Telkom now out of intensive care

By Loni Prinsloo

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"Telkom won't die," says Chief Executive Sipho Maseko, who compared the state-owned company to a stabilised patient in and intensive care unit after a couple of strategic deals and cost-cutting exercises put in place during his year at the helm.

Telkom's Sipho Maseko plans to cut management layers in order to get closer to the thousands of customers who use the company's services. Image: Telkom

His latest attempt to revive the ailing fixed-line operator is a R2.7billion acquisition of Internet technology and services company Business Connexion (BCX).

This comes at a tricky time for Telkom, given the news that it is planning large-scale retrenchments mainly at a management level.

But Maseko said it was necessary for the survival of the old institution. "We needed to stop the bleeding, rehydrate and start eating solids again," he said.

Telkom has been criticised for its inefficiencies over the years, worst of which is its ratio of staff to revenue. It had about R31bn in revenue this past year and employs about 20,000 people. Vodacom had revenue of about R62bn last year and employs 7,000 people.

"Customers want more services for less, and we need to start being more efficient," said Maseko, who used to be Vodacom's chief operating officer.

Telkom plans to cut R5bn in costs in five years.

Management cuts come first says Maseko

That will not be an easy task as unions have made it almost impossible for Telkom to cut staff through negotiations in the bargaining unit in recent years.

But Maseko said job cuts would start at the top. "The bargaining unit will not be affected by the current round of retrenchments. I want my management team to do more with less," he said.

He plans to bring the top layer of managers closer to the customer. "Currently, there are about 12 or 13 layers between the customer and myself. I want to get this to about eight or nine layers - in line with other benchmark companies," he said.

BCX's Benjamin Mophatlane says it's "early days" for any possible deal with Telkom. Image: Microsoft

Telkom has also been talking to suppliers about get better prices on contracts with Maseko emphasising that the company is doing "a lot of self-help".

While rationalising costs, Maseko said it was important to look at where future growth would come from. He was attracted to BCX as it offers a strong infrastructure, has its data centres business and is small enough for Telkom to achieve what it needs to with the business.

Benjamin Mophatlane started BCX with his twin brother, Isaac, 18 years ago. "I like the fact that they have a young and agile management team. I feel there is some chemistry between BCX's management and Telkom's management teams," Maseko added.

Telkom first offered to buy BCX in 2006, but competition authorities opposed the deal on the grounds that the tie-up could lead to unfair pricing of telecommunications tariffs.

But Maseko said circumstances had changed since then. "We no longer have Vodacom, IT companies have become stronger, and some have been bought by foreign owners. I think we definitely have a case for an acquisition here," said Maseko.

Mophatlane would not discuss the deal saying it was still "early days".

Vestact analysts felt that Telkom might be over-paying for BCX at a 20% premium and that it would add to Telkom's debt. "It feels like a desperate attempt to diversify from a shrinking business towards one that is very competitive, low-margin and cut-throat," the analysts said.

Source: Business Times via I-Net Bridge