

# Different strokes for telecom start-ups

**A company's approach to building a competitive offering in the telecom market will often vary, depending on whether it focuses on infrastructure or content. Yossi Bocker, founder of RED-C, and Effi Shuv, founder of Noah Technologies, discuss with Nicky Blackburn how they develop their firms in their respective corners of the telecom market.**

**W**hen Yossi Bocker, co-founder and CEO of RED-C, set up his optical amplifier business in 2000, he knew that one of his key tasks would be gaining the trust of potential customers. "They had to understand that we were around to stay," says Bocker, who now employs 100 staff and sells to some of the most prominent international system vendors in the telecom industry.

"Tier one customers are very reluctant to deal with small companies in the field of optical amplifiers because it's a crucial element in their network," he explains. "Customers have had to develop trust in that we would provide a best of breed product and that we would be around to offer physical support if there was a problem. Many promising new vendors have just disappeared overnight. We had to work very hard to convince them that RED-C was building a stable and prolonged base, ensuring it would be here for many years to come."

This issue of trust is essential for businesses in any sector, but for companies developing expensive new infrastructure for the telecom industry it is even more significant. Infrastructure is by its very nature the fundamental backbone for any service provider. Introducing new technology to this complex backbone is a highly risky procedure that can – if something goes wrong – cause enormous financial damage to the network provider.

As a result, customers insist on lengthy and thorough testing of all new technologies and are reluctant to purchase solutions from small unproven companies, even when this technology seems to offer the best solution. "Providers have a conservative, negative approach to implementing new technologies," admits Bocker. "Even if you offer a better product than your competitor, it doesn't mean that you will gain customer access."

RED-C, based in Tel Aviv with offices in the US, UK and Italy, is a pioneer in the field of locally controlled optical subsystems, based on optical amplification technology. According to the company, this new concept allows customers to build simple, resilient, and more reliable optical networks at lower cost.

RED-C was founded in the middle of the high-tech boom, a spinoff from El-Op Electro-Optics Industries. It raised \$17 million in seed financing from US optical network components company MRV Communications, a sum that today sounds substantial, but in those heady days was regarded as fairly modest. Unlike many start-ups founded during this period, however, Bocker and his team did not buy into the whole bubble climate, but instead spent frugally, determined to make the money last. Money from the seed round is still in the bank today, and the company has been profitable since 2004. There have been no other financing rounds, and at the end of 2005, the founders of RED-C staged a management buyout, funded in part by Cedar Fund. Today 50 percent of the company is owned by Cedar Fund, and 50 percent by the founders and employees.

RED-C began customer evaluation tests of its products in 2002. This sounds relatively quick, but in fact the company began R&D as early as 1995, when it was still under El-Op's wing. Bocker admits that the first sales were difficult to make. "It was a very long process," he says, adding that the usual sales cycle in this industry is 18 months to two years. "We had to build prototypes and go through many tests to convince customers that we were capable of doing what we said we could. We also had to customize our product to the specific hardware and software needs of each vendor."

The company was fortunate, however, because it gained its first customer, Chromatis Networks – a leader in metro optical networking systems, in 1998, when RED-C was still a division of El-Op. "There's a huge difference between developing a product in the lab, and developing it for a customer," says Bocker, who prior to founding RED-C was director of business development at El-Op and responsible for RED-C's activities there. "It changed the whole concept of the company. By working with the Chromatis team, we understood the industry's needs, and this helped us to be more focused."

One of the vital things to remember when making a sale in the infrastructure business is patience, says Bocker. "Unless you approach a company at the right time – at the phase when it's developing its network system – you will not have a chance to convince it to examine and test your model. If it has concluded the development phase, it won't touch your technology for years to come. A company will not damage its system just to implement new technology. In this case you have to wait, sometimes three or four years until the company moves to its next generation. During this time you build your relationship so that when the company does move to its next phase, you are



Yossi Bocker

there – a qualified and reliable candidate to work with.”

The challenges do not stop there. Even once a purchase is agreed upon, a prototype must be developed, tests run, and changes made. The new technology must become part of the general development process. “It’s a very costly process in terms of money, energy and time,” says Bocker. “There are many barriers to cross, and you must have enough oxygen to proceed through these challenges until you finally come up with the final product.”

One way small infrastructure companies can pass these obstacles is to cooperate with larger firms that serve as a marketing channel. This helps a company penetrate new accounts. “

RED-C faces growing competition from rivals that primarily compete on price. RED-C fights back in various ways. Firstly, all of its IP is patented – an important move when the core business is technology. Secondly, Bocker prefers not to rely on patents alone. “It’s more important to be ahead of the competition,” he says. “You always have to develop the next generation of product and make sure you are ahead. We have launched many new products that afterwards become industry standards.”

In terms of price, RED-C is working to offer products that are more comprehensive and have many new functions previously carried out by network management. This helps the system vendor simplify network management, thereby reducing network costs.

After a slow start, RED-C is now beginning to increase its customer base and sales rapidly. “Many of our customers have such high confidence in RED-C products that they choose our company as the exclusive source for certain lines of products,” says Bocker. Within two years, the company expects its revenues to reach \$40-50 million.

“In infrastructure it’s much harder to penetrate the market, but once you develop a relationship with a customer, it is a relationship that lasts many years,” says Bocker. “All the obstacles that were in your path before, now become obstacles for your competition. If you have a good company, with good value and a good product, it will not be replaced for many years. Business becomes very stable.”

RED-C’s goal is to offer its growing customer base new products and services to maintain its growth momentum. “We want to become a one-stop shop for high-end optical amplifiers,” says Bocker. “If we deliver innovative ideas and products, we can expand the boundaries of our product offerings to our customers who don’t have the development capabilities in this field. This is an open channel through which we can push more and more products.”

In the long run, RED-C plans to become the major player in its market and does not intend to be acquired.