Vodacom moves into climate change

When Vodacom finishes buying Neotel, SA might finally have SNO for Christmas. It's an old joke from the days when the so-called second network operator (SNO) was announced, oh, somewhere in the mists of time, or 2003.

This fixed-line competitor to Telkom was supposed to provide competition in landlines.

The SNO gag appeared in countless headlines - "No SNO for Christmas" was the favourite - and somehow represented the abortive process in which Neotel was formed, using the telecommunications assets of Transnet. The various bidders were at each other's throats and sued the successful one, resulting in a ludicrous compromise including parts of the loser.

By the time Neotel eventually made it to market, it was a shackled beast with little hope of taking on Telkom - or providing a decent service to the few customers who crossed over.

In the meantime, the world had shifted to using broadband, or what little was available from the state-protected Telkom, which quickly locked its lucrative business customers into long contracts.

Using wireless technology to overcome the problem of not having a copper wire into its customers' premises (called the local loop or last mile), Neotel was beset more by the problems cellular networks face than those of fixed-line operators.

The majority Tata-owned Neotel never stood a chance.

Last mile infrastructure

Telkom's vast last-mile infrastructure, which still hasn't unbundled and is as contentious now as it was then, is a strategic advantage Neotel has never been able to overcome. Various attempts at using wireless alternatives, which are advanced but never as reliable as a wired line, have been tried. Now the wireless technology that the cellphone operators are using, LTE, is available.

The anti-competitive local-loop problem (the infrastructure was paid for with taxpayers' money) will take another year to be resolved.

Given the strange consortium, unreasonable market conditions and sometimes bizarre business plans, the imminent buyout by Vodacom is not only good for the Vodafone majority-owned operator but must be a relief for Neotel's shareholders.

Current chief executive Sunil Joshi is a smart, urbane and clear-thinking businessman who clearly understands how to compete with the resources and constraints Neotel has been hobbled with.

For Vodacom it's a strategic win that will also be good for telecommunications in general. To talk of the merger being anti-competitive is moot because, as World Wide Worx analyst Arthur Goldstuck suggests, Neotel never effectively competed against Telkom.

Vodafone keeps eye on Africa

It also fits Vodafone's overall strategy.

Vodafone has just sold its US assets, a 45% stake in Verizon for US$130bn, and plans to use the estimated US$30bn left over after returning cash to its investors to bolster its European operations and emerging markets like SA and India.

In Europe, Vodafone has been buying up cable and other networking companies, clearly understanding the video-intensive future of communications will require cabled infrastructure. The future for the world is in delivering content (of which voice calls are an ever-decreasing portion) to data-hungry consumers, most of whom will be devouring it on their mobiles.

In SA, Neotel's extensive infrastructure, especially fibre, allows Vodacom to leap out of the doldrums created by the past two decades of Telkom protectionism. (Telkom's current leadership appears to understand something no-one else at Telkom has in the past: that little thing called profitability). This deal will arguably provide Telkom with the first real SNO competition.

Super-fast fibre-optic networks are the future of our digital, always-on, social media-driven world. SA consumers should be smiling.

Source: Financial Mail via I-Net Bridge