After Initial Fuzziness, AT&T Clears Up Signal to Asia

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Firm Improves Its Reception in Lucrative Market by Targeting Local Needs

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TOKYO — American Telephone & Telegraph Co. is looking for a second chance in the potentially huge Asian market, and this time its rivals in the telecommunications-equipment business fear it might have a winning strategy.

Just a decade ago, the U.S. giant had virtually no network-equipment business in Asia. Constrained first by the U.S. government and then by its own hubris and disorganization, AT&T couldn't seem to figure out if, much less how, it wanted to expand.

Since February, however, AT&T has swept through the region like a whirlwind. It has sold more than $460 million of telecom equipment, established a manufacturing joint venture aimed at giving it a foothold in India, and signed a major agreement for services and equipment with China — a market that AT&T officials believe could one day surpass the U.S. in contributions to the company's revenue.

"Over the next couple of years, China will be the hottest market in the world," says Rau Chang, AT&T vice president for business development in Asia. "India, with its economic reforms in place, will similarly take off. We think we have the technology, the capabilities and assets [for developing these markets] that no other competitor can match."

'Particularly Aggressive'

Those rivals, particularly Japanese suppliers, are eyeing AT&T's recent moves nervously. "AT&T has been particularly aggressive recently, and we're paying close attention," says Ryoichi Sugioka, a telecom executive at Fujitsu Ltd. Whereas AT&T used to try to force equipment built with U.S. standards on the rest of the world, Mr. Sugioka says, it has now started to concentrate on the specific needs and standards of its local markets. "When the giant begins to pay attention to detail like that, we have to be concerned."

Although AT&T derives more than half of its $65 billion in annual revenue from selling telecommunications services, analysts say the company's real opportunity in Asia is to boost sales of network equipment such as switches — the computers that route data traffic across a network — and other transmission equipment. "In the

AT&T's Major Moves in Asia in 1993

Feb. 23	Service and equipment pact with China
Feb. 24	Service and equipment pact with Taiwan
Feb. 25	Transmission and switching equipment sale to Thailand for $273 million
Mar. 10	Cellular network sale to Yunnan Province in China for $30 million
Apr. 20	Switching equipment sale to Hainan Province in China for $12.4 million
Apr. 27	Network switch sale to Nippon Telegraph & Telephone for $70 million
May 26	Switching equipment sale to Teleway Japan for $20 million
June 11	Joint manufacturing and marketing venture with Tata Industries of India, $35 million

MAJOR COMPETITORS IN NETWORK EQUIPMENT:
Alcatel-Alsthom SA, LM Ericsson, Fujitsu Ltd., NEC Corp., Northern Telecom Ltd.

MAJOR PRODUCTS:
Digital switching networks; cellular telephone networks; fiber optic cable; telephones; microchips

[overall] equipment sales," says Jack Grubman, a telecommunications analyst with PaineWebber Inc. in New York.

So far, Asia still looms small in AT&T's overall financial picture. Mr. Grubman estimates the company's annual service and equipment sales in the region at about $1 billion each, which together amount to only about 3% to 4% of AT&T's total revenue. Company officials, however, say they expect spectacular growth. Mr. Chang, for instance, says revenue from the Asia-Pacific region grew by 50% in 1992. AT&T doesn't release exact financial data for its operations in the region.

AT&T's recent success, and its optimism, is particularly striking given the depths to which it had once sunk. AT&T "messed up just about everything possible" in Asia, says Francis McInerney, a U.S.-based consultant and co-author of "Beating Japan," a guide for U.S. companies fighting Japanese competition.

Humiliating Lesson

The company received one of its most humiliating lessons in 1985, when Nippon Telegraph & Telephone Corp. — Japan's former telecommunications monopoly — allowed foreign companies to bid on a contract for network switches for the first time. AT&T, however, insisted on trying to

a product that competed directly with similar switches made by long-term NTT suppliers such as Fujitsu and NEC Corp. NTT decided instead to buy $250 million of smaller switches for rural areas from Northern Telecom Ltd. "We were arrogant and we didn't know what we were doing," one AT&T official in Japan now says.

Analysts say AT&T deserves credit for learning the right lessons from its early disasters. In the late 1980s, the company began to pay more attention to what its local customers needed, instead of what it wanted them to buy. It focused its attention on markets such as Korea and then slowly branched out. It even finally sold 12 central office switches to NTT in April.

AT&T officials say their strategy is to take advantage of their company's strengths as both a service provider and network-equipment supplier. In China, for instance, AT&T plans to help build telecommunications networks while offering Chinese engineers training in how to run them. Northern Telecom, by contrast, which signed a similar cooperative agreement with China this month, offers mainly hardware and software sales and support.

Analysts say the Asian market — especially in China and India — is probably large enough to accommodate all the foreign suppliers who care to set up shop here. 70 million phone lines by the year 2000, an expansion that would entail the purchase of about 10 million lines of switching equipment every year at an estimated cost of $1.2 billion a year. "It's not a question of too many suppliers, but whether there'll be enough to keep up with the demand," says PaineWebber's Mr. Grubman.

'Biggest Weakness'

Instead, AT&T's potential problems may lie within. "AT&T's biggest weakness is itself," says Mr. McInerney. "Is it culturally capable of competing in Asia in the long term?"

Case in point: customer relations. In describing their business in Asia, AT&T officials seem to mention their customers practically every other breath. "In Japan, the customer is God," says Eiichi Shimizu, a former NTT official who now runs AT&T's network-equipment operation in Japan. "And God is always right."

Some of AT&T's would-be customers tell a different story. One top executive of a major Japanese telecommunications firm, who asked not to be identified, said he considered buying network equipment from AT&T, but changed his mind because he found even routine decisions being routed through headquarters back in the U.S. "I wanted to buy AT&T products, but they are so difficult with their customers," he says. "They don't try to be arrogant, but in the end they just become very inefficient."

Similarly, AT&T hasn't been able to decide if its decentralized business strategy, in which the company is divided into semiautonomous units each expected to turn a profit, is appropriate for its Asian markets.

The debate is clearly a sensitive one within AT&T. "We don't leverage the strength of one business unit to shore up another's weaknesses," says Simon Krieger, director of network services for Asia. Still, AT&T has taken an entirely different approach in China, where the company recently opted to put all its business unit operations under a single unified command.

That sort of arrangement may be the wave of the future, too. "As we learn to do more business, you'll see more of this kind of geographic business unit, that pulls business in a country together," says

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