Chinese Companies

UPWARDLY MOBILE

Huawei and ZTE have overcome security and quality concerns to corner a growing chunk of the Indian market.

by SUNNY SEN

The blue and yellow wires hanging from servers in a corner of the cramped conference room look like a colourful web. This unpretentious office in the heart of New Delhi belongs to Huawei, maker of telecommunication devices and software. Its India headquarters in Gurgaon, near Delhi, are also nondescript. Nothing in either location suggests that in the past year, the $32 billion (1 trillion equals 100 crores) Chinese behemoth did its best to become the world’s largest telecom equipment maker.

Huawei’s offices may reflect the conservatism of Chinese corporate culture, but the company’s growth in India has been far from conservative. In 2011/12, Huawei was ahead of Ericsson and Nokia Siemens Network (NSN), the European telecom equipment makers which have long held the top two spots in the country by revenues.

But the first few years were full of hurdles for both Huawei and ZTE, also a Chinese telecom equipment maker. European companies such as NSN, Ericsson and Alcatel Lucent had been operating in India for
Looking up CEO Cai: Liquidity sex; 3G could be Huawei India's big break
decades and were viewed. There was a widespread perception that Chinese products would be of inferior quality. Huawei could not get contracts from older telecom operators. A spokesperson of a relatively new telecom operator (whose licence stand cancelled) which uses Huawei equipment describes the Chinese company as hungry for success. He says its service delivery is superior to that of European rivals.

Huawei, founded by retired military officer Ren Zhengfei, enjoys the support of the Chinese government. It has beaten the competition in most of the 100 countries where it has customers. It entered India in 2000 with a research and development centre in Bangalore, but won its first deal only in 2005—a Bharat Sanchar Nigam Ltd tender for optical fibres. The R&D centre is now its biggest outside China.

Together, ZTE (revenues of ₹1,049 crore) and Huawei (₹1,076 crore) are hitting European rivals hard in India. For example, in wireless infrastructure—a ₹1,093 crore business in India—they jointly held a 35 per cent share in 2011/12, according to Vokal and Data, a telecom industry publication.

To build relationships, Chinese managers have adapted culturally. For instance, Yao Wemin, Huawei’s Vice President for Corporate Affairs, goes by the name Raju.

In early 2010, it was a struggle for Chinese companies to get security clearance for their equipment in India. For nine months, not a single contract was passed. But today, the Chinese companies have their hands full. A sales executive at ZTE, who sees Chinese vendors as a threat, says European companies still get contracts because they are counting on old ties rather than matching Chinese pricing.

But now, Chinese companies may be facing their rivals’ bands. In a recent bid for a BSNL contract, ZTE is said to have undercut European
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companies’ pricing by 20 cents. Over the past couple of years, European companies have lowered prices and started focusing on after-sales, as the Chinese do.

Zhang Wen Cheng, ZTE’s India’s Chief Technology Officer, argues that pricing is not everything, as private operators do not base contracts only on low prices. “You need to get the technology approved,” he says.

Until around 2009, the incumbents—Ericsson, Vodafone and Idea—stayed away from Chinese vendors. Then Reliance Communications and Tata Teleservices tied up with Huawei and ZTE for network rollouts and devices for CDMA handsets and dongles. (CDMA is code division multiple access, a wireless protocol rivaling the popular GSM, or global system for mobile communication.) After that, almost every new telecom operator partnered with one of the two. In 2009/10, Huawei’s revenues shot up to US$1.6 billion, propelling it ahead of Nokia and Ericsson to the top spot.

Now, Huawei and ZTE are trying to increase market share. They won 42 per cent of the 71 circles for 3G (third generation) telecom services. Huawei’s breakthrough came when it got two circles with Airtel and three with Idea. “This is a good opportunity to break into the top operators,” says Cai Liquin, CEO of Huawei India.

Huaewei and ZTE may have won new 3G and broadband wireless access networks in 2011, but the big challenge is to grab market share in the 2G licences to be awarded soon. Huawei was hit hardest when it was forced to cancel a billion-euro deal for 2G licences in Egypt. It is now in talks with India’s major 2G operators to figure out a better way to pay for the licences.

Base stations are one of the key areas where Huawei and ZTE are looking to increase their presence. Both companies have been trying to get a foothold in the Indian market for some time, but have not yet secured a major contract. However, with the increasing demand for high-speed internet connectivity and the growing number of mobile users, the companies are hopeful of winning more contracts in the future.

A bigger concern is whether Huawei’s and ZTE’s growth is profitable. Many, including Nokia and Ericsson, say the Chinese manufacturers are bearing huge losses to gain market share. “A lot of vendors are taking hits on their balance sheets,” says Mittunay Kapur, Country Managing Director at Gartner.

Kapur points out that a lot of old telecom equipment is nearing upgrade time, which means more business for Huawei and ZTE. But rival companies say they do not feel threatened. “In terms of subscribers per base station, our market share is much higher,” says Sandeep Gouta, head of Nokia’s India operations.

But in terms of market share, Huawei’s and ZTE’s growth is still at an early stage. Both companies have a long way to go to catch up with the established players in the Indian market. However, with the increasing demand for high-speed internet connectivity and the growing number of mobile users, the companies are hopeful of winning more contracts in the future.

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