Allied Telesis—Succeeding in a Global Market

By Takagi Hiroyuki

PCMCIA Ethernet Adapter Card CentreCOM LA-PCM-T

World demand for desktop computers and the networking technology to link them for the purpose of sharing information, driven most recently by the explosive growth in the Internet, has seen the creation of truly global suppliers with multi-billion dollar revenues derived from increasingly sophisticated technology. Some, such as Cisco and 3Com, are better known than others, but the majority nevertheless are primarily U.S.-owned companies with overseas associates to assist with local market penetration.

However, one internationally recognized network technology manufacturer, and a global market leader on a number of key inter-networking products, is a Japanese company and is unique in that it remains the only Japanese vendor to effectively compete in its own country with the major foreign-owned suppliers. Its continued success at home and abroad is indicative of the importance its founder gave to the design and manufacture of simple-to-set-up, highly reliable and commodity-priced network hardware.

Allied Telesis K.K. (ATKK) was established in March 1987 by Oshima Takayoshi, a veteran of high-tech industry and a passionate believer in the volume manufacture of technology to industry standards. Oshima's vision was simple. If networking was to succeed and become a truly global industry, individual users would need to be connected with simple, yet highly reliable, standards-based hardware, or building blocks, as Oshima prefers to call them. Proprietary technology would have no place in the new world of inter-networking if customers were to be presented with a flexible, cost-effective and functional approach to network design and upgrading.

In the mid-1980s, very basic network hardware was still expensive to manufacture, primarily because of the large numbers of components required. Products such as transceivers were large, expensive and susceptible to component failure. Oshima's vision called for a new approach to product development, relying on advanced semiconductor technology to reduce component count, and therefore size, and to increase reliability. Manufacturing costs would also be significantly reduced, making widespread utilization an attractive proposition.

The company initially offered a product line of Ethernet transceivers under the company's CentreCOM brand. Today, ATKK has grown to offer a combination of simple and more sophisticated Ethernet and Fast Ethernet hubs and switches, routers, adapter cards, PCMCIA cards, network management software and asynchronous transfer mode (ATM) network products, all designed and built with the same reliability and cost/performance criteria strongly in mind.

ATKK's success was immediate and has been sustained. The company has enjoyed tremendous growth, averaging an increase of 150% for the last three years (1993—1996). In 1996, with its combined affiliates, the company achieved revenues of nearly $300 million. According to a study completed by International Data Corporation (IDC) in April 1997, ATKK and its affiliates were the worldwide unmanaged Ethernet hub market leader for both 1995 and 1996. The IDC study showed a worldwide market of nearly 14.2 million unmanaged Ethernet ports in 1996, of which ATKK and its affiliates sold over 4 million, or nearly 29% of the market. The same research revealed that ATKK and its affiliates led the worldwide transceiver market too, with 49%, and also the worldwide repeater market, with 40%. ATKK has also secured the lead position in the rapidly growing Japanese market for PCMCIA cards with a full range of products, including new 32-bit CardBus technology.

Reasons for success

ATKK's considerable and on-going success can be attributed to a number of product, service and market philosophies that will continue to differentiate it from other global vendors.

Of most significance is the company's independence; ATKK is still a privately owned company, a situation that has enabled ATKK to keep tight control over its own destiny and free of external influences. However, in order to gain access to the large financial resources needed to accelerate the growth of the business and to make ATKK more competitive still, the company has plans to seek a public offering during 1998.

ATKK has also rigorously focused attention on after-sales support and customer service. Oshima has always

believed that the best customer is an existing customer and that creating and maintaining a relationship would always be critical to future success. ATKK was an early pioneer of extended and lifetime warranties on its products. These warranties are currently supported by free telephone technical support, supplied by its Yokohama Customer Center, and a no-quibble advanced replacement policy for faulty products. This kind of commitment to its customers was reflected in the findings of a recent survey of 700 readers of Japan's *Nikkei Byte* computer technology magazine, where ATKK was repeatedly cited as the number one vendor in terms of brand, market position and most-wanted product.

A third significant factor in ATKK's success has been its focus and commitment to manufacturing. In the face of stiff competition from U.S. manufacturers at the high end and Southeast Asian manufacturers at the low end of the technology spectrum, many of the major Japanese inter-networking product manufacturers have opted to diversify and develop network integration businesses in order to maintain revenue streams. ATKK has stuck to what it does best, realizing that any move into the network integration business would mean instant competition and inevitable price and margin erosion.

A global business

Oshima's vision of connecting the world with low-cost inter-networking technology naturally required a strong overseas presence with local product development expertise. Today, ATKK enjoys international recognition and worldwide sales of its technology, much of which originates from products designed for the immensely demanding Japanese market.

ATKK now has group companies in 11 countries around the world and employs nearly 1,500 people. Each country's operation is given considerable autonomy in the type of products it chooses to promote and sell, for ATKK has always recognized that Europe consists of individual countries with different needs, rather than considering it an integrated community with a single business model. This recognition has allowed the individual entities to flourish.

The U.S. operation, Allied Telesyn International Corporation, has also been home to ATKK's ASIC expertise since the company's inception, and all ASICs for CentreCOM products have been designed at its facilities in Sunnyvale, California. ATKK's long-term investments in its own ASIC capability will enable it to fully exploit the growth in demand for switch products, for which ASICs are perfectly suited.

Evolving with a changing market

As well as some considerable consolidation amongst leading vendors—such as the recent merger of 3Com and U.S. Robotics and the decision by Digital to sell its networking division to Cabletron—and the increased activities of Southeast Asian companies which have driven down prices to an all-time low, networking technology itself has evolved considerably.

The industry has seen an accelerated move from Ethernet to Fast Ethernet and the rapid emergence of Gigabit Ethernet as a next-generation solution to high bandwidth demands. Switching has also become a mainstream technology and is set to overtake established hub technology in terms of port shipments during the next few years. Remote computing has also seen a rapid growth in demand for credit-card sized PCMCIA cards.

ATKK is facing these changes head on and has been instrumental in bringing low-cost Fast Ethernet and switching technology to market. The company intends to replicate its hub success in switching and has a comprehensive product release schedule for 1998 designed to increase its switch revenues by 30%. In fact, with its most recent announcement of eight new Ethernet and Fast Ethernet switches, including products that are almost the same price as their hub predecessors, this figure is probably conservative. In addition, ATKK increased its sales of PCMCIA cards from 35,000 in 1995 to over 120,000 in 1996. Forecasts suggest this will exceed 200,000 in 1997.

Over the last 12 months, two competing technologies, Asynchronous Transfer Mode (ATM) and Gigabit Ethernet, have been fighting it out for the title of preferred backbone technology. Both technologies offer enormous amounts of bandwidth compared to traditional Ethernet and both are being heavily promoted by the leading high-end vendors. By working closely with companies such as NEC Corporation, Hitachi Co. Ltd. and IBM Corporation, ATKK has acquired a high degree of skill and experience in ATM and has increased its market share in Japan as a result. As part of its commitment to ATM, ATKK founded the Allied Telesis Inter-networking Association (AIA), a training system designed for engineers working with ATKK's ATM products.

Gigabit Ethernet gained early momentum during the second half of 1997, with many vendors beginning to ship Gigabit technology. However, ratification of the Gigabit standard is not expected until 1998, which means that customers choosing to purchase Gigabit products now are taking a considerable risk. ATKK will actively participate in the Gigabit technology arena, and R&D investment is already being channeled in this direction.

Justified optimism

The inter-networking market is a rapidly growing one and ATKK has established itself as a leading Japanese manufacturer in this field of technology. By focusing on its key competencies—ASIC design, manufacturing, sales and support, ATKK will continue to maintain its leadership position in Japan and across the world. JJTI

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