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Inside an International Success Story: Huawei Europe

*Huawei Technologies is currently the world's 1st or 2nd largest maker of telecommunications equipment, depending how you count. Founded in 1987 and headquartered in Shenzhen, China, the company now has more than 140,000 employees, with 46% of them engaged in R&D. Huawei competes globally in the network infrastructure market with Ericsson, Cisco Systems, Nokia and Alcatel-Lucent. It's also the world's third-largest vendor of smartphones, ahead of Lenovo and LG and behind only Samsung and Apple. Europe plays a strategic role in Huawei's approach of intense product development and disciplined, organic growth. The company set up its first European office in Kista, Sweden in 2000 and now has 11 offices with some 800 staff in the Nordic and Baltic region. **Leo Sun, the President of Huawei's main European office in Brussels since 2011, shared his personal views on the company's strategy in an exclusive interview for BMI KNOWLEDGE with Jean-Paul Larçon of BMI and Geneviève Barré of BMI partner school HEC Paris.***



J.P.Larçon & G.Barré: What are the sources of Huawei's competitive advantage?

Leo Sun: Huawei has a quite strong advantage in terms of technology. Besides being present in niches, the company is probably the only one to address all technology domains in the ICT sector, both horizontally and vertically. Management decided from the beginning to invest heavily in R&D. Huawei's R&D budget is more than 10% of annual revenue, a very significant ratio in the industry. In 2012, Huawei even increased R&D investments to \$4.8 billion, or more than 14% of revenues.

Though historically we're an engineering and technology driven company, Huawei from the start made a customer-centric approach its key priority. This means the customer's specific needs are the starting point of our business and solutions. In recent years, we had an internal debate about this positioning and we decided to strike a slightly new balance: Huawei will retain the customer-centric approach as its key focal point, but we also want to get ahead of the customer in developing solutions for future needs. Thus Huawei changed the name of its central R&D lab to "2012 Laboratories" – a reference to the tsunami in the film "2012". We've decided to invest massively in all key ICT fields because we believe we're facing a real tsunami in the digital society.

J.P.Larçon & G.Barré: Huawei recently entered the smartphone business. What are the synergies between these consumer products and your traditional telecom infrastructure business?

Leo Sun: We entered the smartphone business because the industry is changing drastically, with a convergence taking place between telecom and IT, and with radical changes at the level of terminal

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devices as well as in cloud computing. We don't know what the industry will look like in 5 or 10 years. But even if the technology, business models, and value chain all change, the overall structure of the industry will be based on three sectors: at the top is content – the cloud in the air; at the bottom are terminal devices to connect people and machines; and third is the pipe to connect the two. We've already developed a lot of consumer products such as data modems, we have a very good position in the pipe – telecom infrastructure, and we also have strong competencies in software and applications. So we think we can position ourselves successfully in all three sectors.

Marketing and distribution are very important in the smart phone business, but the changes introduced by the Internet are even more important: new distribution channels and opportunities for newcomers. Probably thanks to the arrival of smartphones, the consumer is more and more educated. Each consumer knows what he wants and what he needs personally. People's knowledge of how to choose the right product is much better than in the past. Selection power favors more the consumer than the manufacturer. The brand is important, but product innovation is gaining more and more importance. If you have a very good product – and it's not only the phone itself, but also the operating system, the application behind, the whole value chain – then you have much better chance than before to sell it and to succeed in the market.

“Talents are not equally distributed worldwide.”

J.P.Larçon & G.Barré: What are the missions of Huawei R&D centres in Europe?

Leo Sun: It's quite a mix as our R&D organization is very big, with some 70,000 people. Huawei's R&D centres in Europe contribute to the global effort with specific objectives. Our general vision is to transform the whole company into a truly global enterprise and to acquire the best talents in the industry no matter where they are. We've found that these talents are not equally distributed worldwide. For example, competencies in system architecture, which are quite rare in China, are on the contrary well developed in Europe and probably the US because of the accumulation of experience. But besides acquiring these competences wherever they are, we also need to be closer to the market because each market has different specific requirements. The European telecom market is probably the most sophisticated; it's at the top of the pyramid in terms of both technology requirements and consumer needs. So if we can meet these European requirements, we feel very confident that we can succeed on a global basis.

J.P.Larçon & G.Barré: What's the role of alliances and cooperative agreements in Huawei's strategy?

Leo Sun: Huawei is more and more open to cooperation with selected business partners. That helps create more harmony, more stability in the system. It can make the cake bigger, even if you get a smaller piece. It's also a way for a foreign company to be better accepted by the local ecosystem.

“It makes sense for Europeans and Chinese to collaborate.”

We strongly support having a strategic partnership between the Chinese and European telecom industries. Europe is strong in telecoms. But the Americans are stronger in IT, both internet and services, and these two sectors, telecom and IT, are now merging. Compared to the telecom sector, which is very standardized, the IT sector is not. So it makes sense for Europeans and Chinese to collaborate to make the ICT system more standardized. We need an ICT system in which everybody can invest and compete with common rules. That’s why we’re lobbying Chinese and European governments to work on common standards, for example the 5G standard.

We’re also developing bilateral agreements with European companies. Huawei entered into a strategic partnership with the UK company ARM, which has developed a completely new chipset architecture. We’re the first and so far only company to use this new architecture not only in our infrastructure products but also in our consumer products. A second example is our cooperation with German giant SAP. SAP is very good in software products, cloud computing, and integration, and Huawei is very strong in hardware and infrastructure. SAP and Huawei share R&D plans and develop the market together.

“There’s no **model** yet for a Chinese global company!”

J.P.Larçon & G.Barré: What is Huawei Human Resource Policy in Europe?

Leo Sun: Europeans hold major positions at Huawei Europe. That’s especially true for our staff working directly with clients and local partners, as well as for our service engineers. The majority of operational positions are taken by Europeans. We’ve been discussing for six or seven years how to promote more Europeans into top management positions, and we’ve developed internal guidance and plans for this. Things are improving, but it’s going less quickly than expected. Today most country Vice Presidents are Europeans, but all the country CEOs are still of Chinese origin.

As Huawei transforms itself into a global company, our top leaders at headquarters are pragmatic. Remember that there’s no model yet for a Chinese global company! So there’s no rush, we’ll make the decision when we have the right person.



Leo Sun is President of the European Public Affairs and Communications Office of Huawei Technologies Co. Ltd. since 2011. He was previously product marketing director for Huawei in Guizhou Province and created Huawei France. He’s an engineering graduate of Tsinghua University (Beijing).



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