

# Japan remains Vodafone's Achilles heel

November 15 2005

---

As the world's biggest mobile telecommunications provider, Vodafone has been the darling of British industry. That vaunted status, however, was challenged Tuesday with the company's announcement of less-than-stellar earnings in large part due to its lackluster performance in Japan.

Earlier in the day, Vodafone reported its earnings for the first six months of this year and announced that its net income tumbled 23 percent from the same period a year ago to about \$4.83 billion, considerably below analysts' expectations.

Shares in Vodafone plunged 10.9 percent Tuesday, while the benchmark FTSE 100 index fell 0.6 percent to end at 5,439.60, largely as a result of the disappointing news from one of the country's leading companies.

Yet while investors were quick to sell off the company after the latest earnings result, Vodafone itself remained upbeat about its longer-term prospects, even as it acknowledged that prospects in the medium term might be rocky, particularly in the Japanese market.

"We continue to outperform our competitors in most of our markets as we leverage our global scale and remain focused on delivering our strategy for growth," stated Arun Sarin, the company's chief executive.

To be sure, expansion has not been a problem for Vodafone. During the six-month period ended Sept. 30 the company added 10 million subscribers, representing an annualized growth of 13 percent and bringing the total number of Vodafone users worldwide to 171 million.

Indeed, the company reported that sales rose 9 percent from a year ago, even though it also warned that growth and profitability would likely decline through to early 2007.

Sarin reported that the "core European footprint is delivering solid growth and broadly flat margins. Given the competitive intensity of the European markets and our continued push for new customers ... this is excellent progress."

At the same time, the company is expanding rapidly beyond Europe, having recently extended its outreach to India and acquiring a firm foothold in South Africa as well. In other industrialized nations where the mobile-phone market remains particularly cut-throat, however, Vodafone is not performing as strongly as some industry analysts had hoped.

In the United States the company has an alliance with Verizon Wireless that has "led to continued strong double-digit service revenue growth, with some associated margin impact. Given the development of the U.S. market and market leading position enjoyed by Verizon Wireless, we are supportive of this strategy," Sarin said.

Japan, on the other hand, has proved a more difficult market in which to succeed. Unlike in the United States, Vodafone has not tied up with a local provider and instead has opted to market itself solo. It has, however, faced considerable competition from Japanese carriers including NTT DoCoMo and KDDI.

Indeed, the company reported that its profit margins in Japan fell by 6 percentage points and cautioned that there could be another "significant reduction" in the year to March 2007. Furthermore, Sarin said in a conference call with analysts and reporters that Vodafone has and will have to continue to spend heavily in the Japanese market to win over

customers from its domestic rivals, with no plans of retreating from the competitive country.

"Japan is a strategic asset for Vodafone as the customers we have there are very mobile-centric and we learn a lot from them," the chief executive said, even though the company added only 5,000 new subscribers in a country where the market increases about 200,000 each month.

Yet Sarin remained upbeat about the company's strategy to continue expanding in overseas markets, including acquiring stakes in foreign carriers.

"We will continue to focus on selective acquisitions and these recent announcements highlight our strategy of investing in growth markets," Sarin said, and the company actually officially announced it would increase its interim dividend payment by 15 percent amid expectations of improved earnings in the longer term.

*Copyright 2005 by United Press International*

Citation: Japan remains Vodafone's Achilles heel (2005, November 15) retrieved 7 May 2024 from <https://phys.org/news/2005-11-japan-vodafone-achilles-heel.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--