The world of telecommunications is being revolutionized by emerging network technology, new applications and converged solutions. These changes are occurring at all market levels, including the services consumed by businesses. Many of these new services and solution options are IP based and present many challenges and opportunities for incumbent players in the telecommunications space. SBC of course is no exception to these dynamics. Frost & Sullivan recently spoke to John Regan, Vice President of Business Sales & Marketing for SBC Operations, about these trends and how SBC is taking them on.

Frost & Sullivan (F&S): The burgeoning market for IP services is one of the most important trends in the business marketplace and of obvious importance to companies wishing to compete in the business communications space. How would you describe SBC Communications Services’ value proposition in this area and why it is unique?

John Regan (JR): I would describe the SBC value proposition as being IP focused. It is one of our major corporate imperatives as the market moves and customer needs continue to evolve into the IP world. When you look at our portfolio of services, you will see we have a full set of IP solutions today. We are one of Cisco’s largest distributors of Voice over IP systems. In fact, we were recently recognized as Cisco’s U.S. partner of the year at the Cisco Partners Summit. That award was primarily for our position in the marketplace helping business customers with Voice over IP implementations around the Cisco/Avid platform, which is a fully managed offering. We take a lot of the complexity out of the equation for customers and can provide an end-to-end service. And part of that value proposition is that we have a full portfolio of services.

While Cisco is one of our partners, we also work with Nortel and Avaya and have a portfolio of solutions in the premise, or CPE category as well – all fully managed. And, we are a leader in the hosted Voice over IP space. Think about centrex as technology that has pretty much dominated the marketplace for the last 30 or 40 years - a shift has begun to occur to move into a softswitch, platform, hosted, fully managed, taking advantage of IP networks that are in place or will be part of the overall adoption curve. So, we feel we have a full array of solutions with a portfolio that matches the customer needs. The other part of that value proposition is that you have to understand the customer's business, what they are trying to accomplish and build the right solution to meet the customer needs. I would say that’s probably our biggest differentiator from other providers in the marketplace.

F&S: What are you finding to be the greatest challenge SBC is experiencing in successfully selling this value proposition? How are you addressing that?

JR: When you think about the migration to IP – and we have done a tremendous amount of research and we think about the customer first and what is the customer experience – what we understand is the way that customers learn about the technology, the way they buy the technology, the way they get the technology, how they interact, how they pay – and they really want it to be managed versus serviced. It is a new customer experience model. So, we are trying to break away from a more traditional model of how customers purchase services in the IP world and move to a model that redefines that customer experience. The model around learn, buy, get, interact, pay and manage requires what we call a "day-0" customer experience. That’s the pre-sales effort on how our account teams deal with our customers, it’s more of an iterative process, to learn more about their business, to find the right solution to meet the customer needs. I would say that’s probably our biggest differentiator from other providers in the marketplace.

When you move into the management phase it is critical because it has to be on 24x7, it has to be monitored and you have to be flexible enough to handle bandwidth changes, traffic, security – security is a major challenge as we need a secure robust network. So those are the greatest challenges – customer experience, and how we manage that from an end-to-end perspective. So what
are we doing about that? A tremendous amount of training to our sales teams all throughout last year, moving not only into the technology area but how to address the customers' business environments and the solutions they require and what vertical applications need to be addressed. And then, we are building new processes to address the day-0 process. And a new process around the day-1 implementation and how we go about implementing the new IP processes. Then the day-2 process, when you get it up and running, what's the approach that you take in managing the customer's environment?

So people, processes and tools are certainly being addressed. It's going to be more web-centric, more on-line and more in real-time. We are also rolling out new tools around TCO (Total Cost of Ownership) so for that day-0 process we also help the customer understand what their total cost of ownership is when they move into an IP environment. And last, we're working with partners. When you look at moving into the IP world you have to address the end-to-end solution. You need to go beyond the firewall and the router and more into the desktop. That's where we work with HP, Cisco and other partners to help us address customers' end-to-end solutions for very large and complex environments.

F&S: In which business markets do you believe SBC will gain market share, and why?

JR: We're very bullish on our entire business segment. The way we break our segment down is by SMB, which is sub-divided into a customer set that's 0-50 and 51-250 employees. We have a vertical segment called GEM, which consists of local and state government, education and medical. Then we have our Global Enterprise space.

Let me start with the SMB space. We expect business growth in this space, as customers are thinking through the decisions that have been made from a regulatory perspective, as we've seen in the FCC. We're bringing the packages and offers together, keeping it very simple, addressing customer business needs and giving them flexibility to have the right packages and right offers for all distance services, voice and internet or broadband type solutions. When you move beyond the low end of that SMB space, it's all about packaging and bundling and having the right value proposition and all the right solutions – the office-in-a-box scenario. We can bring together a full portfolio of services to address that middle market customer requirement. We're seeing good traction around our offers and solutions and being able to address customer needs in the IP space.

When you get into the Global Enterprise space and the Federal space, we have seen comparisons where SBC is growing in the data market space, now that we are a national provider and have an end-to-end offer nationally, as well as globally. We're continuing to see growth in the managed services space as customers are being challenged with doing more with less and having the requirements for IT to outsource specific functions that are not strategic in nature to their business. With the scale and scope of SBC, we can handle some of those more mundane issues that they were handling in-house and offer that as a value proposition for that segment of the market. The other thing we have is a full portfolio of optical or metro services. We continue to see strong growth in moving beyond the high cap DS1 and DS3 to switched Ethernet, as IP becomes the de facto standard. Switched Ethernet, native LAN and wireless applications are all good growth engines - managed security, managed services, Voice over IP. They cut across all the various business segments. We expect growth in all those segments.

F&S: Briefly describe SBC Communications’ current revenue streams, in terms of business products and services. What other products or services will you be adding to the mix in the near future, how will that change from the current focus?

JR: We can get you that information and what we report to the Street. That will give you a pretty good view of current revenue streams and where we see growth. That will happen in the next week or two. But, from our products perspective, we are seeing the shift from the core services, voice, toll and LD. We see growth in long distance, as we package long distance into our offers. We see good growth in the metro and optical space. We see great growth in the layer-3 IP space, both from an IP-networking and dedicated-Internet-access business-DSL perspective. And, then our full suite of services around managed services – and that's everything from managed routers to managed Voice over IP to managed security – those are all tremendous growth engines for us. We will continue to augment and enhance that product line. Hosting is another part of our managed services, and hosted Voice over IP is another area that we expect to see growth in.

F&S: What are the most significant industry trends you see in business communications networks and applications? What role will SBC play in these trends?

JR: You look at the layers, one through seven, and you see those more closely aligned and more integrated, in terms of how you offer solutions, products and services, from an end-to-end perspective. I think as you carve it out, there is a real requirement to address customer business needs to have more vertical business solutions, to understand customer's vertical applications, if they are manufacturing, retail, healthcare, government or education. The solutions you have in your portfolio need to address and speak to the customers in their language about how to solve the issues and challenges they have. It's not about product or the greatest technology. It's about how to address their issues and requirements. How do I grow revenue in the business I'm in, how do I take cost out of the business, how do I improve my return on invested capital or return on assets, how do I take cost out of the business to be more competitive, or how do I simply connect better to my suppliers, my employees and customers? Those are things we have to address from a vertical segment. As you look across the stack, those solutions build upon each other from layers one through seven. I think you'll see a trend that solutions will need to be more integrated. You may not be able to do it by yourself, but you have to have the right compliment of products, services and partners to build that endless and seamless service offering. Again, that customer service experience model that I talked about earlier requires you to address days 0 through 2, provide end-
to-end service across layers 1 through 7.

I think you’ll see wireless/wireline become more integrated in that regard. The customer experience needs to be pretty seamless across the board. In the applications that impact wireless, applications that are in the network today that will touch an IP environment – how do you provide a managed application performance set or capabilities where the network and applications can be managed from a seamless end-to-end offering? So, hosting and data centers become part of that overall equation. In the IT industry, in general, and where telecommunications start to come into play, that’s the trend we’ll continue to see. It’s important for us to bring those solutions and capabilities to the marketplace in a seamless end-to-end offering for our customers.

F&S: How would you describe the competitive landscape at this point? How do you feel, your services are fairing in the market? What are your customers telling you?

JR: Of course we have a lot of different competitors, depending on the segment. In the SMB space we are starting to see cable becoming more of a competing technology. In Voice over IP, the value proposition for cable in business starts to become real. The broadband capability and obviously the ability to package all this in Voice over IP solutions sets. Our bundling and packaging is critical in addressing these customer needs. We have a wireless component, a yellow-page directory component, along with voice and data type capabilities to differentiate our services in the SMB space. When you start to move up to the higher end of the SMB space, again it’s the full portfolio of services. What we are seeing from a competitive landscape perspective, it’s more about an integrated solutions approach. The ability to package voice, local, long distance, 800 service, call center solutions, Internet connection, data – the ability to bring those capabilities to the customer are critically important for us to address, and that’s what we are doing. What’s interesting in the SMB space is the local VAR (Value Added Reseller) is a trusted advisor in the data environment for 45 to 48 percent of these customers’ technology buys. The ability to work with partners in the VAR channel we believe is a critical component of moving data services and applications down in the SMB space. That’s part of what you’ll see us do as we move forward.

We see a multitude of competitors in the marketplace as we assess the marketplace. We try to understand what they are doing to make sure we have the right packages – they are probably doing the same thing with us. It’s all about the customer; how do we address their needs. Then when you move up-market, the government, healthcare and large enterprise space, it’s predominantly traditional IXC carriers, AT&T, MCI and Sprint. All of them bring different capabilities, scale and scope to the equation. We are also seeing systems integrators across all these segments, starting with the high end of the market but wanting to move further down-market in packaging their products and services, with telecommunications as part of the overall solutions set. We see multiple competitors.

What are the customers telling us? A large portion of our management team’s salary is at risk around customer satisfaction. So, we do quite a bit of client satisfaction from a transactional event perspective from tasks we perform such as installation and repair to huge installations of Voice over IP networks. We survey our customers annually on how well we are doing and the areas for improvement. By and far what we are seeing is that our customer satisfaction is on an upward trend and improving. It’s an area we are very focused on. At the end of the day, we believe customer and client satisfaction are key tenants of our success as a provider in this marketplace.

F&S: What do you see as the greatest strategic shift in SBC’s B2B strategy as networks move towards IP and away from PSTN? How will this be reflected in the way you adjust/configure your sales and marketing approaches going forward?

JR: This is a good summary question. It links back to the first six questions we talked about. It goes back to the customer experience model. How do we adapt as we move away from the traditional environment we’ve grown up with over the years, and move into the new customer experience model – what we call customer experience for IP and complex solutions. It’s all about how customers learn, buy, get, interact, pay and want to be managed versus serviced. That’s the model we are moving to and we build that through people, processes and tools. "People" is the organizational shift that you need to have to support that new customer experience model from a day-0 through day-2 perspective. Then having the processes in place to understand that because customers will buy these services differently, they have different expectations on how solutions need to be implemented, managed and serviced. We have to adopt that model as well, and that’s what we are doing. And, of course, having the new tool sets – new OSS’s platforms – developed. Think about an IP network that has most user services riding on it. Voice over IP is just one of the applications that ride on that network. All the other data traffic may be riding on that network. Video may be riding on that network. Security is a big component of that network. So, the ability to have the tools in place to look at a converged network versus an independent stack of services now comes together with convergence. We have the ability to manage that from an end-to-end perspective and now layer on an application with a converged network and security. People, processes and tools are put into place to address that new customer experience model.

Then, the Web becomes all the more important, because from that customer experience model, the learning takes place online. Just as we buy cars today, customers are going online and learning about the services. They may want to interact about how to build configurations or do test pilot cases, so our Web experience becomes all the more important, not only from a day-1; day-2 perspective, but also from a day-0 perspective, in terms of how the customer learns and buys and gets the services. Real-time is very important and then understanding the customer needs around vertical solutions sets and what’s top-of-mind around CXO imperatives about how they need to align with business strategy and get the highest return on their investment, lower their total
cost of ownership. It’s critically important that we move with our customers in that environment.

**F&S: What are you, as the VP of Business Marketing for SBC Operations, most excited about for your company? What are you looking forward to?**

**JR:** I’m very excited. We have a great company and we have a great sales and service team where customer service is always thought of as job number one. We have embraced the adoption and migration of IP. We have great customer insight – it’s all about the customer. When we think about our very small customer, 50 employees or less, we now have a small-business council of 33 small-business customers that is analogous to our board of advisors for our largest customers. They are offering us critical insight about what is important to them as small-businesses and how to use telecommunications - data communications as a part of their business environment to make their businesses more successful. So, we have an opportunity to test our advertising, packaging and promotions with a small-business council. We move up the value chain with our FOCUS end user group. We have over 6,000 customers as part of our FOCUS end user organization, doing the same thing with them. We sit with the board of directors and help train our end-users about technology and services. We provide a networking forum and then are able to brief them about what’s going on in the marketplace from a product, technology, services perspective. They have given us great insight. Now we are starting with a grass roots effort with local chapters across our markets. This helps drive SBC to be the company they want us to be and to be better at what we do.

At the very high-end of the market we have been very satisfied with the CIO summits we host. We host about three or four summits per year bringing in 40 or 50 CIOs for two days. We talk with them about what’s going on in their minds, what we need to do better, how they run their business and what’s important from their perspective. We’ve gotten great feedback from them about what we are doing in the marketplace and how we can get better. We cap that off with a board of advisors, a twenty member CIO Board of large enterprise global customers, where they give us advice and counsel on how to build the new SBC going forward as a true national and global provider. We look at all of those inputs. We are very excited about our connection with our customers and about meeting their needs. They are very much part of our product development – our roadmaps, the customer experience model, and how we align with their business goals and objectives to ensure we are in sync with what they faced every day. So, we are very excited about that and about what the future holds for us with the proposed acquisition that is on the table for us and how to build the best in class global company. We believe we have a very strong foundation to build upon. We have success, and great customer relationships and testimonials to build upon as we move forward. We are very, very excited about the future in this telecommunications landscape.

**F&S: Would you like to add anything?**

**JR:** We acquired a company last year, Callisma Consulting, which has been a great acquisition for SBC. Callisma is a team of "crown jewels," prized assets...which are the people. They have been instrumental in moving us into the global enterprise space from a consulting perspective – working with some very large customers, consulting on their needs and requirements and being able to fulfill as required with SBC’s products and services. I put a plug here for Callisma because they are very much a part of our family and have been key to our growth in the enterprise global space.

One other thing: you will see some announcements come out soon about security. Security is on the top of mind, right. It is on every CIO’s mind today. A lot of the service provider community is working to address that. Cisco has also been vocal announcing security as a major initiative with their customers. You’ll begin seeing some announcements around expansion of our portfolio around managed security shortly. You’ll see a very robust product offering and bundling solution where we can build bundled secure solutions sets. I ask that you stay tuned for that. It will include intrusion protection but also more around intrusion prevention services. We are all over the managed security space. We feel that the next set of offerings we launch will be part of a very robust managed security portfolio.

**F&S: Thank you for your time.**