The Future is Now: How China Telecom's Transformation Enables Growth

China Telecom's multi-pronged Transformation Strategy is changing the company into an integrated information services company at the forefront of technology and service innovation. The Transformation Strategy benefits shareholders and China Telecom’s many types of clients, including households, Small and Medium Enterprises, Multi-National Companies and global carriers.
The Future Is Now

Predications that leading economists and technologists once made about China are now being validated. Each prediction is like a brush stroke that helps paint a vibrant image of this flourishing nation, helping to strengthen the global economy and transform the lives of its 1.3 billion people. The experts said:

- China would become among the fastest growing economies. Indeed, real GDP growth has averaged 9 percent since 1998, the fastest in the world.
- China’s entrance into the World Trade Organization (WTO) would re-shape the constitution of its GDP. China’s economy has swung from agricultural based to manufacturing based, and the services sector continues to grow in importance.
- Increased income levels among the population would create demand for products and services that global companies would enter China in order to meet. Much publicity covered Multi-National Companies (MNCs) that entered China at the turn of the century to test the market, but now MNCs are executing market penetration strategies on a grand scale.
- China would surpass even the US in Internet usage. This milestone was marked in 2006.

Indeed, the China that had been envisioned is upon us. The future is now.

Yet countries blessed with history that is as long and rich as China’s understand that further prosperity and progress require smart planning and investment. Nations never stop evolving. As the largest fixed-line operator in China, China Telecom offered a strong foundation upon which the country could build over the past few decades. With wise management and its own set of predictions for the future, China Telecom set out in 2004 on a path of transformation in order to better serve its customers, the global market and its shareholders.

Relationship Between Telecommunications Growth and Economic Change

World Bank studies have shown that there is a positive correlation between economic development and telecommunications density and available services, and some studies even claim that a causal relationship exists in both directions. Telecommunications growth has also been linked to other stimulants like increased education, improved access to information, development of research centers and other positive changes on an economy and a culture.

The telecommunications sector in China has been among the fastest growing sectors in China with an average growth rate of 31% from 2000 to 2005. China’s 371
China Telecom’s Transformation Strategy Delivers Diverse, Branded Communications Solutions to Global Clients

China Telecom is the major supplier of integrated communications services in China, managing more than 220K wire lines and offering data, voice, Internet and converged services throughout the country. In a study of Chinese consumers conducted by Nielson Media Research and reported in November, 2006 China Telecom was highlighted as one of only 17 “Platinum Trusted Brands” due to their outstanding performance in the survey. A company with China Telecom’s size and success might have rested on its laurels, but China Telecom has not. Leveraging its strong foundation, the company announced a bold transformation strategy in 2004, with the goal of putting the company in a position to diversify its operation, support the growth of the Chinese economy and in turn, the world economy, and continue to strengthen its brand.

Chairman and CEO of China Telecom Wang Xiaochu explained that the company is using the transformation as a platform to encourage the growth of both revenue and the customer base and to win the race to occupy the top position of future

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CN2 Supports Mission-Critical Applications

With companies increasingly focused on process improvement initiatives, access to real-time performance data has become essential. A mid-sized manufacturing firm headquartered in NY with production facilities in both the US and China, was challenged to improve visibility into operational performance in the most cost-effective way possible. The company had its ERP system and Financial System in China, but wanted to share the application in real time with users in the US and avoid the upfront and ongoing maintenance costs of replicating the applications on two continents.

Only the highest-performing, secure network would enable the company to support its strategy. China Telecom provided:

• An MPLS network that will grow as the company grows and adds services, such as voice over IP, video, etc. in support of their common application platform
• A connection so fast and reliable, that the mid-sized company estimates that they have avoided spending nearly $1 million over the past five years in application costs
information services. Expansion of broadband services, convergence of voice, data and video and a move from product management to brand management all characterize the transformation. He explained that the Transformation Strategy has brought three important changes.

First, China Telecom is optimizing its revenue structure, whereby voice revenues are a diminishing percentage of overall revenues. Revenue from non-voice services such as broadband access, fixed network value-added services, integrated information services and systems integration and management has been growing steadily and reached nearly 28% of total revenues for the first half of 2006.

Second, the company is introducing new bundled and branded offerings to combat price erosion and make them more “sticky” to customers. Branded offerings like Best Tone (an integrated information inquiry service for phone users), BizNavigator (an integrated application suite that meets the needs of enterprise clients) and One Home (an integrated voice, data, TV offering through the home box) address the needs of three target groups; personal, enterprise and household. Fixed-line based voice search services, MPLS/VPN and IT solutions to support mission critical applications have all been launched and are enjoying promising adoption. The company is also offering “seed services” such as IPTV.

Third, China Telecom continues to strengthen its ability to grow with precision management that focuses on delivering value to shareholders and outstanding products and services to its clients. China Telecom’s management had the foresight to understand the importance of serving MNCs. While the company continues to invest in infrastructure, branding and customer service systems in China, it is at the forefront of expansion to serve Multi-National Clients (MNCs). The company was the first among its peers to open operations in North America, and now has offices in Hong Kong and London, with company-owned information technology services termed “Information Silk Road” that offer seamless services between the Americas, China, Asia and Europe.

**Transformation in Action**

China Telecom’s transformation is manifested in the lives and livelihoods of individuals, households, Small-to-Medium-Size Enterprises (SMEs) and MNCs doing business in China. Let’s take a closer look at three strategies that epitomize China Telecom’s transformation in action and indeed, have placed the future in our hands; BizNavigator, CN2 and China Telecom’s global expansion to serve MNCs locally.
BizNavigator

Biz Navigator was conceived as a way to provide IT support to local offices of MNCs and to enhance the competitiveness of SMEs, whose importance to the changing economy was recognized. Since being launched just over a year ago, it has been adopted by more than 500,000 SMEs.

China Telecom’s BizNavigator has proven valuable to SMEs and global MNCs with offices in China. BizNavigator exemplifies China Telecom’s mission to become an integrated information service provider, integrating communications services with application support services. BizNavigator provides industrial IT applications support for processes like sales, logistics management, supply and demand management, travel services, tax and other financial reporting, etc. It allows clients to manage domain names, provides corporate e-mail, enables website creation and maintenance, provides virus protection, helps manage customer contacts, provides a data-rich office automation platform, etc. All these are provided on a base of communications services ranging from broadband access to interactive teleconferencing and support services like equipment procurement and maintenance and LAN deployment.

In one example, BizNavigator was deployed in support of Guangzhou’s “Bridge for Business and Trade” service, which is a portal to connect suppliers with buyers. After
China Telecom established subsidiaries like China Telecom USA, China Telecom Europe and China Telecom Hong Kong to help assure that MNCs’ global operations have worldwide support.

just one month, there are more than 22K hits daily on the site, and messages among the members are increasing at a rate of 2K per day. BizNavigator is delivering the future of integrated information services to China’s businesses and provides an excellent example of China Telecom’s Transformation Strategy in action.

**The Business Internet Comes to Life**

With the staggering demand for Internet services coming from within China and outside from MNCs expanding into the region, China Telecom’s leadership made a bold move to build an entirely new global Next Generation Network (NGN). The network was dubbed China Telecom Next Generation Carrying Network, or CN2, and it began rolling out in 2005. CN2 provides the global coverage, network technology infrastructure and management capabilities required for MNCs to successfully leverage China in their growth strategy. It’s an advanced communication and information network for the future.

Telecom Magazine reported in June 2005 that CN2 will make China Telecom one of the most proactive NGN carriers in the world. CN2 is a newly-built IPv6-capable backbone network leveraging new softswitches and protocols like DiffServ and MPLS, which boost performance. Five classes of service and QoS help CN2 guarantee reliability and performance of mission-critical and high-priority applications. Its

Financial institutions have some of the most complex communications services needs. They must keep branches up and running and connected to teller, investment, financial and other systems at the bank’s headquarters. There are also very strict data security and performance requirements, driven by the need to conform to banking regulations.

When one of the largest financial institutions in the world shared its strategic plans with the company to open 5,000 branches in China, the bank’s executives emphasized the importance of meeting the roll-out schedule and high levels of security. The bank’s financial model required a certain adoption rate from Chinese consumers, which could not be compromised by a loss of trust in the bank. The company also needed to leverage its marketing investment across a large number of branches, so rapid facility deployment to gain market share was key. China Telecom partnered with the bank to support the communications and logistical challenges including:

- Turnkey implementation from a single point of contact in North America
- Unified billing for all facilities across provinces in China
- A broad array of services based on the CN2 network to support the mission-critical operations
- Constant expansion into new urban and suburban areas and office parks to keep pace with customers’ geographical coverage requirements.
MPLS-optimized architecture also enables Frame Relay and ATM traffic to be transported over a Layer 2 VPN, which promotes network efficiency and scalability. CN2 provides a highly-advanced network on which to provide high value services using technology that will transition well into the future. It allows the company and its subsidiaries and partners to provide cost effective new offerings.

Expanding Around the World

Businesses today are networked for success. For many companies entering or expanding into China, the business plan depends on the availability of reliable communication services throughout the region. Without them, critical success factors cannot be met. China Telecom established subsidiaries like China Telecom USA, China Telecom Europe and China Telecom Hong Kong to help assure that MNCs’ global operations thrive.

China Telecom and its subsidiaries consistently deliver uncomplicated solutions to complex problems—problems that stem from rapid expansion in China, the need to distribute content to tens of millions of people or to synchronize mission-critical applications on multiple continents. China Telecom’s clients depend on the company to enable their growth—and China Telecom—along with its local subsidiaries in Asia, the Americas and Europe—deliver. China Telecom’s Transformation Strategy leverages the company’s expansive assets including:

- International bi-lateral connectivity to 100+ countries
- Broadband access to 300 Cities in all 31 provinces
- Trans-Pacific cables systems, including China-U.S., Japan-U.S., SEA-ME-WE3 in APCN2, SMW3, Flag, TAE, etc.
- CHINANET (China’s largest Internet network) and CN2, the business class IPv6-capable backbone Internet network
- Nearly 400,000 employees worldwide who embrace the corporate philosophy “Customer First. Service Foremost.”

“When we were looking to aggressively expand into China, there was no other choice for us than to work with China Telecom USA. They have the network reach and no one could match the provisioning schedule they put together. We would definitely select them again.”

-VP of Operations, Global Financial Institution

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**Conclusion**

As predicted, China is a major driver in the world economy, and its continued effects are expected to be positive. Wise and experienced executives at China Telecom announced a multi-pronged Transformation Strategy in 2004 that is changing the company into an integrated information services company at the height of communications services. The Transformation Strategy benefits shareholders and China Telecom’s many types of clients, including households, SMEs and MNCs and global carriers.

The Transformation Strategy today leverages the company’s massive, existing assets, and introduces new products like BizNavigator and CN2 and support services that enable positive change in people’s lives. Transformation enables the rapid growth strategies that MNCs are now executing in the region. No other telecommunications carrier offers the seamless network coverage, services and capacity connecting Europe, North America and Asia that China Telecom does. China Telecom’s network reach and performance help connect people and content and cost-effectively support mission-critical applications around the globe. China’s future is beautifully painted on the canvas for the world to see and China Telecom’s Transformation Strategy makes the colors bright.

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**About China Telecom Corporation**

With over 231 million customers and more than $61 billion in assets, China Telecom Corporation is one of the world’s largest telecommunications companies. As the largest fixed-line provider in the world, China Telecom owns and operates an extensive system of domestic and international telecommunications networks and facilities, including local wireless loops, voice, data, image, multimedia and other telecommunications services in China. China Telecom has international offices in the United States, Hong Kong and the United Kingdom.

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