retrenchments at the company.

"It's clear in my mind that Telkom will shed a bit of weight. We are way out of shape in so far as the revenue-to-staff ratio is concerned. We will have much more thorough conversations," Maseko said.

Telkom has said before it may cut staff at management level.

The company is in the process of implementing a multi-year turnaround strategy that has so far seen it transfer the management of its mobile network infrastructure to MTN, impair its legacy fixed-line network by R12bn, and sell loss-making Internet service business iWayAfrica.

For the six months to September last year, Telkom's group operating expenses were up 2.5% to R12.5bn. In the year to March last year, its operating expenses increased by 40.6% to R43.9bn because of a number of one-off costs including the

R12bn impairment of legacy assets and R434m for voluntary severance and early retirement packages.

Munonala Asset Managers research analyst and portfolio manager Farai Mapfinya said this was theoretically possible but it could be Maseko's "biggest hurdle in his short tenure to date".

"Most of the cost savings would require staff cuts," Mapfinya said, adding that management gave an earlier forecast that it would look to reduce the head count by 33% over the next five years, which was equivalent to about 7,000 jobs.

"While that may not be sufficient to rationalise Telkom's head count because of some legacy issues, we think this move could still face fierce resistance from trade unions," said Mapfinya.

The partnership with MTN will see the two companies roaming on each other's networks and will result in significant cost savings for Telkom.

Maseko said the infrastructure sharing with MTN would bring forward Telkom Mobile's break-even target by a year. Telkom would file the partnership details with the Competition Commission within weeks.

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