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If it puts together all the changes it aims to make in a unique way, Telstra could be a leader in the telecoms field, writes John de Ridder

Last Friday I was a guest at Telstra's celebratory dinner addressed by international celebrities to mark the launch of its new high-speed mobile network. There are seven aspects of this achievement that deserve consideration because they tell us where Telstra is heading.

First, I think it is telling that four global captains of industry addressed the dinner; the heads of CISCO, Ericsson, Alcatel and Accenture. Even though they represent major suppliers, it was surprising to see these luminaries show-up for a product launch. I suspect that the relationship Sol has with the heads of these companies helps explain why Telstra was able to build in 10 months what it would take others 3 to 4 years to do. At critical points of the project, Ericsson had 1,400 of its own staff involved and was integrating existing base stations into the new network at the rate of one every 25 minutes. Ericsson is working on 40 such networks around the world but only half of these have been launched commercially. These include Cingular (USA), Rogers Communications (Canada) and, of course, Telstra.

Telstra's 2006 Annual Report which is only just released notes the new network has "an aggressive timetable" and the risk that it might take longer. As recently as Friday morning, this paper (David Crowe "Telstra readies for fight over 3G network") expected only a "soft launch". However, staff turned-up early at Telstra shops to open sealed boxed; perhaps expecting the next Harry Potter book. Instead they found new phones and uniforms and, I am told, sales took off. Unlike other 3G networks launched only in capital cities, this new network went national on Day 1.

Second, this network is the first tangible deliverable from the transformation strategy announced last November. It consists not only of the network but also the handsets that incorporate the "one click, one screen" simplification philosophy. The handsets integrate content and applications in ways that competitors will find hard to match, even with the same (see next point) or similar mobile networks.

Third, Telstra is making a one billion dollar bet that mobile networks will continue to be unregulated (apart from mobile termination). An implicit part of Telstra's strategy seems to be that if you cannot change regulation; you avoid it. This (plus Sol's background, perhaps) is why wireless and the unregulated HFC pay TV network (that is also being upgraded) are key planks in the strategy.

However, with the CDMA network being closed down by March 2008, other mobile carriers may seek to resell the new network. But, if they could do that why would they continue to develop their own 3G networks? Currently, there are 73,000 customers of other carriers who use Telstra's CDMA network. Telstra's wholesale mobile revenues were about $36 million last year of which at least a third was from the resale of GSM (not to mobile carriers) so that CDMA resale of no more than $24m is small relative to Telstra's mobile revenues of $5 billion. I expect that the CDMA customers of other carriers will have the opportunity to make an unsubsidized migration to Telstra's new network.

The alternative of other 3G mobile operators' customers roaming on to the new network for voice (as Hutchison's 3G customers do on Vodafone's 2G network) is not yet feasible because the handsets available do not include the 850MHz band used by the new network. This may change but that will take time and Telstra is likely to be unwilling.

Fourth, this investment will accelerate the shift in mobiles traffic from voice to data. Globally, these new 3G networks will quadruple data traffic to exceed voice by the Year 2010. This trend also fits with Sol's vision to turn Telstra into a "media communications" company. Looking at the technology demonstrations and their use of Foxtel and Sensis content on Friday, I can start to see this transformation.

Fifth, the ACCC has been suggesting that it may need to step-in and unblock the arteries if any carrier (ie Telstra) controls the blood supply (ie content) and this has the effect of undermining the viability of other delivery platforms (ie mobile carriers). But, as noted above, content is only the half of it. What will drive customers to Telstra's mobile network may not be not V8 Supercars or AFL football (for which Telstra expects to pay around $3m and $12m a year respectively) but ease of use; like having the single screen on the new phones with the icons you want.

Sixth, mobiles are only one piece of the transformation story. We know that the proposed four billion dollar investment in getting fibre closer to customers has been put in abeyance; not scrapped. While the speeds touted for mobiles are impressive, they do not make investment in fixed networks redundant. Only fixed broadband will enable new applications like interactive IPTV (eg you can choose the camera angle).

Finally, when all the pieces of the transformation are put together we may see the world's first truly converged network. Telstra has all the pieces of the pie including multiple delivery systems and applications. It looks like it might be able to put them together in a unique way. Innovation on this scale and breadth would be world class and difficult to match, regardless of regulation.

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