

China Unicom's Strategy of "**Chayihua**" Sets Them Apart in the Marketplace

Rapid growth and the desire to differentiate itself in China's marketplace led China Unicom to seek out Cisco's expertise in networking technology.

"As an operator, we want to use the most advanced and most efficient technologies for the new network. Cisco provides what we need. The relationship between China Unicom and Cisco is a mutually beneficial and reciprocal win-win partnership."

Wang Jianzhou
President of China Unicom

Background

China United Telecommunications Corporation, or China Unicom, www.chinaunicom.net was established on July 19, 1994 by the State Council as the second national carrier to provide basic and value-added services for telco networks such as paging, mobile, and engineering services, and to provide long distance and local phone services to the general public. This event marked the beginning of telecom reform in China.

China Unicom is the only truly integrated telecommunications service provider with a complete set of licenses to provide fixed voice, cellular, data, and paging services in China. Although its largest competitor owns majority market share, China Unicom has proven itself to be a formidable challenger since going public in 2000.

Today, China Unicom is China's second largest telecommunications carrier and its mobile business has grown rapidly from 1.4 million in the beginning of 1999 to 53 million subscribers in June 2002, contributing 70 percent of total revenues. In 2001, China Unicom's 30,000 employees delivered total revenue of US\$4.5 billion.

Challenge

In spite of significant changes and advances over the past decade, the Chinese telecommunications market is still largely underdeveloped. The country main-line penetration rate reached just under 15 percent in 2001. With traditional circuit-switched wireline infrastructure not fully in place, the country is poised to take advantage of IP telephony, which allows service providers greater flexibility and requires less investment while offering customers new services and more choices at a lower price.

To help China Unicom compete effectively, Cisco Systems began to collaborate with the company in 1999 on what became a three-phased evolutionary business strategy to move China Unicom first into long distance voice business via IP technology, then into mobile data, and ultimately into a convergence solution that will leverage both voice and data capabilities.

Solution

Phase One: VoIP

Taking the first step toward building a competitive infrastructure, Cisco began working with China Unicom in 1999 to implement a national IP telephony network. This engagement extended into a three-phased implementation extending through 2001. In Phase 1, the network was deployed to 12 cities. By the end of Phase 3, the network reached more than 330 cities across 31 provinces in China.

This VoIP network became the largest in the world as measured by size, capacity, traffic, and the number of cities served. Working with Cisco, China Unicom improved network coverage and communication quality of IP telephony and effectively expanded the usage of IP telephony for both domestic and international calls through direct dial, PBX pre-selection, long distance registration, and strengthening of pre-paid card retail sales.

Phase Two: Mobile Data

Although GSM was the only standard being deployed in China in 2000, the government directed China Unicom to build a brand new cellular network based on the Code Division Multiple Access (CDMA) standard. “This caused major challenges for China Unicom because they already had a Global System for Mobile Communications (GSM) network that was serving millions of customers,” says Steven Ying, Cisco Vertical Manager, Internet Business Solutions Group. “Now all of a sudden they had to build another parallel network, which was not interoperable.”

Because of China Unicom’s previous experience with Cisco’s knowledge and expertise in IP telephony and IP data, the executive team invited Cisco back to meet with them to discuss these new challenges. The discussion centered on how to:

- Accommodate the tremendous growth in its GSM business.
- Successfully develop the new CDMA business.
- Offer new and exciting mobile services to sustain growth and profitability.

“China Unicom was facing a number of challenges,” says Wang Ling, Cisco Account Manager for China Unicom. “Having achieved remarkable success with their GSM network, China Unicom now had to integrate a very new technology into the mix. The company asked us to help them understand how best to develop the CDMA business without cannibalizing the existing GSM customer base. They wanted to know who would use CDMA, what products and services they would buy, how much they would be willing to pay, how China Unicom could position the CDMA vis-à-vis GSM, and what services the company could deliver today versus what they would need to deliver tomorrow.”

China Unicom and Cisco worked together to create a strategic plan that addressed these issues.

Phase Three: Convergence

Company executives believe that the convergence of voice, data, video, and IP services is an important industry trend. Consequently, their strategy is to converge networks using a common infrastructure and provide integrated, cost-effective services to customers.

China Unicom’s President, Mr. Wang Jianzhou, set a priority to leverage the company’s capabilities in mobile and IP telephony to become a world-class integrated telecommunications operator. Expanding the company’s existing offerings with bundled services would allow China Unicom to achieve differentiation—called “chayihua” in Chinese—by providing unique value-added services to businesses and young consumers, both markets representing major sources of growth.

To execute the convergence strategy, Cisco is currently working with China Unicom’s Jiangsu province to develop the Small-to-Medium Business (SMB) market by providing them all the communications services they need at affordable prices through bundled voice and broadband services. Cisco is also assisting China Unicom in designing a robust and scalable go-to-market process for broad SMB adoption of bundled voice and broadband solutions.

Results

Customer Benefits of VoIP Implementation

The rapid rise in numbers of customers using IP telephony services is a clear measure of success for China Unicom’s VoIP strategy. The company’s IP telephony business grew 42 percent to US\$188 million in 2001 from US\$132 million in 2000.

- China Unicom’s VoIP business model has become a showcase in the China telecom marketplace. The company’s market share represents approximately 25 percent of the Chinese long distance market. With usage rates climbing at the current pace, China Unicom’s market share is estimated to reach 50 percent by the end of 2003.
- Long distance calls through IP telephony services reached 6.41 billion minutes in 2001. And, according to telecom research firm Probe Research, by 2005 China’s VoIP services are expected to account for 15–20 percent of all packet-based telephony traffic carried worldwide.

According to President Wang Jianzhou: “IP and TDM calls are almost equally cheap now. Some people asked us to give up IP, but we insist on continuing to develop IP—not to save costs, but to create more functionality. These functions cannot be developed on traditional telephone networks.”

Customer Benefits of Mobile Implementation

- Since its launch in June 2002, China Unicom has been adding about 600,000 CDMA subscribers per month with 6 million as of November 30, 2002.
- Both subscription base and up-take rate have exceeded original expectations.
- CDMA revenue reached US\$172 million or 5 percent of overall revenues for the first nine months of 2002.
- With the CDMA 1X upgrade, subscribers will enjoy a greater variety of value-added services including multimedia communication, position-location services, and wireless Internet access.

Customer Benefits of Convergence Strategy Implementation

A convergence model will allow China Unicom to offer increased services and solutions and enter new markets, specifically the SMB segment. As Mr. Wang Jianzhou notes: "We provide a one-stop-shop service to clients."



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