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Cisco Systems

connections 2000

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Carrier Barrier

Keeping Business Momentum Through Service and Architectural Transitions

Jeff Bowden

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Incumbents in Transition

ILEC/IXC Changing Business Fundamentals (I)

Competitive position →	Protected to exposed
Demand growth →	Predictable to volatile
Customer position →	First/second chair to one of many
Customer relationships →	Large/stable to smaller/shrinking
Share of wallet →	Retail to retail/wholesale

ILEC/IXC Changing Business Fundamentals (II)

Product lines →	**Few long lived to many with explosive/interdependent growth**
Network →	**Closed to interconnected**
OSS →	**Network elements to service defined**
Basis of competition →	**Scale/ubiquity to service/location-specific**

Merger Economics Supporting Performance

ILEC Consolidation Process Began Five Years Ago

SBC/PacBell/SNET/Ameritech

Nynex/Bell Atlantic/GTE

U.S. West/Qwest

Worldcom/MCI

AT&T/BT Concert

Europe/Asia next

Merger Economics Compelling (I)

Enormous cost reduction everywhere

- Headcount
- Systems
- Real estate
- Procurement
- Non-usage

Positive experience prompted second moves

Sharp pencils everywhere

Merger Economics Compelling (II)

Staff department cuts eliminated core functions

- Fundamental planning
- Wire center planning
- Access planning

Embedded momentum provided temporary support

Immediate P/L benefits to carriers

Local knowledge lost

Merger Economics Compelling (III)

Carrier/vendor relationship forever changed

- **Vendor role expanded**
- **Wrapped former staff function expenses (P/L) around boxes (capital)**
- **Vendor provided Telco with staff**
- **Fundamental planning evolved to preferred vendor's technology migration architecture**

Merger Economics—Exit State (I)

Improved core business efficiency

Extraordinary increase in complexity

Growth opportunities touted

Little growth recognized

Merger Economics—Exit State (II)

Sequential net income growth lifted equity prices (for a while)

Management got rich (for a while)

Defending an incumbent position attractive

Attacking incumbents became commonplace

North American consolidation complete

The “Carrier Barrier”

Depleted Resource/ Knowledge Base (I)

Product management resources reduced

Direct sales resources reduced

- Certification challenge

Large account, customer-specific knowledge declining

- While network complexity increases
- Share loss prompts further reductions

Depleted Resource/ Knowledge Base (II)

Small/medium enterprise segment under served

- Recognized growth potential
- Poor knowledge base
- Unsuccessful agency relationships
- Improved coverage unlikely

Consolidating Carriers Vendor Dependent

Carriers outsource critical roles to vendors

Master contracts bundle services making hard cost analyses difficult at best

- **Design**
- **Installation**
- **Hardware**
- **Support**

Bundling limits vendor competition

Carrier Barrier: Two Outcomes

Situation	Outcomes
Carriers losing customer knowledge/service/support capabilities	A: Incumbent carriers become wholesalers
Carrier capability to specify customer needs and deploy networks highly third party dependent	B: Incumbent carriers reestablish direct/joint customer control

Overcoming Carrier Barrier

Developing Attractive Vendor Relationships

Customer in	Network out
Vendors consumed with holistic customer needs	Vendors having embedded relationships with legacy organizations

Choosing driving force

Performance Metrics: Carriers/Vendors

Ultimate performance measurement is Customer Market Share

Bundle costs may be too difficult to analyze

Embedded vendor controls the spec

Cloudy “procurement” function

Vendor Role Given Carrier Deficiencies

Attractive vendors offer specific end-user/industry knowledge

Not high-level diagrams

Attractive vendors erase local access/IXC boundaries

"It doesn't matter any more"

Attractive vendors perform soft/hard specifier roles

Vendor expectations of carriers?

Customer-Focused Carrier/ Vendor Codependency

Carriers need vendors knowledgeable of customer needs

- **Network knowledge fungible**

Successful carriers/vendors will transparently blend resources

- **Boundaries established over time**

Not all carriers or vendors will transition into positive codependency

Choosing The Right Path

CUSTOMER FOCUSED CARRIER/ VENDOR CODEPENDENCY → **Incumbent carriers reestablish customer control** → **Carrier shareholder value *creation***

INTERNAL/ LEGACY NETWORK FOCUSED DEPLOYMENT → **Incumbent carriers become wholesalers** → **Carrier shareholder value *erosion***