



Advisory Report

# AT&T's Domain Sourcing – What It Means



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## ■ Summary

On September 4th, AT&T announced a “Domain Supplier” strategy aimed at streamlining its supply chain and facilitating, “a more collaborative relationship with its equipment and software suppliers.”

Beyond the rhetoric, the long-rumored move essentially consists of a few basic principles. First, AT&T defined a number of network “domains” – components of its network delimited by a specific set of technologies. The wireline access domain, for example, would include technologies such as DSLAM and FTTx. Second, AT&T will select two vendors per domain, pre-qualifying them within the domain for a multi-year period. Finally, these vendors will be expected to deliver end-to-end solutions within the domain including the integration, testing and support of their own products, partnered products and products already within the AT&T network. For its part, AT&T claims that the program will help it better focus on new technology and future network demands while keeping costs in check, fostering supplier diversity and driving its purchasing towards system capabilities vs. product functionalities. And, despite the potentially onerous demands placed on its vendors – the vendors are expected to help deliver cutting-edge, end-to-end and cost-effective solutions – AT&T claims benefits to its new domain suppliers in terms of project timeline and roadmap collaboration as well as expedited revenue realization.

When one of the world’s most visible service providers moves to shake up its supply chain, a few things are certain. The vendors winning a piece of this business will rightly herald their wins. Some will likely see their market positioning (at least within North America) shift. Competing operators, in turn, will investigate the value of similar moves. Yet, amidst this marketing and bluster, it’s important to ask, “What does AT&T’s supply chain transformation really mean to the telecom vendor landscape, and should AT&T’s competitors follow its lead?”

*Continued*

## Report:

## ■ Current Perspective

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Despite its announcement, plenty of details surrounding AT&T's new Domain Supplier strategy are still unknown. The operator, for example, failed to name any of its new suppliers. The specific domains it had identified also went unstated (with the exception of wireline access). It's not even clear how many domains the company will focus on, though some reports suggest up to 14. Since the announcement, Ericsson took the opportunity to reveal itself as one of the chosen wireline access suppliers, a role that will see it integrate equipment from Adtran. This, obviously, leaves many questions unanswered.

- **Big Deal.** Even if being named as one of AT&T's Domain Suppliers does not actually guarantee business from the company (and it doesn't), simply being selected is significant endorsement. AT&T, after all, is far from a small player in a developed market. Its service interests touch on a broad spectrum of advanced technologies ranging from residential fiber, to IPTV, to HSPA and IMS. On several, it's been one of the first major operators in the world to move forward on the technology. Out of a broad universe of telecom network suppliers, then, Domain Suppliers into the company can claim the capabilities and expertise to meet the requirements of an incredibly demanding, advanced fixed-line and mobile operator. Of course, there is also the prospect of the award from AT&T, an award that can actually be grown over time.

- **No Lock-Out.** At first blush, AT&T's selection of two vendors per domain suggests that vendors beyond those two are locked out of the operator's network. This isn't the case. In the long-term, new vendors can be named Domain Suppliers as the original winners see the term of their contracts run out. For AT&T, this provides leverage to keep the vendors performing at the top of their game. For vendors not part of the initial selection, it offers hope going forward. In the near-term, however, the Domains aren't completely exclusive. Where suppliers are expected to deliver end-to-end solutions, other vendors can work their way into AT&T through them; Ericsson's integration of equipment from Adtran provides a prime example.

- **No Slam Dunk.** As much as vendors may be clamoring to get named as a Domain Supplier into AT&T – if only because of the PR value and the revenue potential – the designation comes with no shortage of responsibilities. Recall that the suppliers will be delivering more than just products. They will be responsible for end-to-end solutions, including the integration, testing and support of their own products and products from third party vendors. Moreover, they'll be expected to work closely with AT&T, collaborating on timelines, roadmaps, technology visions, etc. AT&T may position this as a good thing for its suppliers. It must also, however, be seen within the context of the statement from Tim Harden, AT&T's President of Supply Chain and Fleet Operations: "We must continually challenge and collaborate with our equipment and software suppliers to improve their quality and step up to a higher level of performance." The focus on "challenging" and "improving" cannot be lost on any vendor chosen.

- **Holistic Thinking.** The decision to pick vendors based on "domains" isn't unusual. In announcing a specific optical, switching, base station or billing vendor, an operator essentially does just that. Again, AT&T has failed to detail the domains it's identified or even the number of domains it will be picking suppliers to fill. Assume, for a moment, however, that the company sees its network comprised of 14 domains, or even just ten. This doesn't preclude one vendor from being present in multiple domains. It does, potentially, narrowly divide network responsibility between a diverse set of vendors with limited acknowledgement of the vital synergies between the various domains. Now, more than ever,

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as services move beyond their silos – access tied to applications, fixed tied to mobile - the importance of these synergies to reliable, profitable services cannot be denied. AT&T's new strategy may not deny them, either, but it doesn't suggest that they've been well considered.

- **Domain Trend.** AT&T's supplier shake-up may be newsworthy, but not revolutionary. On its face, a comparison can be made to BT's 21CN initiative where specific segments of the network were awarded to specific vendors. It can even be likened to Verizon's LTE awards, where the network was divided into Radio Access, Core and IMS components. To be clear, AT&T has its own vendor requirements, in terms of solutions, collaboration, network planning, etc. And, AT&T's Domain Suppliers aren't actually ensured revenues – in other words, being named a supplier doesn't constitute an actual contract or award. The differences between this and an operator's approval of vendors as network suppliers may be lost on many people - particularly, other vendors who need to limit their work to a small number of vendors (vendors they work closely with on network planning and technology roadmaps) in order to streamline procurement processes, creating their own de facto domain supplier program.

- **Lifespan.** In an ideal world – for vendors, at least – AT&T's Domain Supplier strategy represents the promise of a future revenue stream. We know this isn't true to the extent that no suppliers are promised actual contract awards and supplier designations are not perpetual in duration. There is another consideration at play, however. It's unclear how long the Domain Supplier program will live in its current form. Domains, after all, are likely to evolve, converge or even disappear. Vendors once capable of meeting the operator's needs may reprioritize their own R&D and product plans. The complexity of juggling a diverse set of domains and the relationships between them may become too difficult to manage. Ultimately, as with most strategies, only time will tell how well AT&T's Domain Supplier program works. Beyond the question of how well its vendor picks can meet its demands, it is clear that the strategy will require a high level of coordination between its suppliers, not to mention flexibility from AT&T itself in order to deal with shifting domain capabilities and vendor priorities.

**Recommended Actions**

**Recommended Vendor Actions**

- Vendors selected to be one of AT&T's Domain Suppliers need to highlight the fact. As an endorsement from one of the market's most advanced operators, the designation is enviable – even if it never results in actual revenues. It's incumbent, then, on the operator's suppliers to take the opportunity to explain not only that they were chosen, but also why they were chosen, what sets them apart from the competition and what they can deliver to AT&T that other vendors can't match.
- It is inevitable that some vendors will be chosen to support more than one of AT&T's network domains. Given a broad number of domains and a limited number of network vendors capable of supporting them, some suppliers could be present in many. Where this is the case, the lucky vendor needs to leverage the synergies (publically if possible) in order to increase its value to AT&T and demonstrate its diverse capabilities.
- Vendors finding themselves excluded from AT&T's initial Domain Supplier program shouldn't let the temporary setback impact their attempts to sell into the operator. On one hand, the opportunity exists for vendors (particularly smaller ones) to see their gear sold

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into AT&T through other vendors. On the other hand, the designation of Domain Supplier isn't meant to be a lifetime title – opening up the door for vendors to work their way into AT&T as time goes by.

- It seems unlikely that many smaller vendors will have the luck of being named as a Domain Supplier into AT&T – the demands in terms of solution delivery and support may be too onerous. If the path for their inclusion, then, runs through larger integrators, their sales efforts need to focus on OEM relationships and other partnerships, ideally combined current partner-based sales efforts with direct contact into AT&T in order to drive demand for their solutions.
- Leveraging AT&T as a (potentially negative) example, network vendors need to drive operators to think broadly in terms of network sourcing. It clearly makes sense to choose domains in which to have vendors compete. It makes just as much sense to have one vendor support multiple domains in order to execute on potential network synergies to the benefit of compelling services. This may seem like a self-serving argument for a vendor to make, so real-life examples of these synergies are an important part of the message.
- Huawei and ZTE need to ramp up their messaging around their professional services capabilities. Like every major network vendor, each of the Chinese companies delivers a range of services including deployment services, consulting services and managed services. Neither, however, maintains the reputation of longtime service players like Alcatel-Lucent, Ericsson or NSN. To the extent that these services are key for delivering end-to-end solutions, they'll be key for winning Domain Supplier status in AT&T or any other vendor.

**Recommended User Actions**

- AT&T needs to deliver more details around its Domain Supplier program – details such as the domains and suppliers it's chosen. It is in the company's best interest to control news around its sourcing, if only to get in front of vendors who will be eager to get the news out. If the company had a reason for publicly announcing its new supplier strategy, it will want to continue controlling the messaging around it rather than letting the news get out through other channels.
- Other operators need to consider the benefits of following AT&T's lead – developing their own Domain Supplier strategies. While the domains to be identified will clearly depend on the needs of the operator, there are clearly benefits to having a select set of vendors to collaborate with, within a given part of the network. Learning from the examples of AT&T and BT is a good place to start the process.
- Where an operator decides to develop its own Domain Supplier strategy a la AT&T, it must consider limiting the number of domains it identifies. The identification of too many narrowly defined domains risks jeopardizing the potential to benefit from synergies between the domains, synergies that could help to improve service quality while opening up new service and revenue opportunities.
- Any operator dividing its network vendors into discrete domains needs to put network management front and center. It is worth repeating: the linkages between once-disparate network components are getting tighter and tighter. To ensure that services can reliably cross these network boundaries, operators will need to make network management solutions an integral part of any domain vendor selection.