

# *China's Takeover of the Telecom Market*

Presented by:

**Effi Wachtel**

President & CEO

RAD Data Communications Ltd.



data communications

# RAD Data Communications

- Established in 1981, privately owned
- Design & manufacturing in Israel
- 1,100 employees worldwide
- Offices in Argentina, Australia, Brazil, Canada, China, India, France, Germany, Japan, Russia, UK, and US
- Over 250 access solutions
- International sales via partners in 164 countries
- Sales in 2007 = \$174 Million



# The RAD Group (קבוצת רד-בינת)

**No. of employees = 3,750**  
**Group sales in 2007 = \$820 Million**

Unique Access Solutions  
 Established: 1981

Hi-end NICs for Servers  
 Established: 1987

Physical Layer Management  
 Established: 1989

Network Test Solutions  
 Established: 1991

IP Voice and Video Conferencing  
 Established: 1992

Group Distributor in Israel

- Coordinated Strategy
- Shared Marketing Channels
- Jopint Development & Technology Sharing
- Some Companies are **Public**

Broadband Wireless  
 Established: 1996

Mobile TV  
 Established: 2006

Intelligent Application Switching  
 Established: 1997

IP Acceleration  
 Established: 2005

Hi Fidelity Audio  
 Established: 2005

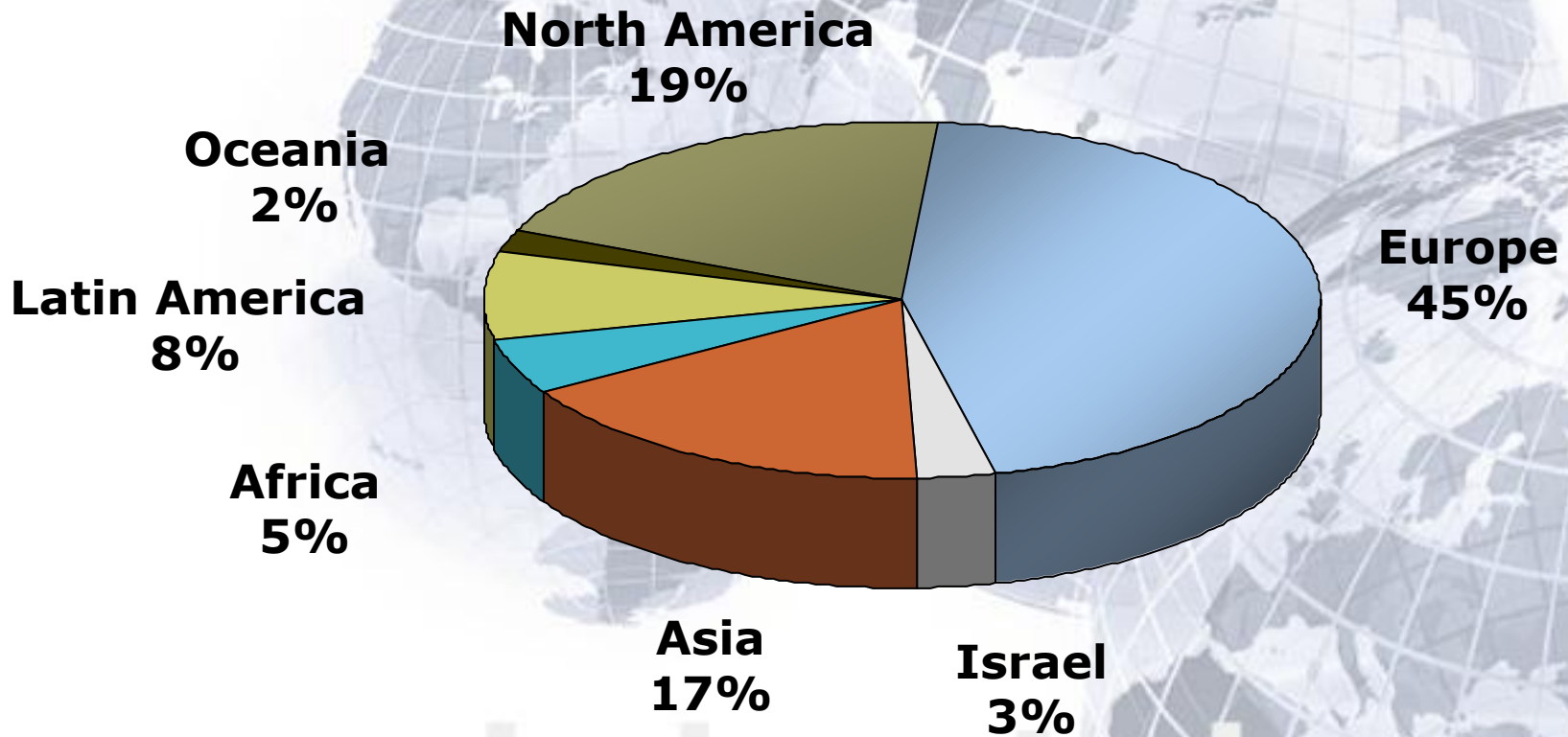
Ultra Wideband Communications  
 Established: 2001

Storage Transport over SDH,  
 Established: 2000

Storage Area Networks  
 Established: 2000

Wireless Local Loop  
 Established: 1997

# Worldwide Sales Distribution



# Worldwide Customer Base by Industry Selected References



data communications

## Carriers and Service Providers

AT&T  
Bezeq  
British Telecom  
China Telecom  
Deutsche Telekom  
Embarq  
Embratel  
France Telecom/OBS  
KDDI  
KPN  
NTT  
Optus  
Softbank Telecom  
Singtel  
Telecom Argentina  
Telefonica  
TeleSP  
Telstra  
Telmex  
Verizon Business  
VTN

## Mobile Operators

Bharti Telecom  
China Mobile  
Hutchison  
KPN  
Orange  
SMART  
Softbank Mobile  
Tele2  
T-Mobile  
V-Mobile  
Vodafone

## Vendors

Alcatel-Lucent  
Cisco  
Ericsson  
Huawei  
Motorola  
Nokia-Siemens  
Nortel

## Transportation

BaneTele  
Boeing  
Deutsche Bundesbahn  
Highway Authority - UK  
Iberia  
NYCT  
RailTel  
RENFE  
SITA  
SNCF  
SMRT  
Swiss Railway

## Utilities

Alstom Power  
Caltex  
China Light & Power  
Eletronorte  
H.K. Electric Company  
Hydro Quebec  
Novosibirsk Energo  
Rosneft

## Government and Military

China Air Force  
Coast Guard – Canada  
IDF - Israel  
MINDEF – Singapore  
French Defense Ministry  
NASA  
NATO  
QLD – Australia  
Space Agency – Russia  
US Air Force

## Financial

Bank of China  
Creditanstalt  
Credit Lyonnais  
Hua-Nan Comm. Bank  
JP Morgan  
Lloyds of London  
Merrill Lynch  
Raiffeisen Bank



# Telecom Market in China

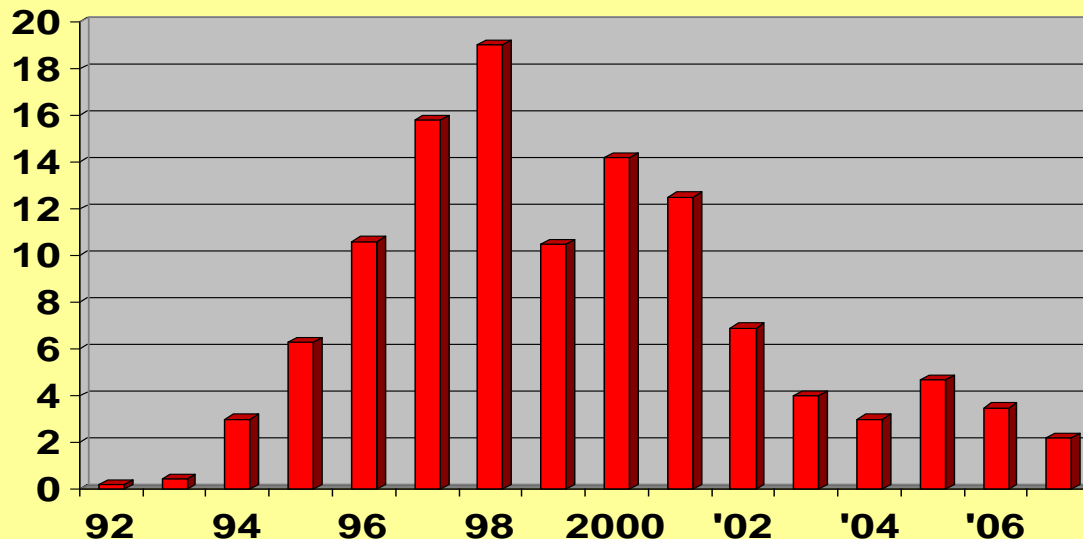
- Market size and growth are mind-boggling
  - 600 Million mobile phones, 210 Million broadband users
- Local competition is very aggressive, resulting in huge pressure on prices
- Several companies have become global “giants”:  
Huawei, ZTE, UTStarcom
- Impressive success in winning “prestigious”  
Telecom projects world-wide
  - BT, France Telecom, T-Mobile, Telecom Italia, Vodafone...





# The Rise and Fall of our Sales in China

- 1990 - RAD enters Chinese market
- 1983 - **RAD Far East** office in Hong Kong
- 1997 - **RAD China** (Beijing) office
- 1999 - **RAD Shanghai** office
- 2002 - Local manufacturing of selected products
- 2006 - **R&D** department



# Reasons for Losing Market Share

- Early market entrance resulted in building our brand, but also positioned us as a model to copy
- Dozens of small companies have been setup to develop and sell similar products
- Quality gap helped for a while, but the local competitors closed the gap very quickly
- The end-users as well as our channel partners lost interest once they had local alternatives





# Steps Taken to Stop the Decline

- Local manufacturing to reduce cost of products
- Cooperation with the giants: Huawei, ZTE, UTStarcom
- M&A: Attempts to acquire a local company
- Working with agents
- Opening an R&D center to develop low-cost “Chinese” products
- So far, none of the steps has managed to change the trend



# Some Lessons from our Experience

- **Selling in China**
  - Having a **unique** technology that cannot be copied is **a must** for long-term success
  - Niche strategy does not work – too many competitors
  - Selling to **carriers** requires cooperation with a **local vendor**
  - Having a **full** company (R&D, Manufacturing, Sales) might help
- **Competing against the Chinese in other countries**
  - No chance, if the target is strategic for them
  - Anything goes
  - Niche strategy and specialization does work, as the export-oriented Chinese vendors are focused on large volume
- **Cooperating with Chinese vendors**
  - The Chinese appreciate our talents but do not trust us
  - Cooperation with small vendors is very difficult due to the lack of trust and business ethics
  - Cooperation with the “giants” is possible since they do not view us as a threat



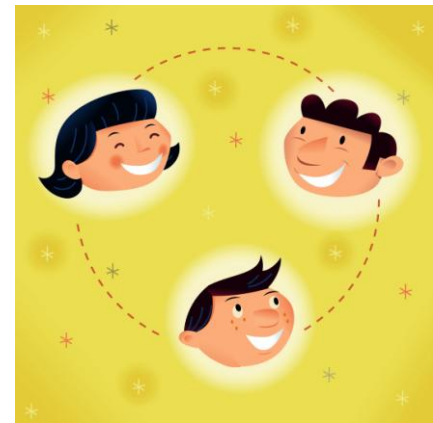
# Generalizing from our Experience

- The Telecom industry is of strategic importance to the Chinese Government
- The Government supports the Chinese vendors in their attempts to “conquer” foreign markets
- The combination of high technical level, low salaries and aggressiveness makes them very tough competitors
- Seemingly, the conclusion is that in a few years, the Chinese will control all, or most of, the global Telecom market
- My personal opinion is that this is not going to happen



# Optimistic Reflections

- Within the next few years, the incredible growth in China will slow down due to one or more of the following:
  1. Rise in the standard of living and salaries
  2. Social pressure driven by the growing economic inequality
  3. Growing strength of regional centers and opposition to Centralized Control
  4. Protective measures against imports, such as using Chinese standards, might backfire and slow down their development
- The growing demand of the local market will result in redirecting their focus inwards
- Growing competition of the Chinese giants with International vendors will force them to seek cooperation with small/medium companies



Thank you for your attention

thank you



data communications

[www.rad.com](http://www.rad.com)