U3149399

PPIT (6676) ASSIGNMENT – UNIVERSITY OF CANBERRA

Industry analysis report

on

vodafone hutchison australia

**Professional Practice in IT**

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Table of Contents

[Overview of Australian Telecommunications Industry 4](#_Toc481075407)

[Vodafone Hutchison Australia 5](#_Toc481075408)

[Company Information 5](#_Toc481075409)

[Products and Market 5](#_Toc481075410)

[Strengths 6](#_Toc481075411)

[Weaknesses 6](#_Toc481075412)

[Opportunities 7](#_Toc481075413)

[Threats 7](#_Toc481075414)

[Recommendations 8](#_Toc481075415)

[Conclusion 8](#_Toc481075416)

[References: 9](#_Toc481075417)

# Overview of Australian Telecommunications Industry

As with any country, telecommunications play a vital role in Australia and Australian society. Internet first became available in Australia to Australian universities in 1989 via the Australian Academic & Research Network (AARNet) (Clarke 2004). Ever since, the industry has grown to include different services like broadband access, mobile broadband, fixed line and mobile telephony and host of other services riding on core technologies like cable, satellite, submarine cables and optical fibre. In 2016, the telecom industry revenue has reached over $42 billion (Harpur, 2017a).

There are numerous players in the Australian Telecom industry. The first-tier scene is dominated by Telstra Corporation Limited (Telstra), SingTel Optus (Optus) and Vodafone Hutchison Australia (Vodafone). Amongst the three, Telstra dominates the market, with over 50% market share (Harpur, 2017a). First-tier providers are those with their own networks. Second-tier providers are those that buy access from first-tier providers. Second tier providers in Australia include Macquarie Telecom, Vocus M2, Nextgen Networks (Nextgen Group), TPG Telecom (iiNet) (Budde, 2016). This shows that mobile services in Australia is highly competitive and rapidly growing industry.

Harpur (2017b) points out that by late 2016, mobile penetration in Australia has reached 143%, which is fuelled by increase in population and consumers migrating from fixed line to mobile phones. The report goes on to show that the user base is concentrated on 3G plans which is gradually losing ground to LTE (Long Term Evolution) due to growing reach of LTE network and availability of affordable LTE-enabled smartphones.

This Industry analysis report intends to obtain a better understanding of Vodafone Hutchison Australia (Vodafone) focusing on its services and market and analysis on its strengths, weaknesses, opportunities and threats and will provide recommendations on potential areas of business partnership with the company.

# Vodafone Hutchison Australia

## Company Information

Vodafone Hutchison Australia (VHA) (hereafter referred to as ‘Vodafone’ in this report) is a 50-50 joint venture between Vodafone Group Plc and Hutchison Telecommunications (Australia) Limited and founded in 2009. It is the third largest telecommunications company in Australia and offers mobile voice, text and data packages to individual and business customers (Vodafone, 2017).

Vodafone, as part of its ethics and corporate responsibility focuses on safe and secure use of mobile devices, making their products and services accessible, and managing their impact on the environment. Besides, VHF also focuses on improving health of Australians through technology and has till date donated $26 million on technology and research in the field of cure for cancer (Vodafone, 2017).

In its offices in Sydney, Melbourne, Brisbane, Adelaide, Perth, Hobart and retail stores throughout Australia, Vodafone employs around 3000 people. Vodafone also employs around 330 engineers to look after network and other infrastructures round the clock. The company considers its human resource as the secret to creating a sustainable business. As a high performance values based organization, Vodafone makes significant investment in its people to maximise performance and productivity. As professionals, people working in Vodafone are encouraged and expected to work and behave in line with its business principles and ethics (Vodafone, 2017).

## Products and Market

Over the years, Vodafone has built and operated various mobile networks based on relevant technologies of the day. It provides its services through GSM, 3G and 4G networks. Its 4G network is one of the largest in Australia. The network is upgraded constantly to meet user need and technology change. The network is accessible from all major Australian metropolitan areas and regions. As part of Australian Government’s Mobile Black Spot program and in line with the company’s mission to provide better coverage and choice to regional Australia, Vodafone is building 74 new towers in New South Wales, Queensland, Victoria, Tasmania and Western Australia at a cost of more than $20 million. This is expected to bring about innovation and productivity benefit to regional Australia (Vodafone, 2017).

Harpur (2017c) points out that in January of 2017, Vodafone started working on a large project to transform its network, which involves virtualizing both its core and IP networks in transition to a 5G network. The report goes on to state that this project is expected to be completed in 5 years. The work of virtualizing its core and IP networks has been outsourced to Ericsson and Cisco systems (Vodafone, 2017).

Vodafone caters services mainly to individual and business customers. For its individual customers, Vodafone provides its services in form of Mobile Phone Plans, Sim Only Plans and Prepaid Plans. All these plans include mobile voice and data services. For businesses, in addition to the above plans, it also provides mobile broadband plans (Vodafone, 2017). To attract more consumers, Vodafone provides customer friendly propositions such as $5 Roaming and $0 Roaming to New Zealand and red plan products (Vodafone, 2017).

Vodafone is taking a lead role in developing cyber security infrastructure in Australia. Player (2016) reports on a multimillion-dollar partnership between Vodafone and two other companies namely, Dimension Data and FireEye, to build its first Cyber Defence and Response Centre (CDRC). Vodafone’s CDRC will provide cybersecurity related services like event and threat monitoring, intelligence and threat protection and security incident response. Once completed, the infrastructure is expected to protect the company’s critical information, infrastructure and intellectual property from cyber criminals. The report quotes Vodafone’s Chief Technology Officer, Kevin Millroy, stating Vodafone’s objective of its upcoming CDRC ultimately helping to protect national security and economic prosperity of Australia from online threats.

As a dynamic telecommunications company, Vodafone is leading research into next generation of mobile technology by running lab trials and demonstrations on 5G technology. By drawing on technical expertise of the global Vodafone Group, Vodafone is also leading innovation and research in the field of Internet of Things (Harpur, 2017c).

Vodafone (2016) provides the latest statistics on Vodafone’s market and earnings. In 2016, its customer base grew by 2.3% to 5.56 million and revenue (excluding Mobile Termination Rates) increased by 5.7% to $3,211 million. In the same year, Vodafone’s EBITDA (Earnings before interest, tax, depreciation and amortization) increased by 12.2% to $912.1 million. The report also states that for the first time since 2010, the business was free cash flow positive.

## Strengths

Vodafone’s network infrastructure is well established and expanding at an increased rate. On top of that it has an impressive distribution and sales network in Australia. The global Vodafone group is a leader in innovation in many technology related fields. This knowledge based could be used by Vodafone in improving its network, rolling out innovative products in the market and conducting research which will help them favourably against competitors.

## Weaknesses

Some events and business decisions that Vodafone took in the last ten years has resulted in several low points for the company. After its formation in 2009, Vodafone commenced work to integrate its infrastructure with networks and systems 3 Mobile. Harpur (2017c) states that due to poor management of integration works and other business shortcomings, the company saw a disastrous network failure in 2010, which led to customers moving to other service providers. This in turn affected the company’s financial earnings for many quarters in succession. The report further points out that as a result of the events in 2010, the company faced difficulty in coming up with an effective investment strategy to manage its problems and difficulties.

Lancaster (2015) draws attention to a decision by Vodafone, where it pointedly did not bid for spectrum asset, when the Australian government opened bidding for the 700 MHZ spectrum asset in 2013. Its two biggest competitors, Telstra and Optus, participated in the bid. As a result, Telstra and Optus, as concession holders of the 700 MHZ spectrum asset, has been able to utilize it to improve and expand their networks and services. This decision from Vodafone has negatively impacted the company and limited its ability to expand and improve its network infrastructure and services. The issue of lack of 700 MHZ spectrum has however been resolved when Vodafone acquired 2 x 5 MHZ of 700 MHZ spectrum auction in 2016, after it submitted proposal to the government in 2015 (Vodafone, 2017).

Telstra and Optus both have extensive fixed-line infrastructure in Australia, through which they provide fixed line telephony and data services. This has enabled them to diversify their services. They are also able to make use of their fixed-line infrastructure to take advantage of efforts of National Broadband Network (NBN) to extend their fixed-line network and services. In contrast, Vodafone still lacks fixed-line infrastructure in Australia (Lancaster, 2015). As such, it is not in a position to provide mobile and fixed line bundled services to attract customers. Lancaster (2015) highlights the position of Vodafone on the fixed line issue, where the CEO of Vodafone group is quoted as saying that the company has no plans to invest and enter into fixed-line sector and instead it would be focusing on improving the existing mobile infrastructure. In view of its weaker position in mobile network as well as lack of fixed-line infrastructure and services, Vodafone is at a disadvantage compared to its two major competitors in the telecommunications sector in Australia.

## Opportunities

The growing population of Australia provides an increasing market base for telecommunications services. With the change in way people work and interact, the demand for telecommunication products and services for individuals, families and business are increasing both in terms of volume and sophistication. The Income level of Australian population is also constantly increasing. This translates into a user base which can afford varied products and services.

Avenues to reduce cost is an opportunity for any business entity. Vodafone can outsource certain aspects of its operations overseas to reduce costs and increase revenues.

At present, the scale and coverage of Vodafone’s network is smaller compared to Telstra and Optus. Making use of the Government’s National Broadband Network could help the company remedy this situation. Allen & Overy (2011) mentions how telecom service providers could gain nation-wide coverage by making use of NBN’s Layer 3 whole sale service. The report goes on to show how efforts of NBN will make a level playing field in the telecom sector by eliminating network scale and ownership as competitive advantages. What this means is Vodafone could achieve the same level of network reach and scale like the one currently being enjoyed by Telstra, by making use of services provided by NBN.

## Threats

The telecom sector in Australia is dominated by big players like Telstra and Optus. It is not uncommon for sector leaders to acquire other players to consolidate their position and diversify service offerings. Lancaster (2015) points out that in an increasingly consolidated market, bigger competitors may try to acquire Vodafone in order to add Vodafone’s services to their existing offerings.

Other areas of threats could arise from change in government rules which could possibly turn out to be unfavourable to Vodafone. A few examples of these are, adoption of new telecom regulations, change in taxation policies, and change in immigration laws related to foreign workers. One such change is already evident as reported by Baxendale (2017) on abolition of visas for skilled migrants.

## Recommendations

In view of the above analysis on Vodafone and given the current state of market for telecommunications services in Australia, going into a business partnership with Vodafone is expected to result in profitable outcome for all partners. Investors could focus on developing business partnerships in the areas of network infrastructure development, research and development of new technologies and introduction of innovative services. Riding on infrastructure developed through NBN, Vodafone and partners can roll out many kinds of services that can reach almost 100% of Australia’s geographic area and population. Partnerships with Vodafone could also diversify their business and work towards creating products and services based on concept of Internet of Things considering Vodafone’s leadership and knowhow of the technology.

# Conclusion

Vodafone is a promising telecommunications company in Australia with a fairly well established infrastructure catering to its customers. It is also supported by its research into innovative technologies.

This Industry analysis report has looked broadly at the telecommunications sector of Australia which is dominated by three companies namely, Telstra, Optus and Vodafone. The report then looked at various aspects of Vodafone including company information, its products and market base. A SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis is done based on which few recommendations were made for possible areas of business partnership.

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