

# A Partner of Choice for China

**An Interview with Paul Donovan, Chief Executive Officer,  
Eastern Europe, Middle East, Asia Pacific and Affiliates, Vodafone Group Plc**

**EDITORS' NOTE** *With more than 15 years' experience in the telecommunications and IT industries, Paul Donovan was appointed to his current position in 2006. That same year, he also joined the board of China Mobile. Donovan previously served as Managing Director for Vodafone UK Commercial; as CEO of Vodafone Ireland; and as Regional Chief Executive, also for Vodafone. Before joining Vodafone in 1999, he held a variety of sales and marketing positions at Mars Group and served as Marketing Director of Coca-Cola and Schweppes beverages. Donovan holds a B.A. in Scandinavian Studies and an M.B.A.*



Paul Donovan

**COMPANY BRIEF** *Based in Newbury, United Kingdom, Vodafone Group Plc ([www.vodafone.com](http://www.vodafone.com)) is the world's second-largest wireless phone services provider (by subscribers), offering a wide range of voice and data communications. The company has equity interests in leading mobile operators in 25 countries, including China, Germany, India, Italy, Spain, the U.K., and the U.S., and on June 30, 2007, the Group had 232 million customers, calculated on a proportionate basis in accordance with the company's percentage interest in these ventures.*

**When did Vodafone first enter China, and how has your business developed since then?**

Vodafone entered China in 2000. To date, we have invested around \$3.25 billion in China Mobile, resulting in Vodafone holding a 3.27 percent interest in the company's shares. We have another \$35 million invested in China Mobile's subsidiary ASPire, equating to a stake of around 10 percent in this business. Vodafone and China Mobile signed a strategic alliance agreement in February 2001, the intention of which was to open up broad cooperation in areas of roaming, network operations, marketing, branding, intellectual property, standards, R&D, and people exchange.

**What is China's role in Vodafone's evolving global strategy and what is Vodafone's vision in China?**

Vodafone strives to be a partner of choice for China. We want to be a contributor to China's social and economic growth and a partner in the process of economic and social transformation

in China. Whenever I go to China I'm always amazed at the sheer pace of progress and development. Last summer, I spent a week traveling around China. I landed at Shanghai airport and within three hours I'd been on the world's fastest train, checked in to the world's tallest hotel, and been across the world's longest road bridge.

As a global player, Vodafone can be a key partner as China continues its dramatic process of development. For example, the Chinese market still has a long way to go in terms of growing mobile penetration to match the levels seen in western markets. It's a great privilege for Vodafone to have China Mobile as our partner in China. We are absolutely certain that we have a great investment and one which continues to deliver value for our shareholders.

**Vodafone is committed to China and offers strategic resources to its Chinese partners. On the topic of "going forth", what thoughts have you shared with the Chinese government?**

Vodafone enjoys a good relationship with the Chinese government and there is a readiness to share expertise. Let me mention a few specific examples: we have shared our experience on corporate governance and performance management with SASAC; we have shared our experiences on telecom universal service, mobile number portability, and aspects of telecommunications law with the Ministry of Information Industry (MII) and the State Council Informatization Office (SCITO); and we have shared our vision on 3G and how 3G has evolved globally with MII and the National Development and Reform Commission (NDRC).

As far as "going forth" is concerned, our experience is that this is something that cannot happen overnight and needs to be taken in measured steps. First, you have to locate the right asset at the right price. In the telecom industry this has been quite difficult recently because of the high valuations placed on telecom assets worldwide. Then it is about having the right business processes to be able to expand effectively. Our own experience has shown us that you need to have the right mix of local and international management in your business, and you have to have a deep understanding of the cultural and operating practices of the market in which you are operating. Thus, a measured

approach in terms of "going forth" is likely to be most successful.

As an outsider, but one with a good understanding of what is going on in China, I would say we are at the beginning of a very significant period of Chinese overseas investment.

**What do you think are the challenges and opportunities for Chinese SOEs "going forth" into the global market?**

For any business, the first thing is to make sure your products and services are really relevant. Second, Vodafone found that working in partnership with an existing local company is often an important component of success. Therefore, SOEs learning to work with other businesses in joint ventures is likely to be important. Third, people going to work in the international business arena need to have a curiosity and interest in the people of those countries and they need to be willing to "walk a mile in another person's shoes."

Just having access to capital does not actually guarantee success. So to achieve success abroad, you must choose the right markets, ensure your product fit is right, select the right local partners, and have excellent people that can manage internationally. These are the key components necessary for successful expansion beyond the borders of China.

**Vodafone grew from a small company in the mid '80s into a truly global leader in mobile communications. What do you think has contributed to Vodafone's rapid growth?**

Vodafone has always been one of the most forward-thinking mobile businesses in the world. It started only 20 years ago as a U.K.-only organization and, initially, made a number of small, preliminary international investments in the '90s. It was really in the late '90s and the year 2000 – when Vodafone merged with AirTouch in the U.S. and acquired the Mannesmann Group – that Vodafone transformed itself into a truly international player. Since then, Vodafone has controlled large numbers of mobile companies around the world, and used its global and regional scale to leverage the considerable growth opportunities arising from the huge increase in mobile penetration.

Vodafone expanded internationally at the right time, coinciding with the development of the mobile market in Europe. We continue to examine selective acquisitions, but now our emphasis is more on increasing our footprint

in emerging markets. We recently invested over \$11 billion to take a controlling interest in Hutchison Essar, now known as Vodafone Essar, the number two operator in India. The year before that, we acquired Telsim, the second largest mobile operator in Turkey.

India, China, and other large-population emerging markets are critical for the next wave of development of the mobile industry. In Europe, mobile penetration in some markets is already beyond 100 percent; in China it is around 40 percent; and in India it is less than 20 percent. So the next billion people that will come into the mobile world, and have their lives enriched by mobile communications, will not be in the U.S. or Europe.

**During the process of Vodafone's global expansion, how did you build up your global corporate culture locally?**

The first thing is to have a clear vision globally, which is about being the world's leading mobile communications company and helping our customers to make the most of their time.

This is embodied in our brand essence, and this characterizes all of our businesses worldwide. The Vodafone brand essence is red, rock solid, and restless. Red represents our passion for customers and the spirit that drives us. Rock Solid is about making sure we are dependable, empathetic, and trustworthy, and finally that we keep our promises. Restless is about always challenging ourselves to improve. This brand essence is the glue that ensures the global consistency of our brand.

Then we have local management to make sure the company is as close to local customers' needs as possible. You need to have global values – which are born from working together in a big organization – and you must tailor this to local cultures to win the hearts and minds of customers wherever they live and work.

**What do you think are the key ingredients of successful global brand building?**

Successful global brands have very strong rational benefits but also very strong emotional benefits. These need to be communicated in a highly consistent manner, but also in a way that is related to the way consumers feel about themselves and the way they live their lives.

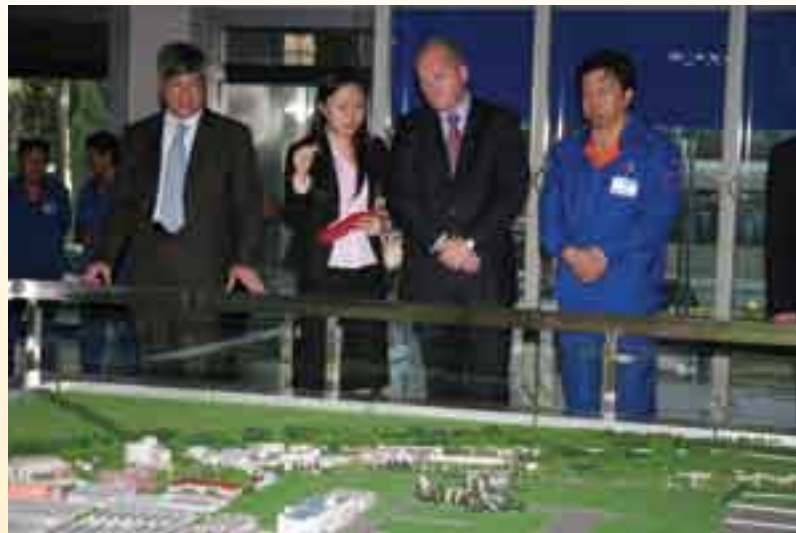
In Western Europe, there is a quite clear set of customer needs, and the positioning does not change very much. But if you think of companies operating in China, consumers in Shanghai, for instance, are more sophisticated than customers in rural villages. Thus companies need to make sure the global brand appeals to both sets of customers and that they understand what benefits the product will bring to them.

**What is your general impression of The Chinese leaders you have met?**

Over the past two years, I have met a wide variety of people from many different institutions and businesses, including Ministers, representatives from provincial government, and Chinese business leaders. Almost everybody I meet is characterized by a clarity of mission, which is fundamentally driven by a desire for growth and a keenness to learn from others in

order to speed up the pace of development. At the same time, they are very aware that what they are doing should be closely aligned with the broader needs of the society.

I was particularly impressed when visiting a Harbin factory which produces airplanes and which started an automotive business several years ago. It now produces 400,000 automobiles and 650,000 automotive engines a year. I was lucky enough to be given a car just off the production line to drive around their test track. It felt just like driving a Ford or a Toyota. The key point of the anecdote is that the company had achieved so much in an incredibly short period of time. This speed of making things happen within the framework of the requirements of society is the thing that has impressed me most when comparing China to other countries around the world.



*Visit to Harbin Aircraft Industry Group, Harbin, China, September 2006*

**How would you evaluate the stage of development that China or Chinese SOEs are in?**

I have the great privilege of serving on the board of China Mobile. The partnership between our two companies can and should be seen as a partnership of equals. China Mobile has more than 300 million customers in China and is a highly sophisticated and operationally excellent company. The basis on which we work together is truly based on sharing best practices with each other. For example, the majority of China Mobile's new additions are coming from rural China where customers have very different needs than people in developed regions. Vodafone also has many markets where we need to further penetrate the rural areas so we can learn from China Mobile's experience. Equally, we have a lot of expertise in 3G products and services and we can share this with China Mobile.

**How would you compare China with other emerging markets, such as India?**

People make quite a lot of the comparisons between China and India. There are undoubtedly some similarities, such as that both markets enjoy high GDP growth; both markets recognize the need to transform their infrastructure in order to further their society's objectives; and both countries still have large numbers of relatively poor people in rural areas.

In terms of telecommunications, the Chinese market is two to three years ahead of India. A big difference between China and India

is that China has taken a more systematic, organized, and committed approach to the creation of infrastructure to provide the platform for economic expansion. India's commitment to infrastructure has been less organized, but it is now rapidly developing.

**To those who find China a tough place to do business, what will help them turn their China challenge into a China opportunity?**

From my experience, I have five observations for companies considering investing in China. The first is to be 100 percent clear about your business objectives in China. The second is to be patient, since things may not happen at the pace or in the way you expect. The third is to be determined. The roadblocks to your progress can be overcome and sometimes, it is surprising how quickly it can happen. The fourth is about relationships, which is to recognize that to do business in China it is not about just doing business with customers. It's a requirement to understand the whole Chinese system including government, regulation, and other commercial considerations. In China, a 360 degree relationship with stakeholders in business is much more important than in Europe. The fifth point is that while this is a very large, attractive, and quickly developing market, you need to have commitment and the correct long-term mental attitude to China in order to succeed.

**How have your experiences of working in different countries changed you as a person?**

I have responsibility for such a broad geographical portfolio of businesses across four continents that it is important to recognize how different the different parts of the world are. With this in mind, there is a need to tailor your strategy tightly to individual markets to capture local growth opportunities whilst at the same time seeking to add value from being a global business. I have also become much more aware of the impact that an investment can have in transforming society, particularly societies that are at early stages of economic development.

Another observation I would make is that 20 years ago western business practices were seen as being world leading. However, more recently, new business models and approaches are emerging from other parts of the world, and particularly from Africa, India, and other parts of Asia, including China.

The final point is that the more you travel around the world and see different places, the more you appreciate that there is still so much to learn.

**Your Chinese name means "commitment" and "culture", which could perhaps be interpreted as you leading your team to show your commitment to China aligned with a culturally sensible global strategy. How would you describe your own personal brand?**

That's a difficult question, but I would like to think of myself as a leader who is focused and achievement oriented, and who understands how to work with people across cultural boundaries. ●