

Interview: David Thodey of Telstra

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New CEO David Thodey is rebuilding relationships with the Australian government and the regulator after Sol Trujillo's lively occupation of the role, but he remains concerned about the commercial viability of the country's national broadband network



Thodey: priority to start to re-establish relationship with government and the regulator

Just a few months after taking control of the Australian incumbent, Telstra, David Thodey is out on the road meeting investors around the world. In May 2009 he succeeded Sol Trujillo, who had been CEO for almost four years until he headed back to the US.

They were momentous years in Telstra's life: years that saw the company take what is probably the world's leading position in wireless broadband — but also saw incessant sniping, and worse, between the company on one side and the Australian government and media on the other.

Thodey is different from Trujillo. "I think I like getting things done with people," he says to Global Telecoms Business. "I like to find the right solution."

He spent most of his career in IBM, working up from systems engineer to be CEO of the company's operations in Australia and New Zealand, until he left for Telstra on a high note just after IBM sponsored the 2000 Olympics in Sydney.

With 30-odd years in the industry "I have a strong operational sense about the business", he adds.

“The other thing: I’m Australian,” he adds. “I use that line because it’s nice and factual.”

For most telecoms companies that shouldn’t matter: after all, Indian executives have run Vodafone and Orange, a Dutch executive ran BT, a Croatian heads VimpelCom in Russia, and a British executive is in charge of Telecom New Zealand.

Australia seems a bit touchy about such things, though. When Trujillo hired former colleagues from the US to join him at Telstra, the press called them “the three amigos”. Even though Trujillo was the only one who was Hispanic American it was still a loaded term.

And when Trujillo left, prime minister Kevin Rudd said: “Adios”, a term some took to be racist.

Thodey is clearly nervous about the “I’m Australian” line. Can one draw conclusions? “No, I didn’t draw any conclusions.”

First priorities

But that leads to a question about his priorities on taking over from Trujillo. Two things, he says: “One, to start to re-establish relationship with government and the regulator, which was decided by myself and the board, so was very important.”

Then, “to really start to drive a focus on customer service”, he adds. “Those are the two big things.”

But he wants to stress that he’s not criticising Trujillo. “All the great foundations that Sol established in the company — around market-based management, technology leadership, value-based offers in the market and differentiation — continue. I’m just layering on a couple of extra things.”

How challenging was that relationship with government and the regulator that he is seeking to rebuild?

There is — as Trujillo found to his cost — something of an aggressive political climate in Australia. “Y-e-s,” hesitates Thodey. “I would say there is a good opportunity to improve the relationship, and I think there’s a willingness on both sides to come to the table and see if we can find a resolution.”

There’s a “but” lurking here. There’s also an appreciation on both sides, he says, that his only responsibility is to Telstra’s shareholders. And this is something about which he is clear throughout the interview.

The Australian state is a minority shareholder in Telstra, through an arms-length investment fund, the Future Fund, which now holds 10.9% — after selling about a third in August 2009 for just under US \$2 billion.

The reduction in holding was “a good outcome for everybody”, says Thodey. “It was not a surprise to us. The Future Fund had signalled to us they were not a long-term holder.”

The Future Fund said at the time that it would sell no more shares for 180 days — which puts the next possible sale in February 2010. It’s a pension fund for

government employees, run by a board of guardians rather than a minister, and is not an instrument of government policy. "It is acting in the best interests of its members," he says.

International business

Telstra is very much an Australian operation, with only 10% of revenue earned internationally — and that includes Hong Kong's mobile operator CSL, a competitive operator in New Zealand, a share in the largely Asia-Pacific wholesale operation Reach, interests in China and a UK-based European business, largely focussed on enterprises.

"We are building out from our core IP network, primarily in Asia and going from Asia to Europe and back. That is our focus. We're building data centres, and working on cloud computing, which is an area we think attractive. We will serve other customers in locations where we are."

There's a continuous review of the domestic business that Telstra does outside Australia — that is, with local customers. "We want to provide a point of differentiation, so we can get the right returns," he says.

And that means playing in a highly competitive market. The margins are "nowhere near what we get in Australia as the incumbent", he says. But the company is earning "good returns" from its European data centres "and I think we will continue to focus on that area".

CSL is an intriguing company. It works in the highly competitive Hong Kong mobile business, and is pushing LTE — the mobile industry's "long-term evolution" from 3G to the fourth generation of technology — vigorously, working with ZTE as a vendor.

Mobile broadband

But LTE has not so far been an interest for Telstra's high-speed Next G mobile network in Australia. "It's true, but for a good reason: we have access to spectrum in Hong Kong whereas that spectrum has not been made available in Australia yet."

So in Australia Telstra is pushing the limits of HSPA+ — the souped-up version of 3G's high-speed packet access — as far as it will go.

"We'll go to 42 megabits a second in February," says Thodey. "We're 21 at the moment and we're going to 42." That's the peak rate, "in certain areas", he's careful to add.

But he seems keen on LTE, when the right spectrum is available — and that depends on the ending of analogue TV transmissions so some of the bands can be used for digital services. "It's sort of within the next two years," he adds. "Two to three years."

Maybe a bit longer — the current deadline for analogue TV switch-off in Australia is more than four years away, at the end of 2013. And LTE would be a natural use for that spectrum? "At the moment, it's on our roadmap," says Thodey. "That would be our intent."

Meanwhile the current HSPA+ speed of 21 megs has "an effective rate of six to seven megs", he notes. "What do people use it for? It's amazing how quickly people do find uses."

So when the speeds are even faster, “I like to think there’ll be business applications around them”.

National broadband

Meanwhile Australia is making great strides in fixed as well as mobile networks. At the centre of this is a government-sponsored project called the National Broadband Network, a carrier-neutral venture which will be designed to connect 90% of homes by fibre.

In July 2009 the government named as executive chairman of the NBN company former Alcatel COO Mike Quigley — who left the company in 2007 after the merger with Lucent and was briefly tipped to replace Pat Russo as CEO in 2008, the job Ben Verwaayen got.

Some back-story: before Australia’s communications minister Stephen Conroy formed the NBN plan he asked all operators in the country to bid for a single nationwide government contract to do something similar. Telstra’s bid was rejected as it did not meet the strict criteria.

Observers judged the NBN plan as Conroy’s attempt to lure Telstra back into the project under a different scheme, as the new company will issue contracts to build the network area by area.

The NBN is a bold move, unprecedented in any sizeable country. The only parallel is Singapore’s OpenNet, which is building a similar carrier-neutral FTTH project. But Singapore is small and crowded, and the Singapore government is — through various investment vehicles — a significant investor in many if not most of the players. Australia is large, with wide open spaces and scattered communities.

The day before the interview with Global Telecoms Business, Thodey made comments about the NBN — at Telstra’s launch of a third European data centre — which could have been taken as sceptical.

Information superhighway

“I didn’t mean to sound sceptical. I meant to sound, well, rational,” he says. “We do believe in the information superhighway. That’s our industry. We believe that it does change lives and change business and the way industries work.”

Telstra looked at the precursor to the NBN “and we would have done it if we could see the commercial payback”, he says. “As an operator we couldn’t justify it.”

But that’s not to say it’s wrong. “If it’s a social policy for government to do that, they are in the best place to make that decision. However if they are doing it as a social policy it must be funded by the public sector, through taxes.” The government can’t require the private sector to fund it.

“There has to be some recognition of the terms that we need for our shareholders. Even when I’m with the government in Australia I say that. I do applaud the vision, but I struggle with the commercials.”

So is he seeing a way through the discussions with the government about the NBN? “It’s early days. One thing I can definitely say is that we have a desire and a commitment to find a cooperative and collaborative way through it. But it’s early days and I don’t know. I want to give it everything we’ve got to try and find [an answer].”

Implementation study

Quigley is “a very capable executive”, he says, and he’s hiring people for the NBN company. “There’s a business study going on with KPMG and McKinsey about the implementation. That report’s out in February.”

What’s the alternative to a carrier-neutral solution to getting fibre to each business and home, if one is to avoid the expensive of overlapping, competing infrastructures?

“I think an open access network is required,” says Thodey “There are different approaches to the ownership of open access and how that is achieved.”

There are two ways, he says: the incumbent doing it “in some separated form” — a bit like the sort of structure that has evolved over the past few years with BT’s Openreach in the UK and Telecom New Zealand’s Chorus.

“That creates some challenges. On the other hand, if you have government ownership it creates a whole load of other challenges which we thought we’d solved 10-20 years ago.” In other words, is it right to create another set of state-owned telcos, like the ancestors of Telstra, Deutsche Telekom, BT and the rest? “Do you go back to create another incumbent, just in a different guise? That’s the challenge.”

And running complex networks is not easy. “Knowing the discipline you need, I think that there’s a lot of capability that you can leverage from the incumbent to implement it faster and more cost-effectively. But there are other political considerations.”

Structural separation

There has been a long debate in government in Australia about both structural separation and horizontal separation of Telstra — as Telstra is a diverse company, with a cable TV business and other media assets.

What would Thodey’s preference be? “We recognise the importance of having transparency and equivalence in all our wholesale services. And we are willing to consider addressing any real or perceived roadblocks to that. I’m not sure that requires functional separation.” But Telstra does have an obligation “to be responsible”, he notes. “I’m more than willing to address issues.”

But, he adds, Telstra has owned media assets “for over a decade and we are only just starting to get the returns from them”. It’s important for Telstra’s shareholders that the government recognises the investment the company has made.

So he’s not setting his face against any separation, so long as the company’s shareholders get fair and just returns from their investments. “That’s all I can ask for.”

He’s sounding less dogmatically opposed to separation than may have been the case for his predecessor a year or so before? There’s a longish pause: “I recognise the role that government plays in our industry, and there are not many companies in Australia that have a specific act [of parliament] that’s been written [for them]. So I think I’m being realistic,” he says.

“Would I like regulatory certainty, so I can get on and run the business? Absolutely. I’m driven to run a good company and to try to address these issues, so they can be off the table and I can look after customers and shareholders and employees.” **GTB**