# SMOOTH OPERATOR

## VODAFONE CFO ANDY HALFORD TELLS SALLY PERCY ABOUT THE CHALLENGES AT THE TOP OF THE MOBILE TELECOMS TREE

No journalist could possibly meet Vodafone chief financial officer Andy Halford without asking the obvious question: which model of mobile phone does he have?

It turns out that he has a BlackBerry Storm 2 but it is just the model *du jour* as 'each month I will have a different phone typically'.

Actually a BlackBerry Storm does seem an appropriate means of communication for a man who, beneath his very calm exterior, has lived through a fair few storms in his long career at mobile network operating giant Vodafone.

The most famous storm, probably, being the day in May 2006 when Halford, in his first year as the group's CFO, was part of the management team that posted a loss of £14.9bn – then the biggest loss in UK corporate history – after Vodafone was forced to revalue its German business Mannesmann, which it bought in 2000 for £112bn, incurring one-off costs of £23.5bn.

'I think it was fair to say that that was quite a difficult period,' says Halford. 'A lot of the expansion of the group happened around 2000, at the height of technology stock prices, particularly the acquisition of the Mannesmann group. Hence a lot of the businesses on our balance sheet were valued at very high prices that were largely based on the potential that the third generation (3G) technologies would offer.

'I came into the role in the middle of 2005 and the 3G networks were just being turned on and just going live commercially and it was pretty clear by the time we came to announce our results the following spring that those carrying values were no longer supportable and we therefore took an impairment charge, but nonetheless got the value of the businesses to the right level on our balance sheet. That obviously had the consequence of showing a rather big loss for the year.'

To add to the pain, investors and the press were asking a lot of questions about the future direction of the group, Halford remembers. The company had been in 'super-growth' mode for a long time, but it had reached the point where 'everybody had got a mobile phone and the data products that 3G enabled were starting to come through, but were going to take some time'. He adds: 'To take a business from growth to maturity in the more mature markets of Europe was a big challenge.'

At this point, however, the company was still busily building its overseas empire. Besides Germany, it had ventures in the US, Ireland, a significant number of European countries, New Zealand, Australia and Asia. And its strategy of relentless expansion over the years, including the crucial acquisition of Indian operator Hutchison Essar in 2007, has resulted in it becoming the world's largest mobile telecommunication network company based on revenue (£44.5bn for the financial year ending 31 March 2010 with a tidy pre-tax profit of £8.7bn) and the world's second largest mobile phone operator behind China Mobile, boasting over 341m proportionate mobile customers worldwide.

The scale of what Vodafone has achieved shouldn't be underestimated, according to Halford. 'Twenty-five years ago this sector didn't exist,' he points out. 'Today there are 6.5bn people who live on the planet and 4.5bn of those have mobile phones. That is a faster growth rate than the internet. We have equity stakes in businesses that are from 3% in China to 100% in a lot of European businesses. Roughly one in four users of mobile phones on the planet is using it on a network in which we have an equity stake.'

### WORLD CLASS

Halford's own journey towards global domination has been as steady as that of his company. After 12 years with Price Waterhouse, during which time he climbed the ranks to senior manager, he left to join East Midlands Electricity as business development director in 1992. The move came shortly after the Conservative government privatised electricity and Halford 'spent a lot of time working in the retail electricity side of the business, which was losing a lot of money, trying to work out how they could stem the flow and actually get the business viable'. Before long he found himself acting CFO of a joint venture with Yorkshire Electricity's retail business and was involved with a project in South Africa to electrify a small township near Cape Town. Next he found himself

Photography: Anton Hammerl

## CV

**Who:** Andy Halford
**When:** March 1959
**Where:** Buckinghamshire
**Qualifications:** Bachelor's degree in industrial economics; FCA
**Work:** Qualified with Price Waterhouse and worked through ranks to senior manager; business development director, group IT director, group finance director, East Midlands Electricity; UK finance director, finance director for Vodafone's Northern Europe, Middle East and Africa region; chief financial officer for Vodafone's US venture Verizon Wireless, chief financial officer, Vodafone.
**Life:** Photography; tennis; watching sport; DIY; family.
**iPod:** Bruce Springsteen; Joan Armatrading; all sorts of music from many years ago.

installed as the company's IT director, a role he undertook for two-and-a-half years. 'It was a time when the whole sector was obligated to put in a common metering and billing system to go nationally,' Halford recalls. 'I agreed when I went into it that I had to have someone who worked with me who would be my mentor on the more technical side of it, but it was one of the most interesting things I have ever done. It wasn't just about IT, it was actually about launching some pretty major programmes to change the business.' East Midlands was sold to US group Dominion Resources and Halford stepped up to be East Midlands' CFO, a job he did for 15 months. Then East Midlands was sold to Powergen and he decided to move sector. The fast-moving nature of mobile telecoms appealed so he got in touch with Vodafone.

Halford started his career at Vodafone in January 1999, at a very exciting time. Over Christmas 1998, pre-paid mobile phones had taken off massively in the UK and customer growth exceeded anything the company had expected. Meanwhile, Vodafone was expanding internationally and was about to embark on its purchase of US wireless service provider AirTouch, an acquisition it had completed by June. Halford had been recruited to act as CFO of Vodafone's UK business operation, but within three months he was CFO of the whole UK outfit. Nine months after that he got responsibility for the Middle East and Africa and then half of Northern Europe a further nine months after that. 'With hindsight, it was a very good time to join the company. If I could actually wind the clock back and think of a week to pick to join the group, I think I would actually still go back to the same week.'

In 2002, another important opportunity came his way. This was to take up the mantle of CFO of Verizon Wireless, now the US's largest mobile telecommunications network in which Vodafone has a 45% stake as part of a joint venture with US telecoms giant Verizon Communications. Again Halford's timing was spot on as over the next three years the business more than doubled in size. 'It is the biggest player in the US market today and it's got revenues that are about US$25bn (£16.7bn) so it's hugely profitable and a very significant force in the telecoms sector in the US.'

But Halford got his most crucial break in 2004, when he learnt that Ken Hydon, the only CFO Vodafone had ever had, was set to retire. A selection process was undertaken to find Hydon's successor and Halford was duly chosen. He returned to the UK and took over in July 2005.

> 'Roughly one in four users of mobile phones on the planet is using it on a network in which we have an equity stake'

## IN FIGURES: ANDY HALFORD

**First salary:** £20 a week 'assembling Evel Knievel toy motorcycles on a production line'
**Salary now:** £674,100 base salary and £650,089 bonus (*Source: 2009 annual report*)
**Size of finance function:** 5,000 globally
**Time in post:** 4 years, 11 months

### THE HOME FRONT

Vodafone is undoubtedly one of the great success stories of British corporate history, but the last few years have presented some challenges for a company that once seemed on a permanently upward trajectory.

In 2006, Vodafone turned its back on Carphone Warehouse, Europe's largest independent mobile phone retailer, and instead signed a deal with Phones4U that saw it become the operator's exclusive third party seller of monthly contract services. But when other network operators failed to follow suit and Vodafone instead lost out on market share, the company had to make an embarrassing volte-face, returning to Carphone Warehouse and agreeing a new deal for contracts in July 2009.

'The Carphone Warehouse situation was a clear decision that the business took to see whether we could help to restructure the retail side of mobile in the UK,' says Halford carefully. 'I think it is just an example of an initiative where commercially you try things and sometimes they work and sometimes they don't work.'

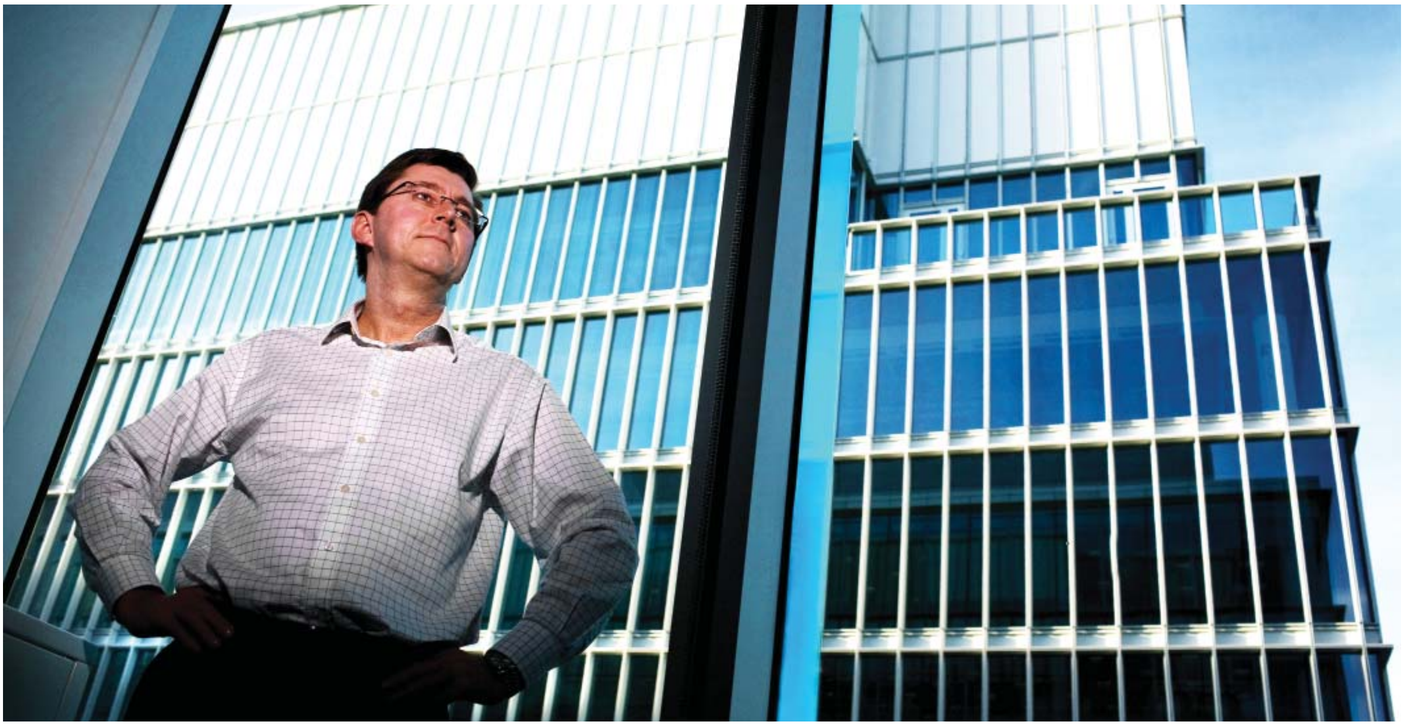
Then Vodafone failed in 2007 to negotiate an exclusive deal with Apple to sell the iconic iPhone in the UK, losing out to arch-rival $O_2$. The iPhone turned out to be the fastest-selling handset ever and by September 2009 Vodafone, along with the Orange network, had signed a deal to sell it, but the company had paid the price for its tardiness, with chief executive Vittorio Colao admitting that the operator had lost 159,000 customers in the quarter ending 30 June 2009 as a result of not selling the iPhone.

These strategic errors contributed to Vodafone losing its cherished position as the UK's market-leading mobile operator to $O_2$ last year. In April 2010 Orange UK merged with T-Mobile UK, a move that creates a giant operator with a 37% market share, bumping Vodafone down to third place.

Losing out on the top spot in the home market is clearly a sore point at Vodafone, but Halford is philosophical. 'Our target is to be number one or number two in all of our markets, and in the vast majority of them we are. Clearly if there is M&A activity that involves competitors that is not entirely within our control and the brand in the UK is still very strong. The challenge is to get back to a number one or a number two position over a period of time in the UK.'

### ONWARDS AND UPWARDS

Meanwhile Halford himself has been kept busy by the challenges of recession and of squeezing growth out of



mature markets while managing runaway growth in less mature markets. In 2008, Vodafone announced a £1bn cost-cutting programme, which it successfully delivered in its most recent financial year. 'We have said that we are now going to go and find another billion over the next two financial years and deliver further cost efficiencies,' says Halford.

There is a distinction, he adds, between running businesses that are growing 'very, very fast' and running businesses 'where the growth is reasonably modest'.

'The latter group is much more about how can we sell more products to roughly the same number of customers, it is about how can we squeeze the operating efficiency and reduce the cost base of the businesses. Whereas in the growing markets, and India is a good example, it is much more about how fast can you build out the next piece of network to access the next group of the population that hasn't yet got mobile phones? How can you get power in so the base stations can be powered? How can you get the visibility of the brand up and get everybody to know that Vodafone is there?'

Shortly after buying its Indian business, Vodafone rebranded 400,000 retail points of presence in the country over a four-week period. 'We think it was either the biggest or one of the biggest rebranding exercises that anybody has done,' says Halford. 'We've now got over 1m retail points of presence in India.'

Telecoms might be a fast-moving business but Halford is clear about the direction it's heading in. 'The phase we are now in is a move into multiple data-based products,' he says. 'The ability to always have connectivity to the internet, to be able to access multiple applications, the ability for people to be hooked up on computers wirelessly back to their offices, it's just opening up a completely new range of revenue streams that three or four years ago didn't exist. We are now getting an annualised revenue stream of about £4bn from those sorts of products. It's growing at nearly 20% per annum and it's still a small proportion of our overall customer base that is currently using them. Over time, as we get more data-enabled devices into our customers' hands, as we get to the networks running ever faster, there is a huge opportunity that sits in bringing other things to our customers over their mobile devices compared with what they have in the past. That applies to most of our more mature markets. In the growth markets, like India, there are still 500m or 600m people who do not yet use mobile phones and hence the focus there is to expand the networks so that we can sign many of those up.'

So calmer waters for Vodafone now, perhaps, but no doubt there will be some more turbulent times ahead. Just as well that the man with the world in the palm of his hand uses a BlackBerry Storm.

## VODAFONE FACTS

- Racal Vodafone was founded in Newbury, Berkshire, in 1985 by Racal Electronics after Racal won one of two cellular licences – the other going to British Telecom.
- The name Vodafone comes from 'voice data fone', chosen by the company to 'reflect the provision of voice and data services over mobile phones'.
- In 1991, Vodafone was demerged from Racal Electronics.
- In 1997, Vodafone introduced its 'Speechmark' logo.
- Vodafone bought US wireless service provider AirTouch in 1999 and changed its name to Vodafone AirTouch. The acquisition gave Vodafone a 35% share of Germany's largest mobile network, Mannesmann.
- In 2000, Vodafone merged with Mannesmann following a hostile takeover bid to create the world's largest mobile communications group. The merger was one of the largest corporate mergers ever. Later that year, Vodafone reverted to its former name, Vodafone Group.
- In April 2001, the first ever 3G voice call was made on Vodafone UK's 3G network.
- In February 2007, Vodafone paid $11.1bn for a 67% stake in India's fourth-largest mobile operator, Hutchison Essar. It is contesting a claim from the Indian income tax department that it owes $2bn in unpaid tax on the purchase and last month announced a £2.3bn impairment charge on its Indian operations following the country's auction of 3G licences.
- Vodafone has over 70,000 staff in 31 countries, including around 9,000 staff in the UK.
- Vodafone has a total market capitalisation of approximately £78bn.
- Vodafone more than doubled its pre-tax profits for the 2009/10 financial year to £8.7bn.