

Globe Talk: Vodafone's sayonara problems

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The deal is not yet sealed, but expectations that Vodafone will abandon operating in Japan have already been welcomed by industry analysts. But while retreating from the competitive Japanese market might be a smart move on the part of the British mobile group, there is already speculation that the company might consider withdrawing from other countries too, most notably the United States.

Last Friday the British mobile-phone group acknowledged that it was in talks to sell off its Japanese unit to local technology giant Softbank headed by Masayoshi Son. While the announcement took many by surprise, it has been no secret that Japan has been a particularly hard nut for Vodafone to crack over the years.

"Vodafone has been struggling with its Japanese unit for some time and attempts to turn it around have so far met with limited, if any, success. This has frustrated Vodafone's management and investors alike," said Robin Hearn, principal analyst at London-based technology research group Ovum.

Vodafone itself bought a controlling stake in Japan Telecom five years ago, a move that many both inside and outside of the country had been skeptical about and ultimately correct in their assessment. So even as Vodafone has stepped up its presence beyond Western Europe, with its expansion into India being one of the most talked-about in the industry in recent months, its anticipated retreat from Japan is hardly surprising to most.

Yet such cynicism about Softbank becoming the new owner of the mobile giant's Japan unit is scant, as investors have largely welcomed the prospect of Softbank buying up Vodafone's Japanese operations, even though it too will face formidable opposition in trying to make headway in what is one of the world's most competitive mobile-phone markets. One advantage that Softbank will have is that it bought out the fixed-line operations of Japan Telecom in 2004, in addition to being a domestic company that has an intrinsic understanding of the local market. Vodafone currently has 15 million clients in Japan in a market estimated to be worth over \$79 billion (8 trillion yen).

"An acquisition of Vodafone's Japan operations will be the completion of Softbank's march to build a full-scale telecommunications group on par with NTT and KDDI through a series of acquisitions plus internal growth," thereby making it a formidable competitor against the two Japanese mobile giants," said Gerhard Fasol, head of Eurotechnology, a technology consultancy group based in Tokyo.

"Softbank is strongly linked to Yahoo! Japan, and Yahoo! Japan demonstrated it's strength by driving eBay out of Japan -- so Softbank is already where DoCoMo and KDDI want to go. All Softbank still needed was a wireless network, and with a Vodafone acquisition, Softbank will have a wireless network much faster than expected," Fasol added.

Meanwhile, Ovum's Hearn too expressed his optimism about the deal on Softbank's part.

"Softbank makes a good buyer. It has a longstanding ambition to enter Japan's mobile market, and already owns a license. Acquiring Vodafone Japan would speed its market entry and give it a foothold in a market dominated by DoCoMo and KDDI. Of course it also needs to do rather more with it than Vodafone has been able to. Vodafone meanwhile would shed a unit that it just doesn't seem able to fix, and which

certainly doesn't fit within the profile of the Vodafone investment portfolio. It might also buy Vodafone's management just a little respite after a very rough ride over the past few months," he said.

The problem instead is with Vodafone, which has had problems making headway not only in Japan, but also in the United States as well, where it has a 45-percent stake in Verizon Wireless.

Furthermore, Hearn said Vodafone Chief Executive Arun Sarin "has come under even more pressure to do something about either -- or both -- of the company's positions in Japan and the United States. So much so that without some form of positive action, there are those that have said that his position would become untenable."

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