

BT Global Services Update 2006

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Breakout Session: Global Propositions

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I. The Golden Opportunity

Welcome to the breakout session where we are going to give a view of how proposition development links to the strategy and intent that Andy has laid out. Today, we are essentially trying to explore and give some more granularity on what we specifically mean by this area that Andy referred to as the 'golden opportunity'. When we talk about new core on-message markets that are specifically networked to IT services, what are they? How does the golden opportunity translate to a portfolio and an investment strategy? We will also talk about the sales journeys with which we train our market teams to engage customers.

II. Networked IT Services

Quite importantly, a lot of people are trying to define whether we are talking about IT or communications. That is a question I would ask you at the end of today. Through the examples we will discuss today, I think that you will see that it is much more about a networked IT service. We think that it is a new form of service opportunity and a great opportunity for BT. The great thing about networked IT services for BT is that it is adjacent to our heritage and strength. When we look at where the BT Group has come from in the telecommunications industry, then the next adjacent area is networked IT services. Networked IT services thus become legitimised as addressable markets for BT. In the past, these markets would not have been seen as areas to be addressed by a telecommunications group.

III. Sales Journeys

1. Mainstream Engagement

The first point I would have to make, as a preface, is more of a health warning. We have spent a huge amount of time as an organisation changing ourselves in the 'connected worlds' transition that we have just been through as a business. As has been ingrained in every one of the BT Global Services employees, we are a services business with a network inside, not a network that does some services. Therefore, I will talk very briefly about sales journeys at the start because I would not want anyone to leave this session about products thinking that this is our mainstream engagement with customers. Every one of the products and solution areas that I will talk about are led to through a journey for which we have equipped our sales and marketing teams. Every consultant in a sales or marketing unit is engaged to talk to our customers about establishing the right infrastructure for business agility. Thinking of Neil's business problem, how did he create an agile

infrastructure to support the e-business transition that he went through with Unilever? Likewise with workforce enablement, how do you make sure that the workforce is truly mobile and global when you take advantage of wage disparities or providing knowledge and information to remote workers for flexible working?

2. Five Routes to the Golden Opportunity

Everything starts with one of five journeys:

- Establishing the right infrastructure.
- Ensuring security and managing risk.
- Enabling your work force.
- Serving your customers.
- Extending your organisation.

They then translate into three areas that we very specifically define in BT as convergence or this golden opportunity. The three areas are: communication and collaboration; mobility; and IP infrastructure.

IV. Convergence

1. The CRM Parallels

What we are seeing now is almost akin to the customer relationship management (CRM) boom eight years ago, when everyone in the ICT industry could see that customers in a tight market were spending money on customer advocacy and customer intimacy. Everything in the industry became described as CRM – data centres, channels to market and web hosting. To be aligned with the customer's mindset, everyone described everything as CRM. In BT's view, there is a danger that is where the market is going now in this space we call convergence. When 250 CIOs overbook a conference in Italy by 100% to describe the challenges and opportunities of convergence, you know it is a hotspot. Everyone in the industry sees it and is jumping on the bandwagon. BT, however, has translated it into three specific areas. We do not expect to be experts and world leaders in everything that is convergence because we can see device convergence from the video industry, Sony and the iPod.

2. Three Propositions

IP infrastructure is the foundation of our convergence strategy. By IP infrastructure, we do not just mean a Wide Area Network. We mean that from data centre to data centre, or from desktop to desktop, BT will guarantee the end-to-end quality of service of that session as our base IP infrastructure proposition. We will take customers' service-specific networks and converge them on to a collapsed-core multimedia MPLS infrastructure.

If we are managing a customer's converged Wide Area Network, his router and his LAN infrastructure, then we are a very legitimised business to talk about communications and

collaboration. This means real-time applications such as IPT, IP contact centres and LCS technology from Microsoft.

If we have custody of the end-to-end IP infrastructure, BT can manage the customer's fixed-mobile convergence. It makes sense for BT to add the air points to his building and BT can groom mobile traffic in that building onto that infrastructure. We become the path of least resistance in the customer's mind.

3. The Business Case

When we engage customers, we see that the benefit is not in talking to them about or selling them any one of those three spheres. It is in talking to them about the business opportunity and challenge in integrating all three. We also help them with the business case because most customers intuitively believe the benefits of convergence. If I have eight service-specific networks, intuitively I think that there will be operating efficiencies from collapsing them on to one multimedia core. If I have 420 PBXs throughout my estate in the UK and collapse them into six call managers, as a customer I intuitively believe that there must be cost benefits. From our perspective, though, our customers have struggled to make the business case for convergence. When we talk about profiting from convergence, we have eight years of development with the Kotler Group on ROI modelling tools to help customers with the business case. When we made the business case, we do not talk to customers about IP telephony or fixed-mobile convergence. We try to model as many business assets as possible to drive value from a convergence infrastructure. We use BT's own experience to do that.

4. BT's Case

Our own case for convergence only flew when we looked at data-centre consolidation, next-generation contact centres, and the fact that we needed most of BT's workforce in the UK to be remote workers without a fixed location or desk to decimate our costs and our leasehold bills for property. When you add all these things together, then you make a fantastically compelling case.

5. Technology-migration Roadmap

Having done that, in my team we have 550 technical designers who are experts in these three spheres from a design and architecture point of view. To take the customers from where they are today, which is a world full of circuit switches and IP and multi-vendors and variability of balance-sheet challenges, we use the business case to create a technology-migration roadmap to get them to a point, sensitive to the balance sheet, where they understand what convergence looks like.

V. 21CN

For us, IP infrastructure is a bridge into and our foundation for the two other spheres of propositions that we have developed within the convergence space. When we look at the effort that we have put into the investment plan behind 21CN and our global development, then the \$18 billion that we have spent is a real and progressive plan. I think most people will know that 23 million calls have already been transacted on that platform, which in the first instance is only for UK-service specific networks. The pathfinder trials in Cardiff are well on the way and the learnings that we are sharing with all of the telcos and players in the industry are from that test bed. We are looking at 350,000 customers migrating in that area by summer next year, which is a huge learning for us.

VI. MPLS

1. Global Rollout

On a global basis, Andy has already touched on the aggression of our MPLS rollout plan. MPLS is not in itself the service, but it is an enabler to move into adjacent networked IT services. We quote the rate of MPLS platform rollout as a country a week. In July, we rolled out eight – Andorra, Azerbaijan, Gibraltar, Iceland, Lichtenstein, Serbia, Bulgaria and Venezuela. We did not do that because we thought they were good places, but they were extended by committed customer contracts and demand. Customers are paying BT to develop a multimedia core in these countries, driven by demand.

2. A Logical Progression

When we have an MPLS core in the country, then the charge for the customer does not stop at the demarcation point of when we hand them the network. Their interest is: how do I make a stable, predictable end-to-end user experience? It becomes a very logical progression for them to say, 'IP is IP; it does not understand where the wide area stops and the local area starts. Can you manage that for me?'

VII. Addressable Markets

1. The UK

If we just take the UK market, we have a £400 million market to address just by going one step beyond what would be seen as a core network service. The next level of adjacency is the LAN services market. Three years ago, everyone would have described LAN services as the IT market. In this conversation about the convergence of IT and communications, we are legitimised. Driven by our strength on VPNs and our focus on the LAN services market, in the UK example we have gone from a market share of 3% to one of 18% in the last three years. This has been achieved by driving the adjacency argument and presenting it as end-to-end IP. Do you want to have vendor *a* for your VPN, *b* for your router, *c* for your LAN and *d* for your communications and collaborations? Who manages the integration risk and who makes sure that the experience is business grade for the customer? We have found that this resonates with customers and it has driven us into these adjacent spaces.

2. The World

If we look beyond the UK, the LAN services market in Europe up until 2008-09 is a £5.4 billion addressable market. Within your MPLS footprint, you suddenly start to address a large scaleable and incremental market opportunity for BP. If you own the LAN, then there are not many customers who will go to another supplier for their call managers or IP telephony devices. If you have custody of the LAN market, then you suddenly legitimise £5.4 billion IP telephony market in Europe.

3. Legitimising these Markets

If you are managing the LAN, the WAN, the IP telephony and the router as an application, you suddenly become legitimised when the customer says their desktop applications are becoming

communication enabled. They can now launch voice, video and data sessions from their Microsoft communicator client. They need to make sure that it understands the intricacies of the network environment. If their CEO sets up a multiparty business session that started as an instant-message session and scaled to video, it needs to work at a business grade. You are suddenly legitimised into a communications and collaboration marketplace.

4. Network Security

Network security is a £15 billion market in Europe, just as we manage firewall services for Unilever. It all becomes a natural progression and an extension for the customers.

VIII. Portfolio Evolution

This 'extend along the line' strategy is how we built our outsourcing business in the UK. By doing this many customers have said, 'You are now managing my Wide Area Network. You are controlling the configuration of my routing, inventory, and network-capacity planning. You are running my LAN services and you are now running the software services that drive value from the top of it. Perhaps you should be managing all of this'.

We have found that from a product perspective it has in many instances led at the tipping point to an outsourcing contract. Many outsourcing contracts are led from the top down, but this portfolio evolution from the bedrock of IP infrastructure is driving us to new incremental markets. LAN services, IP telephony, IP contact centres, security, content management, storage virtualisation – these are all heavily integrated and reliant on the network fabric. They do not just plug in. When we do these things, we can have several thousand hours of professional services to integrate. You do not just take the shrink wrap off the package and it works; it is a fantastic opportunity for a services business.

IX. Corporate Fusion

1. The Path of Least Resistance

The next logical step, as announced today, is the launch of the BT service, Fusion. If we are managing that environment for the customer, we have become the path of least resistance to groom that traffic and sweat it onto the corporate infrastructure. It is very difficult to ask another vendor to do the air-point installation for WiFi while BT does the terrestrial LAN. For those involved in the design, it is a nightmare.

2. Cost Savings

On the back of that, we are launching a service called Fusion. With the escalation of their business, 50% and growing of many of our customers' corporate telephony bill is on mobiles. Meanwhile, 50% of those calls are within their business workplaces. Within those business workplaces, they have a paid-for infrastructure to carry multimedia services. When a trader visits the New York office, does it make sense to pay Verizon for the roaming charges to call back to London? Unknown to him if needs be, he could be groomed onto the corporate infrastructure and transitioned free of charge. We and our customers see it as a phenomenal opportunity, but it is not just about cost saving.

3. Reclaiming Control

I think there is an opportunity and it gives a feeling of control because what we see is a feeling of a lack of control on mobile spends. We ran a sales conference in Paris recently and the roaming charges were higher than the entire cost of the conference put together. In every one of our organisations, there will be parallel examples. However, in most places customers are ignorant that it has happened. Cost-centre billing comes back to numerous parts of the organisation and is an invisible problem. They know that it is a problem because the bill gets bigger.

4. Site and Net

We are launching two services – Corporate Fusion Site and Corporate Fusion Net. Site is where we will actually do a customer-premises based solution where the customer has an existing PBX. We will use that to groom traffic on to the managed infrastructure that BT provides for that customer. There is also a net version, which is one of the first 21CN embedded-network technologies. The server, the switching and the intelligence through the call routing will be embedded in BT's network.

5. Global Free Seating

This also then plays to another argument of our customers, which is access to the office directories when they are out of the office. This is global free seating for a mobile environment. If I enter the New York office and I want to be seen as being in my London location on my mobile, I can do that. If I want to take the benefits of my desktop on my mobile, they are there. Fusion understands that and it will manage it for the customer. There are fantastic productivity and service benefits as well as cost savings.

6. Leeds City Council

Leeds City Council is the second largest authority in the UK. When we speak to Adrian Fegan, who is the head of ICT operations there, it is a great example of BT extending along the line. His view: 'I have a managed ICT infrastructure from BT. I have an MPLS core; I have a managed LAN environment and for a number of applications I already have a configured WiFi service'. It is the next logical thing to do. When you have these assets and infrastructures, why would you not make the best use of call-cost control and productivity and also free seating within the council by delivering this type of service? They are going to be one of our lead clients to trial this service.

7. MobileXpress

The other area that we have touched on is again within the mobility space. We absolutely do believe in this global and mobile workforce. We see an enormous global addressable market in terms of remote-data working, so our new global offer is a solution called MobileXpress. MobileXpress is a secure VPN service and is a great example of our best connected-network strategy. Whatever the best form of network is, we make it accessible to the customer via a single client device. This is a secure way when remote to access the applications of the enterprise. Now, that could be via WiFi, 3G, Ethernet or GPRS. All of it is unified on one security-controlled, managed service for the customer. The management of the security, the tokens and the access controls is all done on behalf of the customer. We are seeing phenomenal demand; it is now available in over 150 countries with WiFi hotspot integration and 15,000 sites available today and another 25,000 on contract. We already have 2,000 customers actively using the network. This is

another great example that leverages BT's MPLS core multimedia capacity, which legitimises us into a mobile-solution space.

X. Contact Centre Solutions

For many years, BT has been providing market leaders in the UK with premises-based contact-centre providers. One of the things that we are most excited about is the concept of using IP for remote contact-centre solutions throughout the world. Customers have a desire for a universal workforce and a flat network. Wherever I have a person with the right skills, I would like to be able to distribute a session or a customer to them. That is not what they are today. They tend to be locked-in, physical call-centre infrastructures wherever they are.

Our learning here came from BT's own experience. We had to downsize the number of contact centres in BT by two thirds three years ago. Given that those sessions were coming into those contact centres by email, web chat, voice and sometimes video, to close down the contact centre we needed to be able to distribute those sessions anywhere we desired in BT and around the world. We had to leverage our own convergence infrastructure, and our experience doing that was profound. It took £150 million of cost out of the business; we reduced two million repeat calls and reduced customer queue time and call steering by two thirds. We took that learning and that led us to the market for hosting contact centres. It is a fantastic real-time application. Now, if you talk to the government sector or the financial-services sector in the UK, contact-centre consolidation is a huge agenda item for them. We host the contact-centre ability in BT's network; wherever the customer can find an IP endpoint, BT can contact all the applications – Siebel, CTI or whatever they desire. For us, this is a fantastic sub-segment that absolutely leverages our core convergence platform and creates phenomenal value for the customer.

XI. Application Expertise

People ask whether we are going to be experts with SAP and a whole plethora of applications. My definition is that if the application lends value to the communication experience, then that is what we will do.

Microsoft's Unified Communications

David Parry-Jones

Director, UK Telco, Media and Entertainment, Microsoft

I. LCS Integration

Since the launch in 2003 of LCS, we have been gradually embedding more and more communications and collaboration capability into our applications. Alongside the launch of LCS, we have launched Microsoft Office 2003. This was launched with tight integration to LCS, with the presence of instant messaging, web and video conferencing and PABX integration. With tight technical integration with our desktop products, commercial integration with the new-enterprise

CAL licensing programme and the acquisition of media labs, we are continuing to align to add to our communications to work alongside BT.

II. Cost Savings

By deploying these integrated technologies alongside BT, we believe we can bring significant productivity and cost-saving benefits for our customers. Recent studies have shown that collaboration and presence tools can save employees up to 72 minutes per day or \$1,700 per month on wasted calls. We have seen these significant cost savings through the implementation and pilot programmes we have put in place with BT over the last 18 months.

III. Communications Capability

What is more, Microsoft can deliver the capability across multiple devices. We deliver seamless access to information services through a common user interface and infrastructure, which we believe is unique. Because we are embedding the communications capability into applications, we create a whole new world of communications. For example, if you are querying information within an application and want to speak to the author, the application can work out the best way for you to reach that author immediately. If you want to reach someone immediately, the applications know by looking at the Outlook calendar the best way and device through which to reach that individual in the shortest period of time.

IV. People-ready Convergence

As a result of this new capability, the convergence debate moves from saving money to increasing the productivity of our people. This aligns very neatly with the people-ready campaign that you have seen us take to market very recently, which is all about leveraging the most valuable asset in our organisation – our people. This really reinforces the fact that we believe that our software can make your people more productive. We know from the customer interest we are seeing in these solutions that the product cost savings are real. It is also worth bearing in mind how we can change the way communities talk and deal with each other, for example in professional services or the finance industry where being able to reach someone immediately is either critical or literally saves or makes money for those organisations. We can support and accelerate these transactions across multiple devices, whether they are mobile phones or your desk phone, and using multiple protocols such as telephony and instant messaging.

V. The Market

1. Email

As analysts, you will be wondering whether there is a market there. So will organisations really support communications across multiple device types moving forwards? According to the Pew Research Centre, 50% of large companies have already deployed wireless email devices. We believe that with BT we can drive these deployments much faster, mainly down to the lower total cost of ownership. We can offer this type of communication through our unique common user interface and infrastructure. We will find that mobile email, once reserved for the senior executive, will move down through the organisation as they are able to deploy a technology in a far more integrated and cost-effective way.

2. Enterprise Instant Messaging

According to Gartner, instant messaging will become as popular as email. IM is easy to use and it is already outstripping email in the personal market. I think that in the next 24 months or so, we will see the same happen in the enterprise market, especially as the next generation of tech-savvy, IM-ready employees enters the workplace.

3. Web Conferencing

Will communications and collaboration tools replace face-to-face meetings? I do not think so, not in our lifetime anyway. However, according to Frost & Sullivan, the demand for enterprise web conferencing will increase 175% in 2008. We all know in this room that the alternative to travel and alternative technologies are being used in those meeting rooms already. At Microsoft, we believe so strongly in the future of the unified communications market that we have actually reorganised the structure of these groups to create the Unified Communications Group.

VI. Why BT?

We know that none of this stuff is easy. It is not easy on the desktop side and we know that we also need to rely on end-to-end IP networks to deliver these messages over those networks. We have been working with BT on this specific initiative for 18 months and have some customer trials under way to assess the technology and the associated benefits. We are excited about having BT as a partner in the UC market because the technology requires an in-depth understanding of both communications and IT. We are trying to drive communications, desktop servers, applications, directories and mobile devices into a single integrated environment for the customer. In order for the solution to work, it has to work over both the LAN and the WAN and mobile network. In order for you to make that contact fast, you also need the right level of priority to be assigned within the network on a global basis. In this instance, BT's MPLS network allows us to prioritise those messages in the way that you would want them as a consumer to make sure that they are delivered end to end in the network. Add to this security and integration of the directory structures, and you can see why there is such a match between the two organisations in this complex environment. This is where we believe BT is unique and where we believe our partnership is unique, as they understand both network and IT. They can deliver solutions for customers around the globe and that is why we are very pleased to be working alongside them.

Concluding Remarks

Tom Craig

President, IP Networking

Thanks for that. When Andy spoke of the new breed of service organisations we actually think it is a new form of opportunity. We also see the opportunity to understand how to network and create an end-to-end solution for a customer. What was real-time communication – voice and video – and what was not real-time communication – email and instant messaging – are merging into one form of choice that the customer will have. It will be driven by the client's desktop and they will be in

control. The infrastructure that underpins it has to be able to deliver that switch ability of mode of communication as the customer desires.

These products – and there are many more examples – start with a sales journey. It is a consultative-led sale, which is what you would expect from any services organisation. It is not a product pitch. Creating the benefits from communications and collaboration is not about talking about the features of the server pack; it is about applying them to create greater productivity. The sales journeys translate into three very specific areas, in which we believe we will be specialists and world leaders. For us, convergence means giving our customers access to any system or application through any device or medium securely. The three specific market opportunities for BT are incremental and are driven by adjacency. They are logical and they progress from our heritage, but they bring us into exciting and vibrant growth markets.

Questions and Answers

Participant

Ben mentioned at the Q1 results that you had licensed 21CN. What was licensed?

Tom Craig:

I am not involved in that specific example, so I could not say what was licensed. I know that there is a high degree of IPR from a design and testing perspective, and it is also part of the IPR that we are now going to consult with a number of telecommunications groups around the world. Eastern Europe is a particularly interesting opportunity for us in the global telecoms market because from their starting place today they will maybe miss several generations of development, which is maybe why they see an opportunity to consult and work with an organisation like BT.

Participant

Moving to Corporate Fusion, you have the network basis that you announced back in the spring. This is now a premises-based managed service.

Tom Craig:

There is a Consumer Fusion product and there are two corporate services that we are launching today. One is called Site, and we use Site where the customer already has a PBX - any PBX or a telephony platform. They then want to add on the ability and functionality of grooming fixed and mobile traffic on to their infrastructure. In that solution, we have an onsite server with access-point technology. We also have a net-based solution that can provide everything from IP-centric telephony functionality to the fixed-mobile grooming capacity and in addition to some of the value-add applications that we are going to stack on top of the net platform, like collaboration services.

Participant

Presumably that could also integrate in a hybrid fashion with an existing fixed-line PBX?

Tom Craig:

Correct. We actually anticipate that for most customers with whom we are dealing in the Net and the Site solution, they are going to integrate them into existing estates. It will be a hybrid; they will interoperate with other PBXs and other services. It will interoperate with Meridian Technologies, because of its enormous installed base in the UK, and with Nortel and Cisco platforms.

Participant

Should that be understood as Project Kennet? Project Kennet was the enterprise follow up as a concept when Fusion was first launched at the end of last year. That was all about seamless handover and now you have gone away from seamless handover.

Tom Craig:

No, it is one and the same thing. It is seamless WiFi to GSM and back handover. Project Kennet was purely the internal project name, so Corporate Fusion is a market brand that we have taken that towards.

Participant

I might have heard this completely wrong, but I thought Andy Green said the opposite – that the call could not be carried from the corporate WAN to the corporate WiFi.

Rocky Maharjan, Corporate Fusion team:

The call does carry over and roam between services.

Participant

First, with Corporate Fusion what reliability can you guarantee? Second, looking to the future, where do you think you need to focus geographically?

Tom Craig:

With Corporate Fusion, the solution that BT will have in its network is a five-nines engineered service in terms of availability. It will have redundancy, duplication and core access for all our hosting platforms. The challenge for all our hosting platforms is that you cannot quote a single availability figure because you then have to network through every single customer's domain. If we manage the end-to-end fabric for a customer and make it a five-nines service in terms of the network and what we embed, but someone else is managing their LAN environment, then there is an element of design risk. Many of those customers ask BT to manage the end-to-end domain. For the customer, it takes away a big complexity headache but without that it is impossible to give an availability figure. If you put it in some customers' environment, the next day they put in a piece of rogue software and take down their own LAN. Whose problem is that? Is that an availability issue with Corporate Fusion? No. If we manage that LAN, we will take responsibility for it.

In terms of geographic expansion, I think that we are touching on most of that focus in another session. In terms of the intensity of networked IT services and particularly the type of solution that we are talking about here, priority one is Western Europe. We have seen very strong expansion in addressable markets in what we call the BRIC – Brazil, Russia, India and China. They are phenomenal investment and opportunity markets for BT.

Participant

Are the service needs very different in different areas around the world, say comparing Russia with the USA?

Tom Craig:

Yes, I think that without question there are very different service needs and very different service challenges. I think it was for Visa that we extended our platform to Azerbaijan. The person in my team who does the network rollout and forward planning could write a book on the service experience it takes to bring up points of presence in some of these countries. However, on our core platforms, so for the experience that Unilever takes from our core IP infrastructure fabric, we try to make sure that the service environment, the platform and the features have the same look, feel and ubiquity wherever you are in the world. From a service perspective, we have learned from the Infonet experience and we have also managed to maintain the Infonet experience. It has now managed to win 15 consecutive Telemark awards for being the best service organisation in the MPLS network world. Part of what they do very well is understand the high degree of variability of customers' service needs in regions, and so they push a considerable amount of their service capability to the edge and closer to the customer. That is one of the learnings for how we create a unified service world.

Participant

On Corporate Fusion, you told us that Leeds City Council is one of your customers. When will you start to roll out your corporate accounts?

Rocky Maharjan:

Leeds City Council is our first trial. We will be launching service in BT's Q4 in the UK.

Participant

And to the continent?

Rocky Maharjan:

On the continent, we are looking to launch it in Q1 2007-08.

Tom Craig:

Q1 2007 would cover France, Spain, Switzerland, the Nordics and Ireland.

Participant

Will the Netherlands be included with the Nordics?

Tom Craig:

Yes, we will look at that in terms of rollout as well.

Participant

On your partnership with Microsoft, a big part of unified communications is video conferencing. Big companies like Cisco are rolling out new video-conferencing applications next November. Do you have similar projects going on?

Tom Craig:

There are two core things that we are focusing on with Microsoft. The first one is a managed service for communications and collaboration. The challenge is that you can put a software pack on a customer's enterprise that will theoretically deliver presence, personal assistance, screen sharing, communications and collaboration, and scalability of instant messaging, email, voice and video. However, if it has not been integrated, it will not be the business-grade experience that the corporates like Reuters, Unilever and Visa that we serve are going to expect. The first service that we are doing is a managed communications and collaboration with Microsoft, and that has already been trialled with a number of customers. How do we make sure of that presence? I can see when David is on his desktop phone, when he is on his videophone, and when he is on his mobile set in one ear.

Participant

All LCS?

Tom Craig:

It is all LCS, but we are doing it on a managed turnkey basis for the customer. The second area is managed hosting of federations, looking at communities of interest and managing as we see the growth of instant messaging within enterprises. We see that already within enterprises. We then becoming a federated hub or a trusted partner gluing those communities together; a managed

federation service from BT joining instant messaging together for customers, and being the trusted choice.

David Parry-Jones:

I would like to add to that. Global Services has obviously got a big partnership with Cisco. We would be working very closely with Cisco and BT to make that experience as seamless as possible, with BT obviously being the party to integrate that. If you would like to give me your details, I would be happy to find out a bit more and come back to you on that.

Tom Craig:

It is another interesting point because if this is all about communication, the industry is heading towards a pinhead. If you look at a presentation from Nortel or Cisco or Microsoft, they all have a common view of what experience the customer expects in unified communications. I think there are differences in approaches for how you get there and I think like many things in the industry driven by convergence, you are going to find new partnerships and competitions. Cisco is probably going to want to do some things with Microsoft but also may want to try unified communication in other areas. We are going to coexist and we will have to collaborate to drive benefit for the customers.

Participant

We learned today that like everyone else, you will need to scale down to save costs. We also heard that you are a winner if you can go out and talk innovation with customers. That is a very challenging task in terms of man hours. Getting this communication down to the basis where it creates benefit for your customers and taking it to all these next steps, do you feel that currently BT has the right amount of manpower to go out and engage in this?

You are starting to see a lot of other competitors, and you talked about Nortel. I met the CEO of Nortel recently. He said that 50% of future revenue should start coming from services, not selling infrastructure to operators. It is managing those infrastructures. He sold to operators but also enterprises. The market is really heating up. In terms of manpower, you will always need people to go out and do this. It is very challenging. You have staff at the low level and they are not shifting boxes, they are really taking their company to the next level. How can you take this challenge in a scenario where you are supposed to scale down? Are you getting a lot of people to work on your area? How will you deal with it?

Tom Craig:

If this did not come across earlier, it should have done. Having to drive a cost-base agenda on Global Services has been a consistent theme. £400 million over the next three years is a rollover programme we have had for every year I have been in Global Services running as Director or President. Every single year, we have had to tackle the cost base with Ben driving from BT Group, so that is not new. I think that is just being prudent and good business management. It is completely unparalleled to what we see elsewhere; the BT plan is driven by very clear programmes. We are not downsizing but we may be changing the dispersion of where the resources are that we use. Andy quoted the example that we have outsourced 2,000 extra resources in India but the 2,000 people that were released from OneIT in the UK, we turned them round, put them out through Global Services and they are now in fee-based work with customers.

We may have grown resources on net, because to cope with demand in the pipeline that is almost inevitable, but sometimes we have to be smarter about how we do it. I think we will have to continually manage the two things. I think the key difference is that we see a lot of people from our industry going when it is unplanned. It is just decimating the cost base. We continue to grow as a people business. We use and resource people from the global markets like Accenture, CSC and IBM do, and you have to access the global skills base of the market to economically cover costs and fuel growth. I do not think that they have to be contradictory things, but it is a challenge that we have to manage to make sure we reach our projection of a 15% EBITDA business.

David Parry-Jones:

I would agree with the point. There is an increasing number of partners coming into our marketplace, be they BT or Nortel, and I think they need to shake themselves out of the industry to see who will stay in the marketplace continually.

Participant

Nortel believe that they could grow organically to be a BT-like entity.

Tom Craig:

I would say Nortel is like BT. They have some great product technology but I have been in the company for 16 years and the evolution to create Global Services has been at least 12 or 14 years to get to where we are. We started with a business that we used to call MNS – Managed Network Services – to ask how you can add value onto customers' solutions. To build this company is not something that you can decide to. We did not wake up last week and think, 'We think there is a new opportunity. Perhaps we should be adding more value to networks'. There is an inevitability in the market. When all you are selling is capacity and bandwidth and that is your value, then it is not a great economic model. That was foreseen a very long time ago and that is why of 27,000 people, 11,000 are paid by the customer for their knowledge. It takes time.

Participant

Is it therefore not the case that for Corporate Fusion to deliver what you call business-grade experience availability that you therefore need to be managing the LAN?

Tom Craig:

I think that in many of the instances we will manage the LAN. You can also create policy and design rules that say to the customer, 'If we are not managing the LAN these are change-control processes and design-policy rules that you must implement. Implement them'. That is what we are doing and we have already done that work.

Participant

You are pushing risk back onto the customer.

Tom Craig:

In 95% of all instances, the customer is asking BT to manage the entire domain because it is in essence a managed service. If a customer has a mindset to have a managed service, they do not want to have the LAN from *a*, the router from *b*. They do not buy Corporate Fusion as a point product. They understand there is an integration challenge.

Participant

Are you saying that about 95% of Corporate Fusion revenues will come within the scope of a LAN?

Tom Craig:

I would say that in most cases it will be part of an overall managed service. Likewise, the security services were managed and IP telephony services. In the vast majority of engagements, we typically manage the entire environment. We also see and we also pick up a lot of carcasses of suppliers who have tried to sell hosted solutions as a point product. A simple example is bail-out IP telephony projects, where someone has looked at IP telephony as an isolated product, has not understood the integration issues or design of the local network, has not asked to manage it for the customer, and has been a train wreck. In those instances, if we take on the project or resolution, we take on the end-to-end service goal. Otherwise, managing the design risk and managing the service obligation is very difficult.

David Parry-Jones:

I would reinforce that. That is one of the key reasons we are partnering so much with BT, their ownership of the end-to-end piece. We are seeing more of our LCS deployments now going out through a managed-service provider. Even if BT is managing the network from one end to another and someone else is managing the LCS software, you cannot put a five-nines SLA on it because you are not managing the whole thing. BT is somewhat unique in its ability to do that for us.

Tom Craig:

The emphasis is always on managing the risk for the customer. That is our full intention.

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