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Getting around global economic recession Market opportunities in China

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Zebra's June 2nd Shanghai Press Conference

People are quite familiar with Zebra Technologies Corporation, an internationally-known company in the goods printing and automatic identification field. From Zebra's logo, people can see that it related to barcode technology. Its technologies have been widely used in manufacturing, retail, healthcare, logistics and government sectors. With its recently strengthened technical forces in Guangzhou, Zebra Technologies will improve its design and manufacturing capabilities and further consolidate its position in the Chinese market. In recent years, RFID technology has emerged as a fast-growing area of the industry. Zebra entered the RFID field by first developing label printers which can be used for both RFID and bar code identification. This has helped the company to develop unique RFID card printers and make great achievements in the market.

On June 2, 2009, Mr. Anders Gustafsson, CEO of Zebra Technologies, Mr. Hugh Gagnier, Senior Vice President for Operations and Business Development at Zebra Technologies and Mr. Anders Gustafsson, President for Zebra Technologies Asia Pacific, held a press conference in Shanghai.



Photo 1: Mr. Anders Gustafsson, CEO of Zebra Technologies

Zebra's global business expansion

Mr. Anders Gustafsson made a detailed introduction to Zebra Technologies' business expansion, saying that:

How does Zebra Technologies help its customers? Why do customers buy products from us? And, why are customers willing to use our solutions? We do not just provide product or devices to our customers, we provide them with applications and solutions which help them to identify, track and manage their assets, transactions or personnel. At the same time, our solutions and products can help our customers improve their operations and their internal workflows and procedures. We can offer customers more returns than they expect.

We need to ensure that our customers can handle the right asset at the right time and the right place. We hope that this vision can help Zebra Technologies to enter more fields.

Specifically, how do we convey our values to our customers and help them to get values? We do so in three ways. First, we help our customers increase their output and speed, including the speed of packaging and turnover at their logistics centers, the speed of delivering goods at container docks and how to make containers pass through docks faster. This will ultimately bring extra operating revenue to our customers. Second, we help our customers operate their businesses more efficiently by automating some of their workflows. Our automation methods can help them improve efficiency. We also use automation methods to allow our customers to better operate their businesses. Many manual workflows can therefore be abolished. Third, we can help our customers to improve their security.

In the past few years, we have taken a market lead in various industries. We offer a much wider product range than any of our competitors. In addition, as a global company, we have business exchanges with over 100 countries. Over 90 percent of Fortune's *Global Top 500 Enterprises* are our customers. We also have businesses in different markets, which means our business leadership is much more diversified. We operate in wide geographical regions and different vertical markets.

Ten years ago, our revenues mainly came from the United States. Now, 55 percent of our operating revenues come from outside the United States. Asia is the fastest-growing market for us – in the Asia Pacific Region, we have a business growth of 35 percent. We have operated in China for 10 years now, and have now secured a large market base here and have over 1,000 employees in China. Along with our future production personnel, the number may well top 2,000.

Zebra Technologies is also very lucky in that our businesses fit well with some global trends. Currently, the supply chain of the world economy is becoming more and more complicated as economic globalization deepens. Twenty years ago, many products in the United States and Europe were both produced and sold locally. Now, the whole supply chain is getting longer. These products may be designed and made in other parts of the world, including Asia, but are sold in Europe or the United States. Our producers and retailers, therefore, are spread throughout the world. However, in order to improve our efficiency throughout the entire supply

chain, good support tools will be needed. The product and solutions provided by Zebra Technologies address these needs perfectly.

Industrial manufacturing and retail are the two industries that we have traditionally focused upon. In the past, if customers wanted to sell their product, they must have a label for them, and such labels must comply with set standards. For example, if you want to sell your product to Wal-Mart, you will be required to have a bar code. This is a solution provided by Zebra Technologies. We have had good business growth in this market. However, we hope that we can promote such businesses in more fields.

Zebra has set up an enterprise solution division to provide optimized asset tracking and management solutions for goods logistics in a complicated logistics operating environment. This will allow Zebra to provide many more, increasingly tactical solutions to our customers. The traditional practice is to adopt bar code technology and passive RFID technology to locate assets. Now, our latest technology adopts active RFID technology and GPS to expand the application platform. This will make us more competitive in the fast-growing market. These new and tailored solutions will make it possible for customers to track, collect information and manage their assets in real time, and plan and implement their automatic management systems in detail amidst complicated logistic operations.

Since 2008, we have constantly made investment in certain industries, and received good returns. We hope that we can seize every development opportunity that may arise in the future. For this purpose, we have recruited specialists and sales personnel in many business fields. In 2008, we introduced 10 new printer products. We have made big investments in R&D, and so will introduce a series of new products into the market soon. While the new environment is not favorable, we have nevertheless made full preparation. We will continue to make big investment in the Asia Pacific Region, because it is a very important market. In the short term, we can also strengthen our position as the market leader. Moreover, we will transfer all our production to Guangzhou by the end of this year.

To sum up, Zebra Technologies possesses sufficient financial resources and strength as well as capabilities and strategies to develop innovative products for different markets, and customize or especially produce such products for customers. In China, we will also develop products suitable for the local market. This is the direction for our future development. No matter what situations are before us, we can always get enough returns and have sufficient possibilities for growth.

We now have high hopes for the future. In particular, we are very optimistic about our prospects in China. China has become the third largest market in the world, and we hope that its position and ranking will rise further.

Zebra's technologies and products

Mr. Hugh Gagnier, Senior Vice President for Business Development at Zebra Technologies,

talked about Zebra's technologies and products. He said:

First of all, I would like to talk about our core market, because of the need to protect and improve core markets. What is a core market? In fact, we are now focused on labels. This is part of our core market. For example, if we look at labels in the retail and express delivery industries, labeling is a very important part of work in big enterprises like Wal-Mart. If you want to send your product to big supermarkets, you must have standard and compliant labels for them. Dealing with this is our core strategy. In addition, we focus on label printing on demand. We not only print labels but also look at our customers and their actual applications. For example, some special transactions need to be printed out on the spot. On such occasions, our core market is label printing on demand. There is also a kind of printing with identification. Therefore, a key area of concern is to protect and increase our market share in this field. In addition, we also need to invest in new middle and high-end markets. We need to get more market share for our product.

Second, I would like to introduce our new products and solutions. Anders Gustafsson just said that we introduced 10 new products to the market in 2008. Many of these were related to label printing on demand. Our past products were more related to desktop machines. But the new products we introduced in 2008 or the new products that we are about to introduce into the market in 2009 have a mobile printing function. I think that printers for mobile workstations will be our future.

We must also provide solutions to new markets. In addition, more content must be offered. We have many dedicated channels dedicated to working on this. For many years, we have invested large sums on channel building. Because we are a globalized company, we need to do coordinated and consistent work. Merely bringing product into the market is not enough. When we have new printer products and introduce them into the market, a series of solutions will be taken into the market. This is something that we have promised from the outset, this is where our strengths lie. It is also the most important part of our future development.



Photo 2: Zebra label printer

In Guangzhou, we have strengthened our technical services. Currently, we have two technical centers in the United States. These centers test our products and research new suppliers. Now, our product searching has been moved to China. For us, this marks a big change. Our new technical center in Guangzhou can now do much of the work mentioned above. It can not only save costs but can develop new products at a lower cost. We can use this center to research and develop more new products.

Thanks to our strategies, our operating revenues have grown faster than our operating costs. In one project mentioned by Anders, we have already produced a lot of products in China. For example, we have three distribution centers, one of which is in China. This center allows basic configurations to be made at the center, by adding more functions at the center, basic configurations can be turned into new products. This can raise our gross profit ratio from 2.5 percent to 3 percent. We hope that we can start to achieve this goal in 2010. Enterprise resource planning (ERP) implementation is another important area. Many companies have implemented ERP, but many errors were made in the process. This is because they failed to make comprehensive considerations when working out their ERP. Examples include the time sequencing of the whole project and the segmentation of the project. When we introduce our ERP platform, it should not affect our actual business process. From the customer perspective, there should be no service disruption or stoppage. This is key to the ERP implementation process. There must also be good time control and progress control. In addition, it is necessary to connect the whole ERP implementation process with supply chain control, and the R&D model with the transition to a new model on the supply chain.

Our main purpose is to achieve the vision or mission that Anders just mentioned, i.e. through our identification technologies including barcode identification, help our customers to better identify, track and manage their assets, transactions and personnel. In addition, through such solutions, we aim to help our customers better improve their internal operational efficiency.

In final analysis, our work is to allow our customers to develop such capabilities in their companies and adopt suitable products, solutions and software to better manage assets. This is our vision.



Photo 3: Zebra executives at the press conference

Zebra's business development and prospect in China

Mr. Anders Gustafsson, President of Zebra Technologies Asia Pacific, introduced Zebra's business development in China, he said:

Three years ago, the Asia Pacific Region only accounted for 6 percent of Zebra's global sales revenue. In the past two years or so, we increased the percentage to 10 percent from less than 7 percent. Our long-term goal is to bring the figure to 15 percent in the next three to five years. Zebra has now recruited many people in the Asia Pacific Region. In China, we have moved our whole manufacturing plant in the United States to Guangzhou. In China, we have offices in Shanghai, Beijing, Guangzhou, Nanjing, Chengdu, Hangzhou and Shenyang. We have about 800 employees in China, including those in manufacturing. This is only a start. Anders comes to the Asia Pacific Region once or twice a year, because we attach such great importance to China. He comes to China to see our competitors and talks with our partners to get more information and help our company to develop localized products that suit the Chinese and Asia Pacific market.

The percentage of revenue contributions from the Asia/Pacific Region have grown to 10 percent now from 7 percent in 2006. I personally think that if there had been no economic crisis, the figure could have reached 12 percent. However, economic turbulence has affected everyone. Of course, because the manufacturing industry makes up a big part of the Chinese economy, China has more or less been affected by the economic crisis. However, three years ago, we slowly expanded businesses in the manufacturing industry to include other sectors such as government, retail, logistics, healthcare and mobile services. Slowly you will see these new sectors being pushed forward by us. We also have a high gross profit margin in the Asia Pacific Region. Worldwide, we grow every year, with our growth now at 56.7 percent.

We have a channel activity called Partners First. In the past three years, we have brought Zebra's whole channel activities to every major country this scheme. Now, there are only some small countries left for us to develop. Partners First is a very good channel activity. Why? The activity is designed to bring our strategy to develop first and second-tier cities as well as new industries in China and the rest of the Asia Pacific Region. This is very important for us. In 2008, businesses from our channels grew 21 percent from 2007. You have just seen that Zebra now spends much of its resources' and time on Beijing, Shanghai and Guangzhou. It has yet to develop second and third-tier cities. By contrast, HP has already entered sixth-tier cities in China. I therefore feel that we still have a large room for growth in China.

In addition to new industries and first-tier cities, card machines are another major field fuelling our growth. We attach great importance to this product.



Photo 4: Zebra card printer

For the consumables market, Zebra has developed carbon ribbon labels in the past year. The result was that we grew by over 30 percent in just one year. You can, therefore, see that we have total solutions for barcode printers, card machines and consumables. In the BIBC field Zebra Technologies has the most comprehensive solutions. In the current economic turbulence, many governments, including China, Australia and the Asia Pacific Region, are all providing financial stimuli for the economies. This is mostly directed at the government, healthcare and (possibly) retail sectors.

In addition to the consumables which we develop on our own, if there are opportunities for us to acquire some companies to make our consumables business bigger, we will look at such opportunities. Our Partner First Program has different partners – some work on distribution, while some are system integrators. If you work on distribution, you can only get goods from Zebra and then sell them to your agents. But, you cannot sell them to end users. Big system integrators value big solutions, and so they need more support from Zebra. They directly get goods from Zebra and develop new markets and endusers. This is a process of mutual promotion, and we have close cooperation with them. As for new sectors, this year Zebra will devote much time to the government and healthcare sectors. Though the manufacturing and logistics industries have been affected by the economic crisis, our market is still huge. Not including Japan, we now have a market share of 45 percent in the whole the Asia Pacific Region.

The second goal is to develop our new markets and new industries. The third is to enter first and second-tier cities. This year, we will spend some time to look at first-tier cities in China. Since there are so many first-tier cities in China, it has been impossible for us to cover all of them.

Through introductions from CEO Anders Gustafsson and Senior Vice President Hugh Gagnier, participants gained a full understanding of Zebra Technologies' business expansion in the

world and China and of the coping measures which Zebra Technologies has adopted in the face of the global economic crisis. They also took notice of the fact that Zebra Technologies is especially optimistic about market expansion in China and its intention to move its R&D centers and plants in other parts of the world to Guangzhou, China.

Such strategic structural adjustment demonstrates that Zebra Technologies has full confidence in China's economic future and the Chinese market. This is also a tremendous push and support for China's label and printing card industry. We hope that Zebra Technologies succeeds in China.

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