

Cisco and China Telecom Jointly Create Pioneering Solutions to Win SMB Market

Executive Summary

CUSTOMER NAME

China Telecom (CT) Group

INDUSTRY

Telecommunications

CHALLENGE

- To transform the company from a product-centric operation to a customer-driven information service provider
- To reverse a decline in revenue and reduced margins for its main revenue source—PSTN voice
- To capitalize on dynamic growth opportunities in the small and medium-sized businesses (SMB) market segment that had remained unexploited in the past

SOLUTION

- Formulate a go-to-market strategy to capture growth opportunities in the SMB market
- Develop a managed services solution roadmap that meets the needs and requirements of SMBs
- Create both business and operating models to scale the go-to-market process

BUSINESS VALUE

- Create new revenues, increase the average revenue per customer, and reduce customer turnover
- Improve efficiency and scale for go-to-market operations

China Telecom (CT) and Cisco Systems® jointly developed and launched differentiated managed services targeting China's fast-growing small and medium-sized business (SMB) market. The joint initiative has resulted in a broad-based collaboration between CT and Cisco, ranging from business product design, and joint sales and marketing. Consequently, in July 2005, CT and Cisco agreed to form a business alliance designed to accelerate and expand the rollout of managed services on a national scale and thereby achieve a win-win result in the SMB market.

SEARCHING FOR NEW GROWTH DRIVERS

In owning two-thirds of the country's network resources, China Telecom (CT) is the premier telecommunications carrier in China, possessing a vast customer base comprising 130 million fixed lines and 15 million broadband subscribers as of March 2005. In the 2004 fiscal year, China Telecom's revenue reached US\$19.5 billion, with US\$3 billion in profit.

As one of the largest service providers in the Asia Pacific region, CT became a publicly listed company in 2003, the same year it was named as one of "The World's Most Admired Enterprises" by *Forbes Magazine*. The company also ranks amongst the current members of the Fortune 500.

Although China's telecom service market is growing, CT's core business, PSTN voice, has been facing a number of challenges, including fierce competition, rapid technological disruptions, and mobile substitution. A method of offsetting the declining revenues of PSTN voice with new growth drivers has become a key strategic issue for CT. At the end of 2004, CT announced a new mission strategy: to



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Internet Business Solutions Group

transform itself from simply being a network carrier to becoming an “integrated information service provider.”

Since then, CT has been undergoing a strategic transformation. Mr. Niu Gang, CT’s SMB Project Manager responsible for new product planning for the CT group, said, “Research indicated that there was great potential for the development of the SMB market in China. However, previous service offerings lacked differentiation. We needed to introduce an end-to-end integrated solution tailored toward SMB customers.”

THE SMB MARKET: A BIG DEAL FOR “SMALL SHRIMP”

In the past, CT has focused mainly on large enterprises, often described as “big fish.” The SMB market was known as the “small shrimp” segment, an area that was underserved. As the “big fish” market became increasingly saturated and highly competitive, the growth opportunities in the SMB market caught the attention of CT. Economic reforms in recent years had motivated a large number of SMBs, especially those in the private sector, to expand their businesses to overseas markets. Increased business activity within the SMB sector has generated a higher demand for IT solutions as a way of improving business efficiency and effectiveness. Statistics show that in Shanghai city alone, there are over 400,000 SMBs, spending over \$1 billion on communications and IT services each year, with a growth rate in double digits.

“THE SMB MANAGED SERVICE PROGRAM IS AIMED AT OFFERING PROFESSIONAL YET AFFORDABLE IT SERVICES TO BUSINESS USERS THROUGH THE INNOVATIVE BUNDLING OF PRODUCTS AND SERVICES FROM BOTH CHINA TELECOM AND CISCO.”

— Mr. Zhang Jiahua, Managing Director of China Telecom Product Development Center

Despite the huge potential of the SMB market, offering a scalable and affordable solution in combination with a high-quality service-level agreement (SLA) became a key challenge for CT. Moreover, the SMB business environment, without dedicated IT staff, requires high network reliability and service flexibility. As Mr. Zhang Jiahua, Managing Director of CT’s Product Development Department, explained, “We already serve large corporations with customized solutions. For SMB customers, what they need is a simple and standardized service, combined with high flexibility. The delivery of these requirements posed a great challenge for CT.”

CISCO AND CT JOIN FORCES

To streamline the product development process, CT established a Corporate Product Center in late 2003. The Center is responsible for the design and development of products to be deployed among all operating companies within CT. Cisco has been working with the CT Corporate Product Center since 2003. Cisco Internet Business Solutions Group (IBSG), in collaboration with the Service Provider account team, Commercial, Service Consulting, Cisco Systems Capital®, and Channel Operations initiated a series of engagements with CT focused on the SMB market segment, including market assessment and customer segmentation, product solution prioritization, and go-to-market operations. CT and Cisco executed the project in three phases:

1. **Strategic planning:** Developed a collaboration model, identified a solution roadmap, designed the business and operating models, defined the technical and financial requirements, and obtained the approval of senior management

2. **Pilot:** Selected the pilot targets, defined the service and support processes, completed the pilot engagement documentation, trained the channel partners, commenced the pilot programs, and refined the process and roadmap
3. **Commercial roll-out:** Transferred the pilots to commercial operations, reviewed the results of the pilots, created agreements with the channel partners, prepared/scaled the program for commercial launch, created success stories, created data collateral, and handled launch/communication

A cross-functional team composed of staff from both companies was involved in the development process. From the Cisco side, staff from IBSG, the Service consulting group, the SP team, the Commercial team, and Cisco Systems Capital were engaged as part of the project team. From the CT side, members of the Product Planning Department from the CT Corporate Product Center, staff from three operating companies, and two of its research institutes in Shanghai and Guangdong were all recruited to the project. An executive committee was formed with senior management chosen from both companies and a joint project management structure was put in place.

“JOINTLY DESIGNED AND DELIVERED BY CHINA TELECOM AND CISCO SYSTEMS, THE SMB MANAGED SERVICE PROGRAM IS A CREATIVE SOLUTION THAT PROVIDES A SAFE AND SEAMLESS IT PLATFORM ALLOWING SMALL AND MEDIUM-SIZED BUSINESS CUSTOMERS TO IMPROVE THEIR PRODUCTIVITY IN A HASSLE-FREE MANNER.”

— Mr. Han Zhencong, Vice President of China Telecom Jiangsu

THE SOLUTION

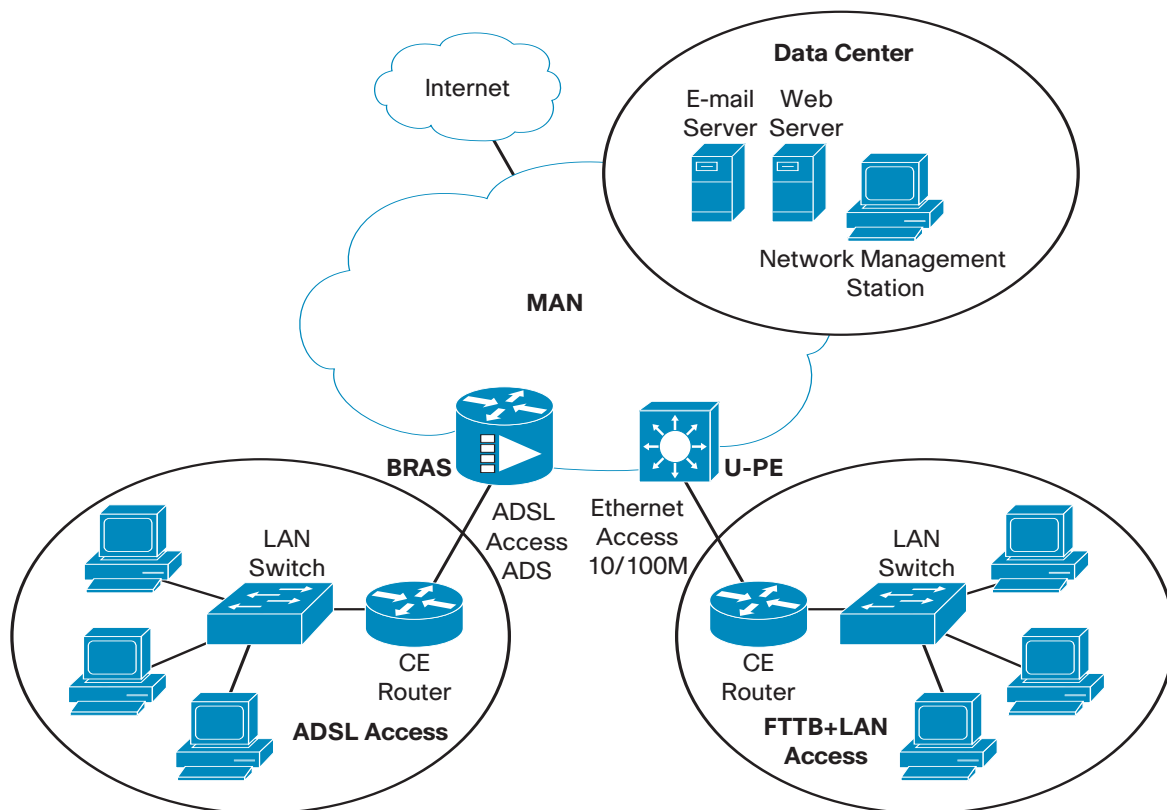
Larry Chai, Operations Director of Cisco China’s CT account team, pointed out, “With low budgets and limited IT capability, the majority of SMBs really need a safe, turnkey solution that can improve their daily work efficiency. What SMB Managed Services provides is an integrated voice, data, and application service delivered over an IP infrastructure, with security ensured through remote network management.”

Working with CT, the joint development team created a service roadmap. In the first phase, two service bundles targeting the needs of the different types of customer were designed, including a “Basic Package” and a “Professional Package.”

The Basic Package is aimed at new business start-ups that typically have a single site and a limited operational scale. Bundled with a [Cisco 831 Router](#), the package offers 2M ADSL/fiber-optic broadband access, a dedicated mailbox, a do-it-yourself Website design option, and a managed CPE. The Managed Service features, which include an SLA giving a one-hour response to troubleshooting requests and a single customer support interface, were the first services to be offered to the SMB market.

In contrast, the Professional Package is aimed at larger and more established companies with multiple branch offices. Bundled with the [Cisco 1711 Router](#), the package offers 10M fiber-optic access, a VPN, the hosting of a professionally designed Website, and managed security services. The Managed Security service provides remote network monitoring and troubleshooting, with an SLA that offers 24-hour service support, a 30-minute response time to troubleshooting requests, and a monthly network performance report.

Network Architecture



Typically, the customer can obtain either of these two solutions after signing a two-year service contract, which includes a customer premises equipment (CPE) agreement. As part of the solution package, Cisco Systems Capital provides CPE leasing to CT, which eliminates the need for upfront investment by the customer.

However, success will not be achieved if the plan cannot be implemented, no matter how good the plan is. There were a number of barriers that needed to be overcome before the project could be successfully implemented. For China Telecom, it was the first time the company had offered managed services to SMB customers, and, as a result, there was no established capability within the company.

Because of this, several questions needed to be considered. Who would be an appropriate candidate to provide a suitable managed CPE and security that would fulfill the quality standards set by both companies? What would be the structure of the revenue-sharing model? What approach would be used to set up an efficient go-to-market operations model that would ensure smooth handovers between the three parties?

During the initial stages, Cisco worked with CT to develop a strategic transition plan, and then introduced its major channel partners. In addition, Cisco facilitated negotiations between the three parties and reached an acceptable commercial revenue-sharing agreement that included appropriate SLAs. This was achieved within the space of two months. CT then agreed to provide suitable workspace within their network management center to allow Cisco channel partners to set up the required facilities, including hardware and software. By working together, handling lead-time was therefore minimized.

Once a customer signs a contract, the partners are immediately informed and will arrange installation, configuration, and testing of the CPE in accordance with the SLA requirements. Cisco partners also remotely monitor the end-user's network and provide management security services and network reports, as agreed in the SLA.

If there is a customer complaint or when a network fault is detected, CT's network center will determine whether it is an infrastructure problem or a local-area network (LAN) problem. If the issue is confirmed as a LAN problem, the case will immediately be passed over to the responsible partner team located in the same office. The Cisco partner will then solve the problem either remotely or by delivering an on-site resolution.

For the customer, there is only a single interface for both services and payment, with a monthly fee being paid to CT, who act as the payment agent, and are responsible for distributing the service fees and the CPE lease to the channel partners and Cisco Systems Capital, respectively.

The CT and Cisco Partnership

The collaboration between CT and Cisco has transformed the relationship model for two companies working together. Mr. Zhang said, "Cisco has a rich experience in leveraging the Internet to deliver business growth. This is exactly what we wanted to deliver to our customers. The Cisco IBSG has brought us a fresh perspective, allowing us to better understand and satisfy the needs of our customers through thoughtful leadership exercises, best practice sharing, and the application of proven tools. Cisco is continually exploring new approaches to sustainable business growth. We've learned a lot from the innovative spirit of Cisco. Cisco and CT shared the same vision in delivering service excellence to their customers, and this laid a solid foundation for our collaboration."

Mr. Niu Gang, CT's Director of Product Planning, added, "The contribution of Cisco IBSG is unique. The IBSG worked with us to jointly develop the market. It was widely recognized by CT that offering managed services for the SMB market is a strategic growth driver. From the beginning, Cisco has been the ideal partner to help us capture this significant growth opportunity."

Delivering Results

The SMB Managed Service program was successfully launched in the city of Wuxi at the end of April 2005. It was extremely well received and applauded by the customers. The attendance for the launch was more than 30 percent higher than expected. This has given both Cisco and CT the increased confidence to scale the program out to other provinces, and to achieve a projected revenue potential of \$155 million.

"The Managed Service Solution is exactly what was required and meets the needs of our business. The solution is hassle-free and easy to use," commented Mr. Zheng Guoqing, Vice President of an investment consulting company, who was chosen as one of the first trial customers of the "Basic Package."

Mr. Rong Jun, President of a food distribution company, and one of the first customers to install the "Professional Package," said, "The Managed Service solution uses the strength of both CT and Cisco, two of the most renowned companies in the industry, at an affordable price for SMBs."

The Managed Service solution for SMBs has been able to strengthen CT's leading position in the SMB market by increasing revenues in the market segment, and enhancing customer loyalty. For Cisco, the joint go-to-market approach has improved its SMB market coverage and penetration. Cisco partners have also gained the opportunity to expand their business beyond simply selling hardware, becoming a valuable part of the value-added services chain.

NEXT STEP: BUILD A "CHINA BUSINESS E-ENABLEMENT CONSORTIUM"

Looking ahead, CT and Cisco have ambitious plans to rollout the program nationally. With strong endorsement from the government, CT and Cisco are working together in forming an industry consortium to accelerate the implementation of the SMB program.

The proposed consortium will include Cisco, CT, and other Cisco system integration partners, along with PC terminal manufacturers and software developers, and will establish an ecosystem to deliver end-to-end IT solutions for SMBs.

In Guandong province, Cisco and CT have already launched a number of SMB initiatives, with plans for a regional launch in August 2005.

A planned announcement regarding the Cisco-CT alliance will be made in July, opening a new chapter of collaboration that will lead to more innovative initiatives in the future.

MORE INFORMATION

For further information on Internet business solutions, visit <http://www.cisco.com/go/ibsg>



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