

# Strategy & Vision for Competitive Carriers: The Path to Profitability

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#### Disruption in the market

How the market is changing

Market trends driving change

#### The road to success

Know your customer

Evolve your service offerings to meet your customers' needs

Implement cost effective, flexible networks and business practices

### **Market Disruption**

#### The old market

**One competitor** 

Primary product offering is voice services

Strategy = undercut the incumbent in price

 The new market Multiple competitors

Primary product offering moving to data services

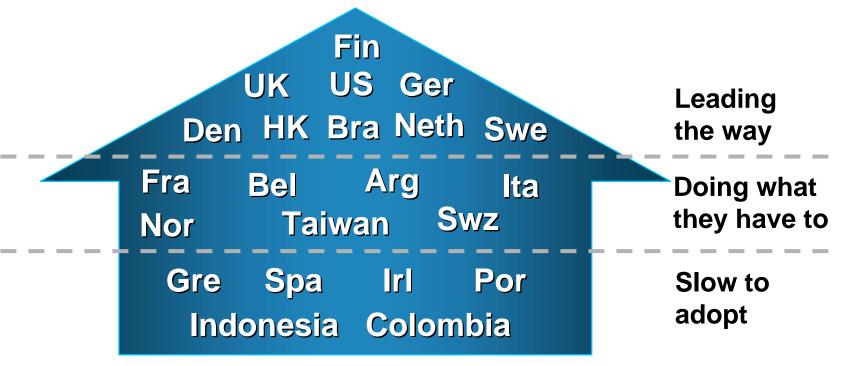
Strategy = differentiation through higher value services

## **Drivers of Disruption**

- Deregulation
- Commoditization
- The shift toward IP applications and data services

### Deregulation

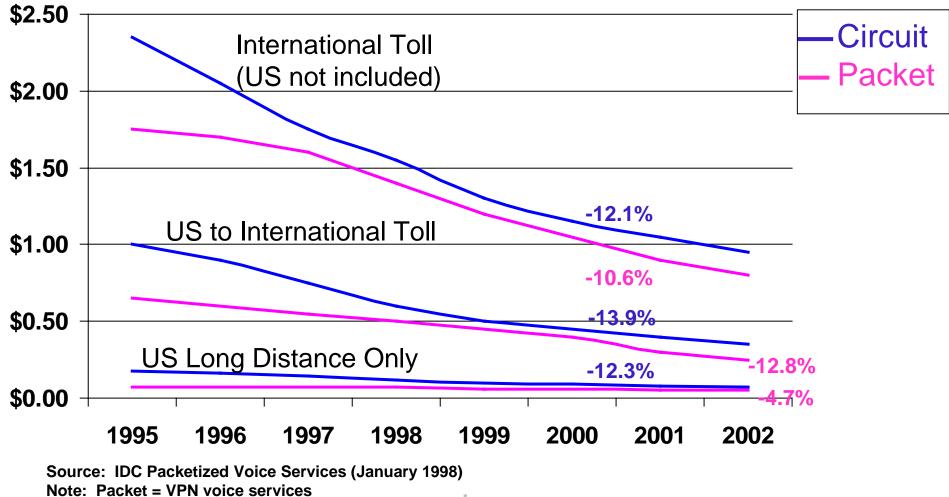
#### **Open Market**



#### Monopoly

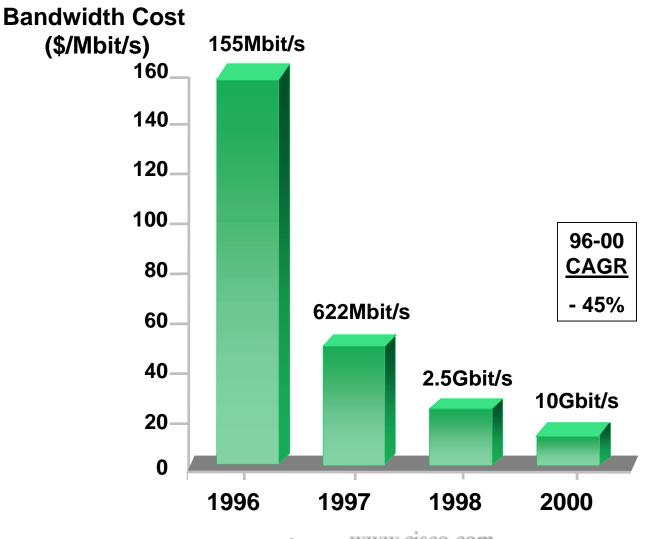
### Commoditization: Circuit-switched & Packetized Voice

#### **Price per Minute for Voice Services**



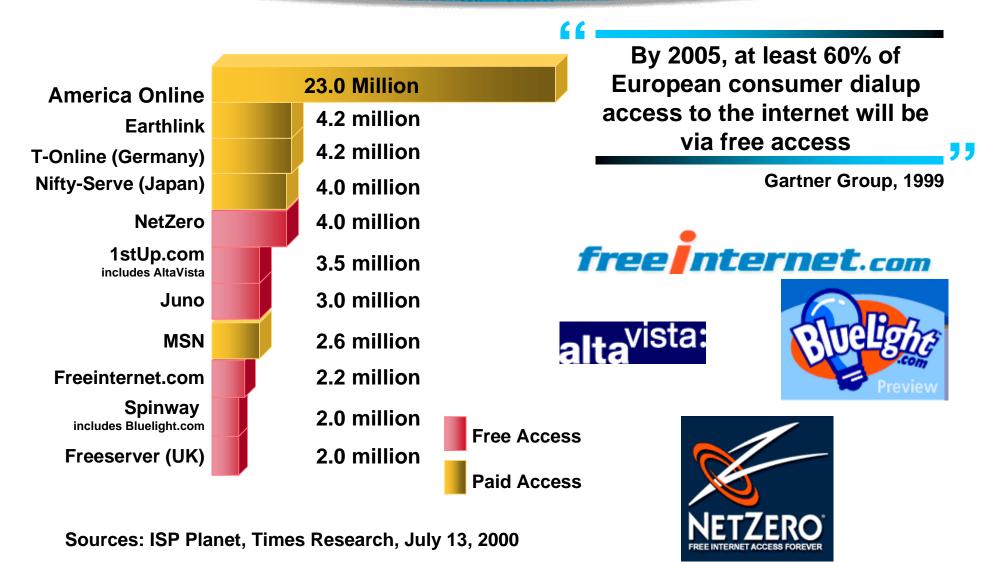
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### Commoditization: The Falling Costs of Bandwidth

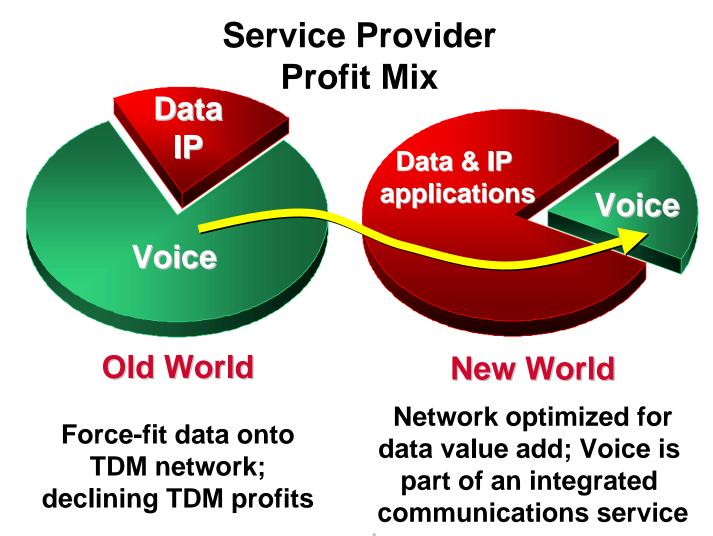


Source: Ryan, Hankin and Kent and Internal Datasco Confidential 7

## Commodization of Basic Internet Access



## Data and IP applications are Driving Profit Growth





#### • Disruption in the market How the market is changing Market trends driving change

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# **Know Your Target Customer**

9,300

7,400

#### Large Enterprises >1000 Employees

**Enterprises** 500–999 Employees

Medium 100–499 Employees

Small 21–99 Employees

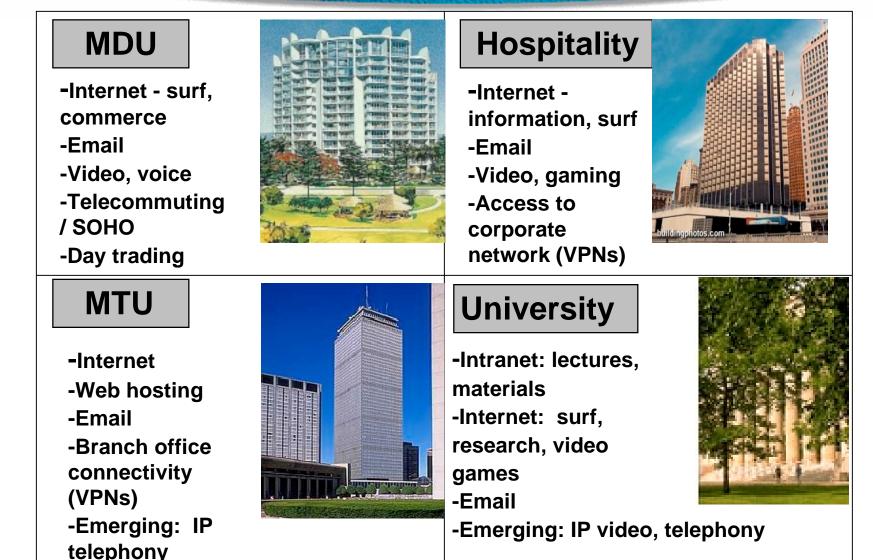
SOHO 1–20 Employees

Residential Number of households

136,250 810,000 6,400,000 104,000,000

Source: Cahners Instat & IDC 1999, ITU 2000 www.cisco.com llang CLEC 010700 © 1999, Cisco Systems, Inc.

## New Ways to Reach the Small Medium Business



## Small Medium Business Their Issues...

Questions	Issues
How do I grow my business?	<ul> <li>Lower costs, increase revenues</li> <li>Leveraging the Internet</li> <li>Improving efficiencies</li> </ul>
How do I stay connected?	<ul> <li>Customers</li> <li>Suppliers</li> <li>Employees</li> </ul>
I need to do this simply and cost effectively	<ul> <li>No expertise</li> <li>Price Sensitive</li> <li>Multiple Bills, Multiple vendors</li> </ul>

### **Serve Their Needs**

 Win customers by differentiation:
 Bundle services (local, LD, Internet)
 Provide a single bill (discounts)
 Grow SMB business by selling New World applications
 Be a single point of contact

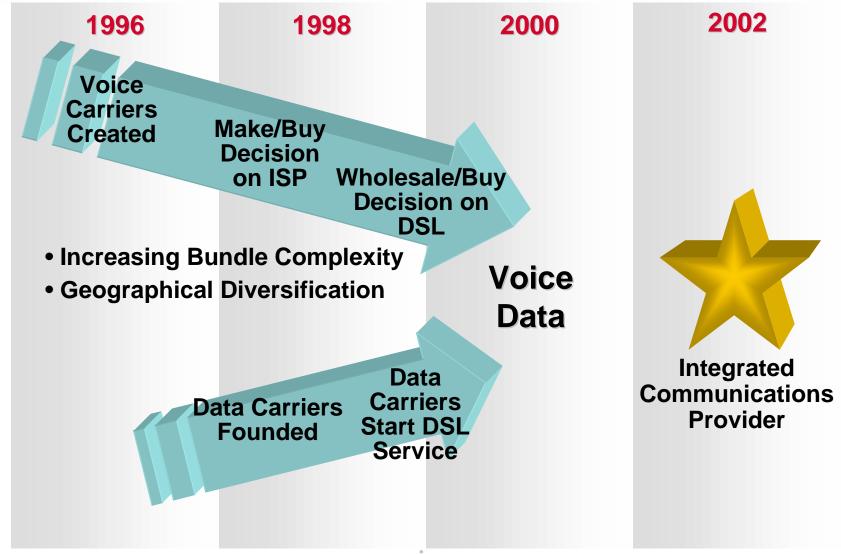


- Disruption in the market
  - How the market is changing
  - Market trends driving change
- The road to success
  - Know your customer

# Evolve your service offerings to meet your customers' needs

Implement cost effective, flexible networks and business practices

### Bundling: Evolution of US Competitive Carriers



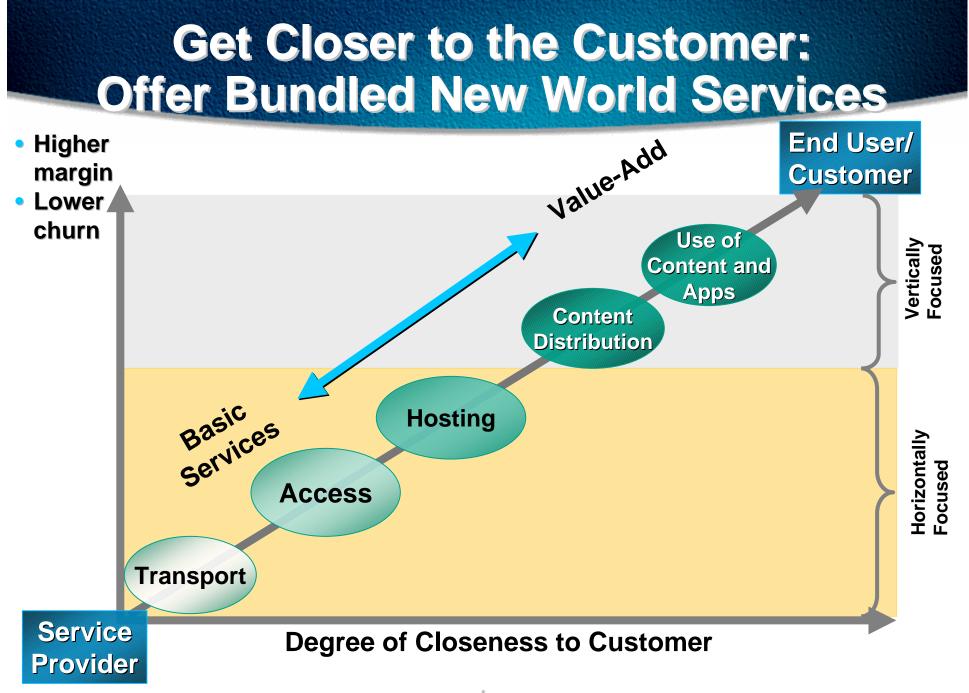
## Internet Economy SP Solutions: Content and Applications

	<b>Business Solutions</b>	<b>Consumer Solutions</b>	
Hosted Application Solutions	<ul> <li>E-business applications (internal-facing and external-facing)</li> </ul>	<ul> <li>Personal productivity applications</li> <li>Online gaming</li> </ul>	
Content and Media Solutions	<ul> <li>Content delivery: distance learning, advertising, co. websites</li> </ul>	<ul> <li>Content delivery: music-/video-on-demand</li> </ul>	
Communications Solutions	<ul> <li>Real-time</li> <li>Store and forward</li> <li>Managed messaging</li> <li>Telecommuting</li> </ul>	<ul> <li>Real-time</li> <li>Store and forward</li> <li>Telecommuting</li> </ul>	
Portal/ Mediation Solutions	<ul> <li>Web portal</li> <li>Voice portal</li> <li>Online business communities</li> </ul>	<ul> <li>Web portal</li> <li>Voice portal</li> <li>Online personal interest communities</li> </ul>	
	<ul> <li>Data storage and mgmt.</li> <li>Business process outsourcing</li> </ul>	<ul> <li>Home automation solutions (security, energy, appliances)</li> </ul>	

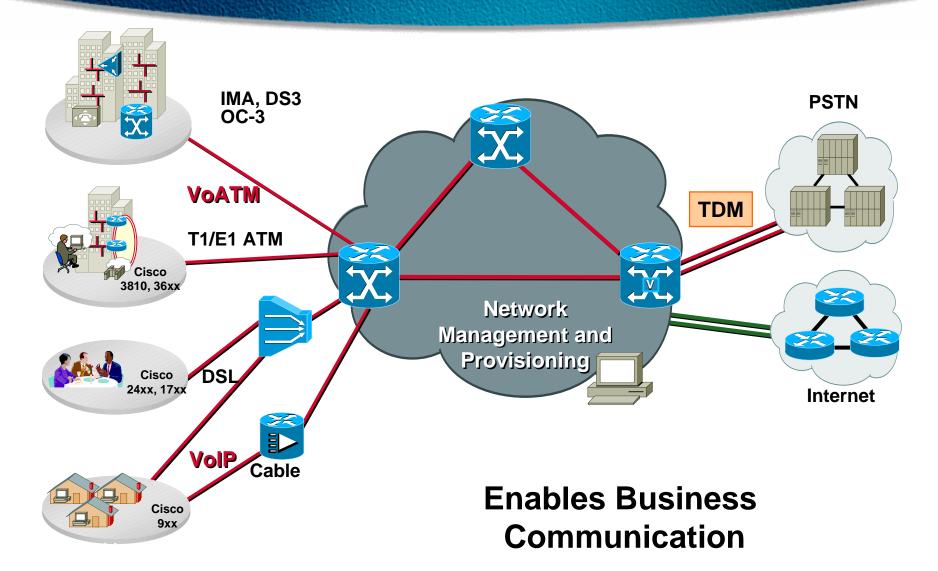
## Customer needs New World Solutions

Advertising, Entertainment, Information, Publishing	1999 <u>(</u> \$ B) 489	2004 (\$ B) 695	1999-2004 CAGR (%) 7.3
Business SolutionsPortal/Mediation SolutionsConsumer SolutionsCommunications Solutions	47	233	37.7
Web Hosting Data Access Data Transport	31	82	21.9
Wireless Voice	225	430	13.8
Wireline Voice		815	7.6

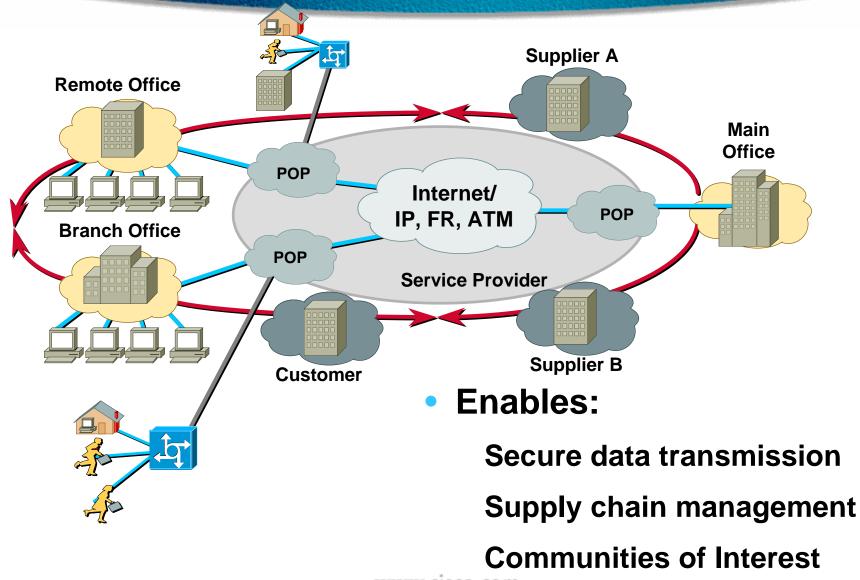
Sources: IDC; Dataquest; Forrester; Morgan Stanley Dean Witter; Internet Research Group; Veronis, Suhler and Associates; Cisco analysis Ilang CLEC 010700 © 1999, Cisco Systems, Inc. 18



## **Integrated Access Solution**



## **Service Provider VPN Services**



## Examples of Evolving Service Offerings

**Nextlink acquired Concentric:** 

Nextlink gains data center and IP network service expertise
Concentric gains attributes of a CLEC

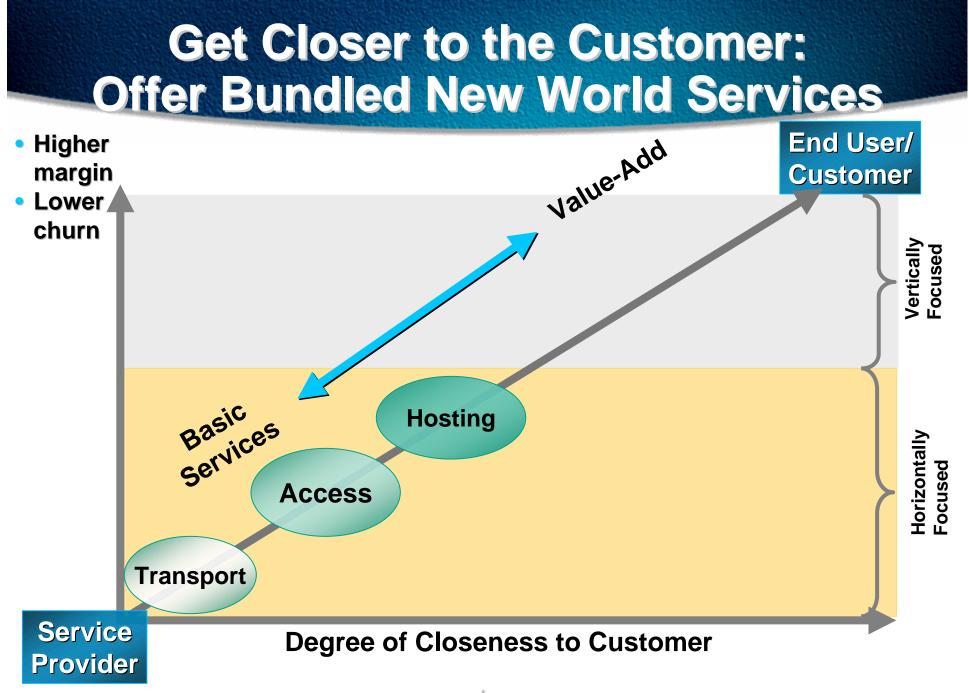


McLeod USA acquired Splitrock: •Accelerates entry into data services market •Expands market presence across the US •Easier to implement higher level new world services

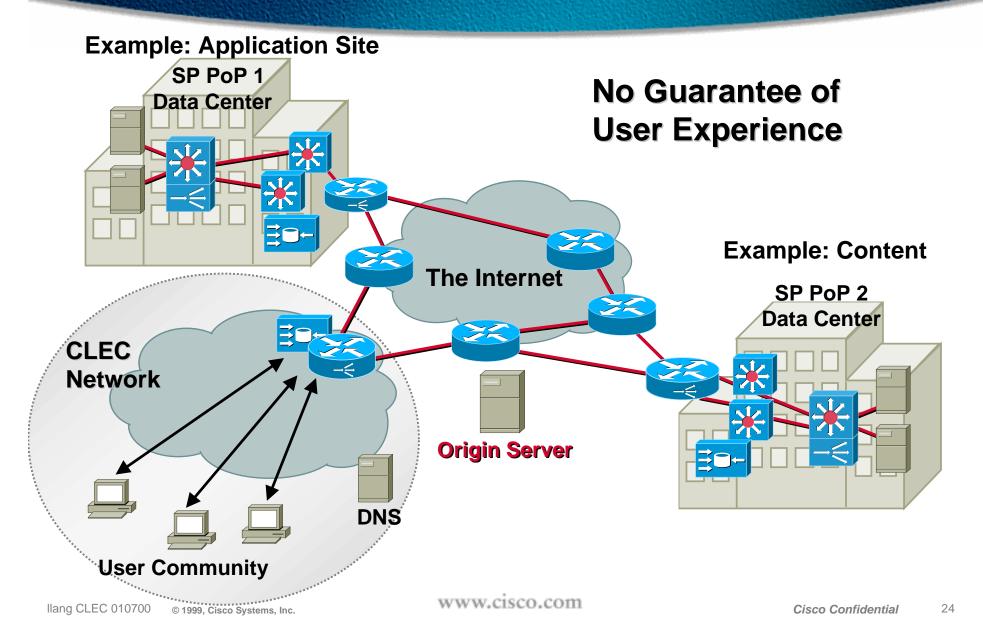








### **Content Delivery Networks**



# The Evolution to Content and Application Hosting

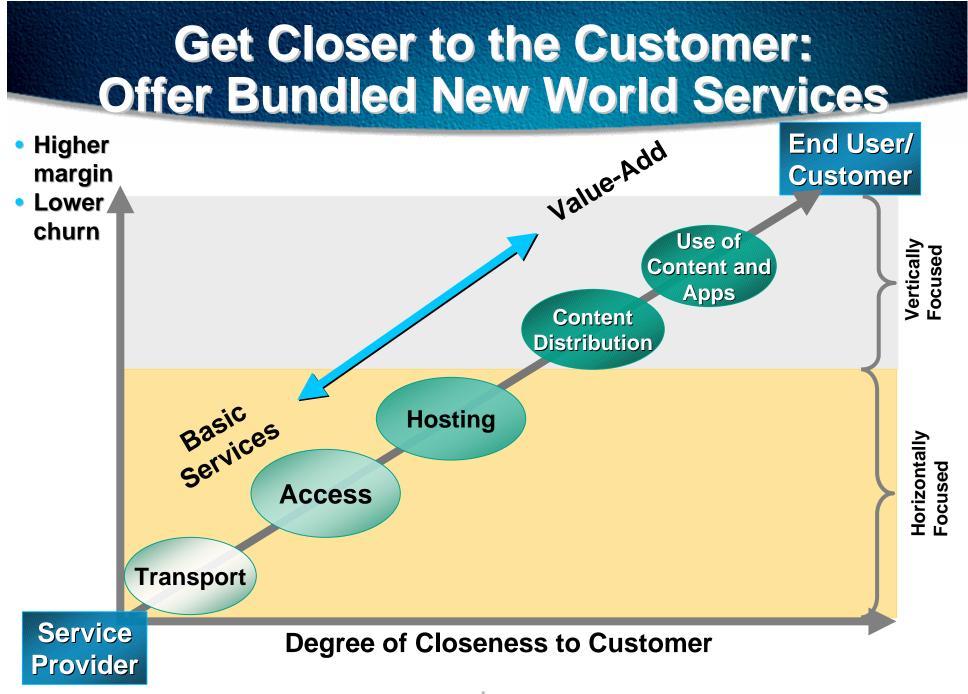
- Market is still evolving
- Many Application Service Providers entering the market
- Focus will be by industry, customer or application type
- Consolidation and partnering still to come





Making software simple.\*\*





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# Implement cost effective, flexible networks and business practices

# Low cost & Flexibility Accelerated by Open Model

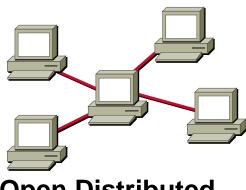
#### Computing

#### Old World



**Centralized Mainframe** 

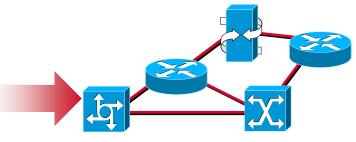
#### **New World**



Open Distributed Computing

#### **Telecommunications**



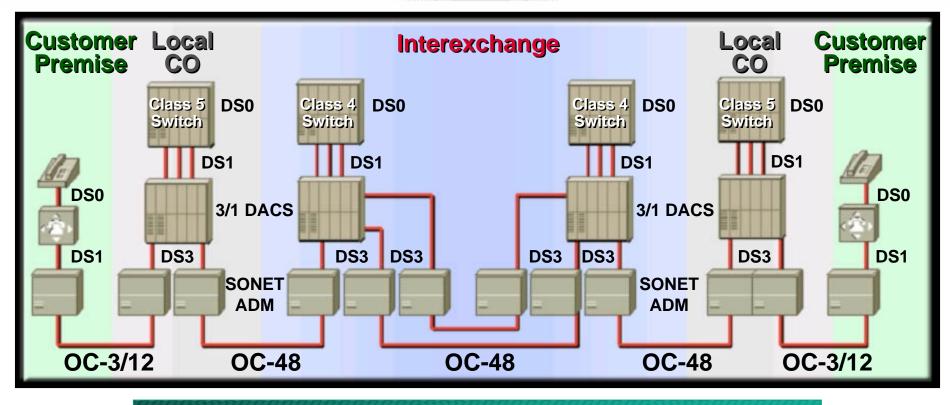


#### Open Distributed Telecommunications

Central Office Circuit Switch

Cisco Confidential 28

# Today's Voice Infrastructure: Tyranny of the DSO

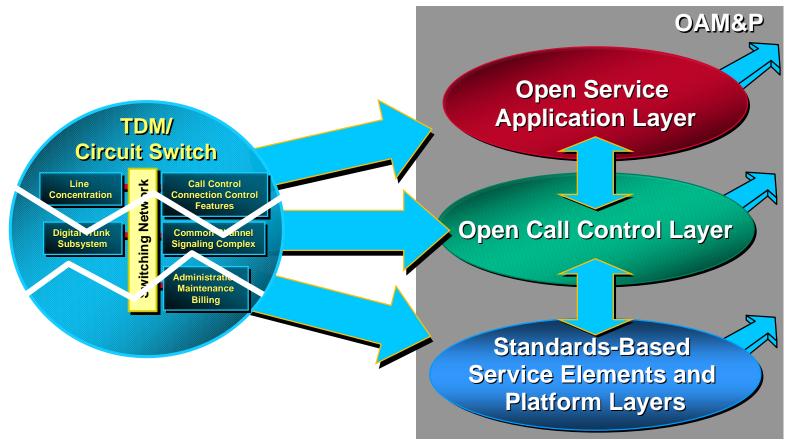


Rigid structure yields high cost per bit

Lower-margin services disfavor new investment

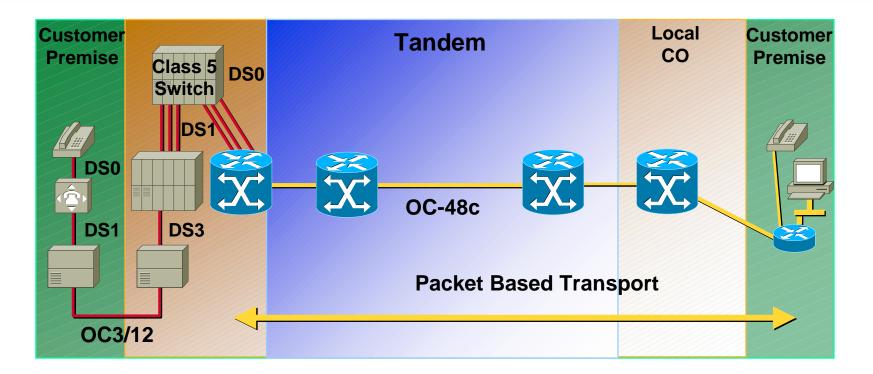
Good infrastructure for adding more DS0s

### Driving Open Network Standards for Low Cost and Flexible Networks



#### Allows fast deployment of new services Easier and less expensive to maintain and grow

## Low Cost and Flexible Packet Voice Infrastructure



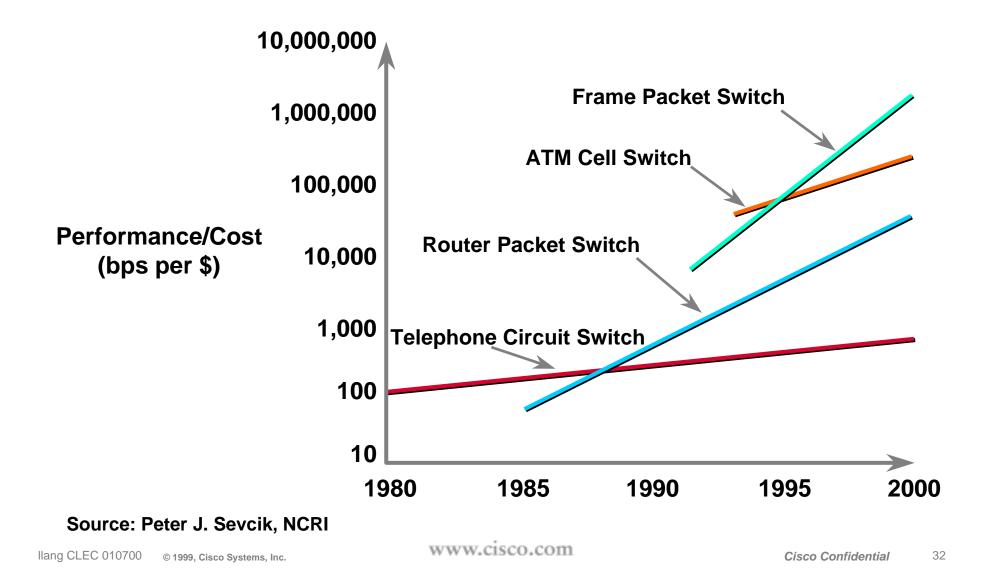
Grow tandem infrastructure with packet technology (VoIP, VoATM, etc.)

Leverage statistical multiplexing over packet core

Enable integrated voice/data access

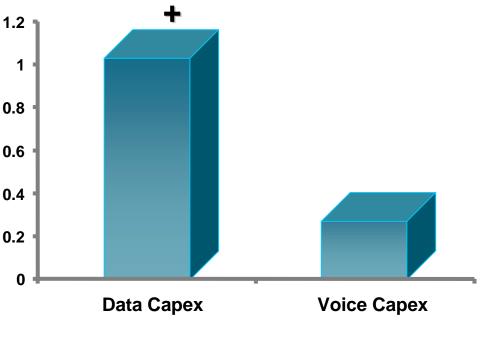
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#### **Economics of Alternative Switching Infrastructures**



### Revenue and Margin Returns in Data/Internet

- For every \$1 of capital spent: Voice drives \$0.30 of recurring revenue
- Data and IP drives \$1 of recurring revenue
- Gross margin: Data and IP is approximately 2000 points higher than voice



**Recurring Revenue per Dollar Invested** 

Source: Salomon Smith Barney, May, 2000

## Winning in a Disruptive Market

#### Increase revenues

Offer IP applications and data services

Differentiation

Speed to Market

Agility & flexibility

#### Lower costs

**Open standards** 

Converged network

Automating by e-enabling your business

## **"Internet Business Solutions" Create Competitive Advantage**

 Higher customer **Employees Customers** nformation satisfaction Lower costs Competitive agility Accelerated Enterprise time to market **Partners Suppliers** Higher **Ubiquitous Connectivity** employee where the Business efficiency **Runs on the Network** 

## **Internet Business Solution**

#### • Customer service efficiencies:

Over 90% of customer orders taken on the Web Satisfaction up to 4.25 from 3.4

 Supply chain management 70% cut in order cycle time (6–8 weeks to 1–3 weeks) 45% inventory reduction for Cisco and partners

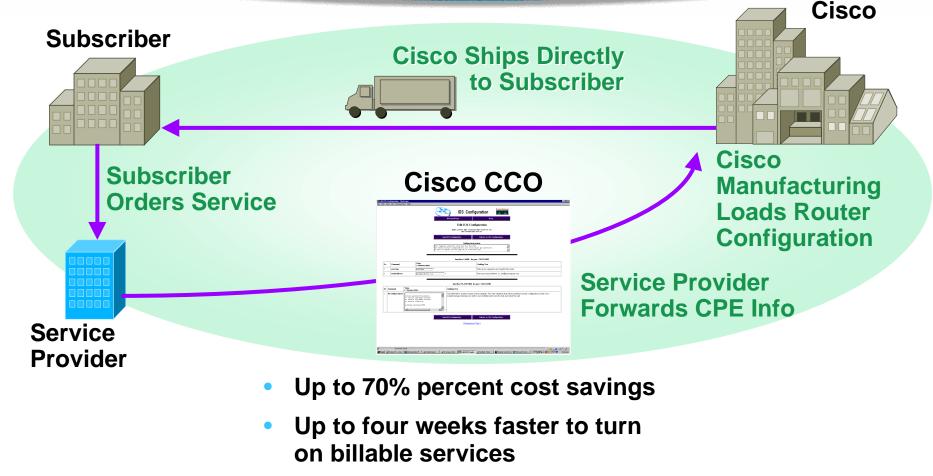
#### E-learning

40–60% cost savings vs. instructor-led training



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# Configuration Express for Speed, Agility and Low Cost



- Improved customer satisfaction
- Ideal for mass deployment of CPE

### Winning in a Disruptive Market Summary

- IP applications and data services will drive revenue and profits
- The long term advantage will come from a low cost, flexible networks and business models

**Build multi-service packet networks** 

**Open standards** 

Streamline by e-enabling your business

 Leaders of the past may not be leaders of the future



