

NETWORK!

AN ELECTRONIC NEWSLETTER FOR THE PEOPLE OF AT&T NETWORK SYSTEMS

Your opinion counts

AT&T Opinion Surveys are due Sept. 11. If yours is still in your inbox, here's why you should take the time to respond now.

NSG People in Action -- Playing to Win initiative will create PVA Core Teams throughout the business. These teams will examine results to determine root causes of problems, propose countermeasures, and work with Senior Leaders to implement action plans.

"More than 95 percent of the NSG Senior Leadership Team has committed to support the PVA Deployment Strategy," says Curt Artis, vice president - Human Resources and Strategy Forum. "We'll be building on the successes of organizations throughout the business who already know the benefits of focused survey follow-up."

Community Meetings, another NSG People in Action Playing to Win initiative, also will give organizations an opportunity to explore issues identified in survey results. □

NS's hardware initiative

The theme for NS's high-margin hardware initiative is "Sell more and sell earlier in 1995." This initiative is extremely important to NS because it directly affects Customer Value Added -- satisfying our customers and Economic Value Added -- meeting our financial commitments.

Efforts are focused on increasing total demand, pulling up hardware sales from the fourth quarter to the third quarter, and improving the Customer Demand Planning (CDP)

Continued on Page 5

Financial results slump in July

NSG's financial performance took a vacation in July. "Our July results reflect a significant reversal of the progress we made in June," says NSG CEO Rich McGinn. "This is clearly movement in the wrong direction and a trend we cannot afford to continue."

"The fourth quarter ramp gets steeper each month we miss our plan," says McGinn. "August is traditionally a slow month. We're forcing ourselves into needing extraordinary performance every month from September through the end of the year."

Software sales -- a key element in meeting our plan objectives -- missed both plan and outlook, and remained below plan year-to-date. The hardware sales initiative is beginning to show results (*see separate article*).

A few bright spots

For the first seven months of 1995, Global Commercial Markets (GCM), Affiliates, Europe, Middle East and Africa (EMEA) and Pacific West CBUs have exceeded their revenue plans. On measured operating income (MOI), GCM and Affiliates are ahead of plan year-to-date, and EMEA is clearly on the right track.

Expenses must get back on plan

Period expenses were a disappointment and above plan for July and year-to-date despite the imperative to get expenses under control.

"I'm looking to the Senior Leadership Team to take focused action to get expenses back on plan," says Steve Carson, vice president and CFO. "The solution isn't a

one-size-fits-all STOP campaign but diligent attention within each organization to control our spending."

Receivables make progress

Accounts receivable, although still higher than plan were lower than they were in June, thanks in part to good cash collections.

"We've made good progress since the beginning of the year on receivables," says Bob VanSaun, Global Logistics and Asset Management vice president.

Increase in inventory

Increased SNIPS was primarily responsible for an increase in July's inventory. A new policy regarding payment for products is designed to improve SNIPS performance. The new policy should reduce the amount of product that appears on NSG's books as inventory, even though it has already been shipped to customers.

"While July was a disappointing month, I'm confident we can get back on track and meet the challenges we face between now and year's end," Carly Fiorina, North American President says. "It's critical we focus on selling software and high-margin hardware, improving accounts receivables and Shipped Not Invoiced Products and Services (SNIPS), and reducing Costs of goods sold (COGS) and expenses. With determination and the right focus we can meet our third-quarter challenges and get ready for the traditional fourth-quarter ramp."

□

July results

Revenue

Total revenue was under plan for both July and year-to-date. External revenue was below plan for the month and year-to-date, mostly due to lower than planned RBOC and international sales. Sales to affiliates remain above plan. Software sales were below plan for July and continued under plan year-to-date.

Period Expenses

High spending levels continued, resulting in period expenses that were above plan both for the month and year-to-date. Overruns existed in all expense categories year-to-date.

MOI

MOI was below plan for the month and remained below plan year-to-date. This was primarily attributable to lower margins and the overrun in period expenses.

Accounts Receivable

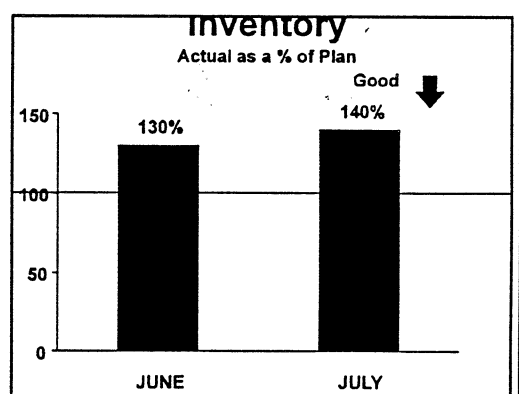
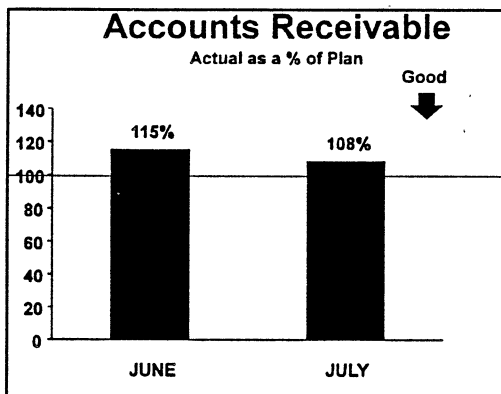
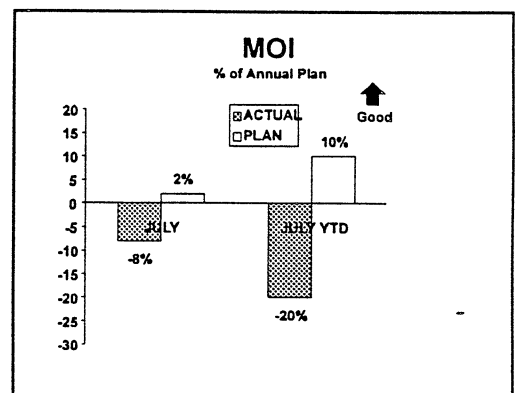
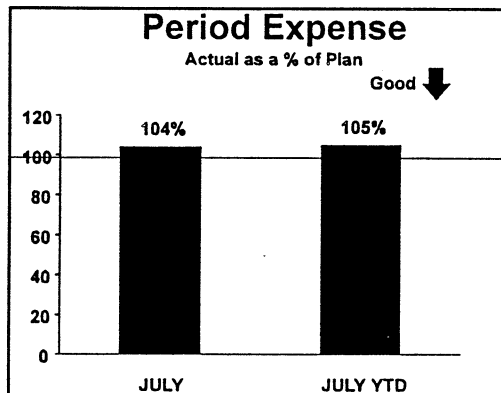
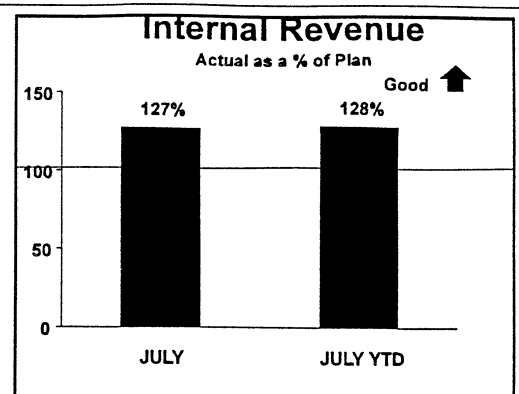
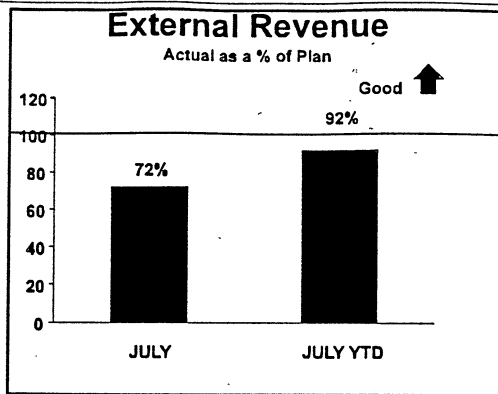
Accounts Receivable were above plan for July, but were less than the prior month due to good cash collections and lower than anticipated sales.

Inventory

Inventory was greater than planned for the month primarily because of shipped-not-invoiced inventory and increased inventory at the factories.

EVA

Through July, EVA continued below plan due to lower MOI and higher inventory, partially offset by lower than anticipated taxes. □



Understanding the Charts

Charts show the percentage of plan met in each category against monthly plans.

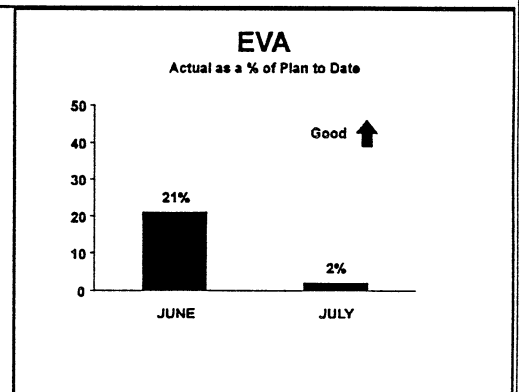
Revenue - Billings to customers for products and services already received. (*High is good*)

Period Expense - Price tag for doing business. Includes items such as R&D, marketing and sales, general and administrative expenses. (*Low is good*)

Measured Operating Income - MOI is derived by subtracting the cost of producing products, the cost of providing service and period expenses and other miscellaneous costs from revenue. (*High is good*)

Accounts Receivable - Money owed by customers for products and services already received. (*Low is good*)

Inventory - Product stock available at the factories and for sale to customers. (*Low is good*)



Economic Value Added - EVA measures the value added or subtracted from shareholder value in a period of business activity. (*High is good*)

Costbusters Corner

Update on metrics

July results for the three costbusters metrics -- cost of goods sold (COGS), expenses and inventory -- show COGS moving in the right direction while overall expenses and inventory continue to pose a challenge.

"There's progress in some areas and the promise of more savings as

local cost-cutting programs kick in and awareness of initiatives increases," says Doug Lewis, who co-leads the expense initiative. "In other areas, we're clearly not doing enough and we

need to turn up the efforts in the next few months and integrate what we've learned into our planning process for next year."

COGS savings

July results provided some positive signs that the impact of costbusters is growing, including:

- A healthy boost of \$26 million in COGS savings, bringing the total to date up to \$136 million.
- Lower year-over-year expenditures for July in five of the nine expense categories: administrative supplies, transportation, travel and living, data processing/telecom, and capital equipment. Spending for industrial supplies and equipment was at the same level as July 1994.

But results in other areas were not as positive:

- Spending in the two highest-impact expense categories -- computers and business/professional services -- climbed significantly over June figures, July 1994 figures and also year-to-date.

- Total inventory increased again and days of supply rose.

Focusing on solutions

In the expense area, organizations are integrating savings programs tailored to their needs and designed to contribute to the targets.

For example, in the Atlantic and Canadian CBU, the customer team

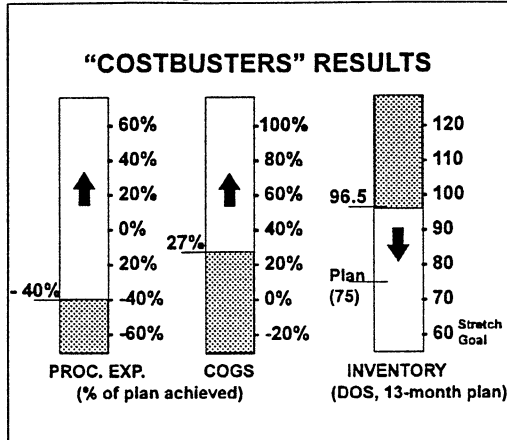
heads have implemented tighter expense controls and issued a set of "Principles for the way we live day-to-day." These guidelines on transportation, lodging, meetings and networking ask everyone to minimize travel

and use the prescribed procedures to get the best prices.

Accelerating programs

Although the COGS initiative is producing positive results, the team is looking to step up its trajectory toward the goal. Volume on key products is critical, as well as the ability to reduce costs in the Professional Services, Engineering and Installation areas over the balance of the year, says Ernie Rodriguez, who leads the COGS initiative. The team is working closely with the CBUs to accelerate cost-reduction programs where possible and to focus resources on products with the highest reduction potential.

"The need for margin improvement also is spreading across AT&T, and I have been asked to lead a cross-AT&T team to improve our international margins," adds Rodriguez. "The work we have begun in NS will be key to this effort." □



Canadian customer team scores big -- on service

British Columbia's local telephone company BC Tel, awarded NSG Canada its Superior Quality Award. The award is based on BC Tel's Vendor Quality Report Card that rates vendors on the quality of their service. The award is used by all telephone companies in Canada and provides a "level playing field" to measure the performance of telecommunications suppliers.

High scores

The report card consists of 28 elements in four categories. For the last two years, NSG Canada has worked with BC Tel to improve performance since the last report card in 1993. NSG Canada was awarded an overall score of 91.7 percent and was rated excellent in 27 elements. Here's how the team did in the four categories:

- Delivery: 91.2 percent
- Customer service: 91 percent
- Pricing: 90.2 percent
- Products: 92.9 percent

Head of the class

"If you are in a neck-to-neck race with a competitor, the Vendor Quality Report Card can give you an advantage," says Karen Oliver, Quality and Customer Satisfaction manager - AT&T Canadian Customer Team. "The biggest challenge we face now is to maintain our high scores."

The team's scores improved dramatically over the past three years. In 1990, its overall rating was 85.4 percent. In 1991 the team posted a rating of 82.3 percent. In 1992, the team's overall score climbed to 88.1 percent.

The dramatic increase this year was largely the result of new initiatives by NSG Canada's Improvement Team with representatives from Merrimack Valley, Marketing and Customer Service and Quality.

□

Big payoffs expected from improved contract management

The headlines trumpet a billion dollar sale to a key customer. But how much that sale will ultimately deliver to NSG's bottom line -- and how satisfied the customer will be -- is strongly influenced by the terms and conditions in the contract with the customer.

"Contract management hasn't always been given the attention it clearly warrants," says Carly Fiorina, president-North America. "In the past, some of our account executives would do anything to close a sale, even making very costly concessions for which we were not compensated. If a contract manager was involved, he or she was often limited to documenting what had been agreed to. All too often the contract manager was brought into the process too late to make a significant difference."

Building close partnerships

The Global Contract Management Program hopes to change that behavior by upgrading and professionalizing contracting skills, and by building close partnerships between sales people and contract managers. The program ultimately will contribute positively to achieving contract profitability for Network Systems while enhancing customer satisfaction.

"We expect to get high returns from the program," says Fiorina. "Among the improvements we should see as a result of a better educated sales and contract management community are smarter, more thoroughly prepared negotiation decisions; better deals for NS, and improvements in our ability to pursue, measure,

and track financial performance of our contractual commitments."

New course developed

NS has begun to implement the AT&T Network Systems Global Contract Management Program designed to help contract managers and other customer team members to improve their contract writing and negotiation skills. This seven course program was developed in cooperation with George Washington University's School of Business and Public Management.

It offers an understanding of contract management principles, a mastery of contract management techniques that could otherwise be acquired only through years of experience and an outstanding opportunity for participants to earn professional certification.

Partner early and often

Contract managers enable CBU and customer teams to maximize profitable opportunities in the pre-sale stage, reduce cycle time during the sales and implementation stage, and increase customer satisfaction in the post-sale stage. That's why the partnership between contract managers and account executives should begin in the early stages of negotiation and continue until the contract reaches final conclusion.

For more information, contact Dan Edwards, Global Contract Management Assurance director, at (908) 771-2348. □

NS wins huge wireless contract in Korea

AT&T Network Wireless Systems will soon be delivering \$540 million worth of wireless infrastructure equipment for Korea Mobile Telecom's (KMT) nationwide network, one of the largest wireless networks in the world.

Under the agreement, NWS will supply and install its AUTOPLEX® wireless communications infrastructure equipment. The equipment will allow KMT to expand its network and keep pace with the thirst for wireless service in Korea.

Long-term relationships

"Korea is an important rapidly growing market for us," says C.S. Kim, president - AT&T Korea. "We are committed to serving customers in Korea through long-term relationships such as this one."

KMT is Korea's only wireless service provider. In addition to its wireless network that provides service to more than 1.4 million subscribers, KMT has the country's largest paging service, with approximately 4.4 million subscribers. □

Small team tackles enormous task

A small group of public relations professionals in Oklahoma City made a big difference in AT&T's relief effort after the April 19th bombing of the federal building. For its efforts, the Oklahoma City public relations team recently received AT&T PR's highest honor -- the PRO award.

Ed Beltram, Judy Seikel, Al Rodgers and Carol MacKay gathered and updated information and fed a continuous stream of concise bulletins to AT&T employees worldwide. The bulletins kept people informed on the company's employees and services.

The small staff coordinated the plant's relief efforts and helped to create a messaging center that later served as the communications hub for rescue workers from across the nation.

"AT&T's traditional way of approaching a disaster is to get the job done instead of worrying about who's getting the credit," says Ed Beltram, public relations manager for Oklahoma City Works. "We were happy just being a small part of the tremendous outpouring of support from AT&T employees across the country." □

Hardware Continued from Page 1
process, especially forecast accuracy. To date, the focus has largely been on the 5ESS® Switch -- our biggest opportunity -- and access systems SLC- 5, SLC-2000, DDM-2000 and 80-type cabinets. In addition, NS is tracking and building initiatives centered on transport products such as DACS and FT-2000.

"We believe success in this hardware initiative combined with the software effort will determine in large measure how successful NS is in 1995 in terms of revenue and MOI," says Reed Harrison, president-GTE Global Business Unit and co-leader with Rock Pennella, vice president - GPN Manufacturing and Customer Support, of the hardware initiative. "Product pull-ups, even by a single month are making a significant difference."

Even distribution

The push to sell more hardware began in May and already the demand is up. In the past the bulk of the demand was concentrated in the fourth quarter, forcing NS to have a "fourth-quarter push." This year efforts are underway to even out the distribution of hardware throughout the year.

"We must get orders in as early as possible to reduce inventory risks, realize cost reductions earlier and ensure that we satisfy our customers' demand for our products," says Harrison. "Every order and every pull-up, even by a single month, are important."

All CBUs, the GPN OBU and the Global Logistics Organization are actively participating in this initiative. Significant strides have been made, especially in getting a larger volume of business for the year and in identifying important CDP process improvements. But, there's still work to be done.

"Here's the bottom line," says Harrison, "If you can get an order, that's great. If you can get it earlier that's what we really need now to achieve success in '95." □

Interesting Stuff

Cherokee Nation Industries lands contract

Cherokee Nation Industries, Inc., (CNI) recently earned a three-year multi-million dollar contract, the largest in its history, to assemble and distribute fiber-optic telecommunications equipment to Southwestern Bell (SWB). The equipment will be sold to CNI by NS.

In addition to assembling and distributing the equipment at its Stilwell, Okla., manufacturing plant, CNI will also manage inventory and process orders for SWB. NS will train CNI employees on the fiber-optic equipment.

The contract is the result of programs at both AT&T and SWB that help to provide economic stability and create opportunities for minority businesses.

New joint venture opens doors in Saudi Arabia

AT&T and International Systems Engineering (ISE) are forming a Saudi Arabian joint venture com-

pany to provision telecommunications network operations, management and related information systems, products and services. AT&T and ISE will each own 50 percent of the company.

"This partnership is consistent with AT&T's strategy to globalize its business and support its customers locally," says Mick Brown, president - AT&T International (Saudi Arabia). "It's another step in our long-term commitment to help develop Saudi Arabia's telecommunications industry."

Joint ventures and partnerships with local companies form part of AT&T's Economic and Offset Technology Transfer agreements with the Kingdom. As part of the agreement, some of the new company's software engineers will be assigned to Bell Laboratories in the U.S. AT&T said it would award sub-contracts amounting to more than \$170 million to the new company. □

Get the answers you need with the Procurement Toolkit

When AT&T associates have questions about how to obtain services or supplies, who do they go to for answers? Any administrative support associate will tell you: "They come to me!" The Global Procurement Community made it much easier to find those answers by sending The Procurement Toolkit to administrative support personnel throughout the U.S. The Procurement Toolkit gives simple "how to" instructions for obtaining everything from AT&T T-shirts and office supplies to temporary occupational help. If you are in an administrative position and you haven't received your Procurement Toolkit call 1-800-ATT-BUYS to request a copy. □

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Continuing the dialogue ...

As promised, here are some more answers to questions asked during and after the second-quarter broadcast.

Windows and Webs

Q: *With the introduction of Windows® '95 last week, is there something NS or AT&T is doing to keep down the cost?*

A: Yes. In the current atmosphere, we have to consider the business need and the potential benefit of every purchase carefully. That applies to Windows '95, which is a timely example, as well as to every other expense.

"Because there has been so much press surrounding the launch of Windows '95, it might seem tempting to get on ordering lists or make purchases," says Chief Information Officer Doug Lewis. "But in the context of our financial performance so far this year, and with expenses out-running last year's, we've taken a strong

"Our recent acquisition of Philips gives us an instant presence in the previously closed markets of France and Germany."

-- Bill O'Shea, president -- NS International Region and Professional Services

stand that employees are not to upgrade at this time."

According to Lewis, NS will delay upgrading to Windows '95 until 1996 for technical and financial reasons. He acknowledged that some purchases may be necessary for development, testing and other specific reasons, but emphasized that those orders should be approved by CIO. In keeping with the goals of the Costbusters' initiatives, each organization's expense-reduction implementation leader also has been notified of this policy, and the Global Procurement Organization has taken steps to ensure that no orders for the software are processed for NS.

GPO and CIO are partnering to negotiate with software vendors and finalizing agreements that will ensure the best prices for Windows '95 and other software products next year. Network! will publish more information as it becomes available. Also, be on the lookout for an upcoming "Costbusters Corner" focusing on computer hardware and software.

Q: *I was visiting AT&T's Home page on the World Wide Web and saw information on Bell Labs' Plan 9, but saw no Home Page for Network Systems specifically. Some very small businesses have their customers ordering directly via the web, and some of them are low tech corporations. Could we consider making our own Web Page?*

A: The World Wide Web is a fast-growing new communications technology and AT&T Network Systems al-

ready maintains a large number of web pages, both in front of the "firewall" (public sites any net surfer may visit as well as behind it, (where access is restricted to AT&T employees with authorized log-ins).

From the public AT&T Home Page (<http://www.att.com>) visitors can read a profile of AT&T Network Systems, visit the NS's "TeleSales" area to learn more about SYSTIMAX Structured Cabling Systems, read our flagship customer publication "Network EDGE" and check on the status of large broadband network projects on a page called "Builders of the Information Age."

Inside the firewall, NS sales teams are testing a new Customer Team Infoware System to view sales information and print out color fact sheets and brochures for customers. (As that trial progresses, watch for more details!) In addition, several other organizations including Global Public Networks and Network Wireless Systems use internal web pages to communicate with wide-spread groups.

These few examples are among nearly 10,000 documents maintained on the AT&T Corporate Server. As you can see, our use of the World Wide Web is expanding rapidly, consistent with the explosive growth across the entire Internet. Looking to the future, it's hard to imagine that this trend will do anything other than continue.

Growing globally

Q: *As a global company, what are we doing to expand our presence not only in the U.S. but globally. Saudi is a great start. What else are we doing?*

A: *Bill O'Shea, president -- NS International Regions and Professional Services/Program Management:* The megadeal in Saudi Arabia brought us a lot of press, but we're making tremendous strides in other parts of the world too. Our performance against our very aggressive plans may suggest something different, but our growth becomes apparent when you look at our year-over-year growth.

In the Asia/Pacific region

year-over-year growth topped 34 percent in 1994. Our recent acquisition of Philips gives us considerable presence in the previously closed markets of France and Germany. The acquisition also positions us to provide a total solution for global customers who choose GSM for wireless or SDH for their trans-

According to Doug Lewis, Chief Information Officer, NS will delay upgrading to Windows '95 until 1996 for technical and financial reasons.

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Continuing the dialogue Continued from Page 6

mission solution.

Throughout the world, countries are leaping into the next generation of telecommunications services through wireless networks. Korea Mobile Telecom has one of the largest wireless networks in the world. We recently announced the sale of \$540 million worth of wireless equipment to keep up with the demand. We're making tremendous inroads in China too. We set up our first switching manufacturing plant in Qingdao with four Chinese partners. Internationally, we're partnering up with a number of companies.

Worldwide we have approximately 29 joint ventures in 19 different countries. In China alone we have eight joint ventures.

The wireless project in Argentina was completed in record time and we're establishing significant presence in other areas of South and Central America. Today, more 5ESS-2000 Switches are operating in the world than ever before.

Just 18 months ago, we had 5ESS Switches in 40 countries around the world. Today, we have 5ESS Switches in 50 countries. 70 million lines shipped. We have a lot to be proud about, but we also have tremendous challenges ahead to make NS the leader in the global marketplace.

Q: *After AT&T's second quarter results were announced, the following statement appeared in The Wall Street Journal: 'Meltzer said AT&T Network Systems also is showing softness. However, (Steven) Yanis of Oppenheimer said Network Systems has accounted for 25 percent of AT&T's revenue growth for the past few quarters and is expected to see revenue growth of 12 percent to 15 percent, twice the industry's rate.'*

Can you comment on this? What are our goals for NS in terms of year-over-year revenue growth? Given that the market is growing 6 percent to 8 percent per year, according to the above report, do you think the goals are realistic?"

A: *John Miller, NS Chief Strategy officer: NS targeted revenue growth for 1995 is a 17 percent increase in ex-*

ternal sales. The targets for the next few years are 17 percent to 18 percent year-over-year, about twice the estimated market growth rate. We think the targets are realistic, very aggressive and necessary to achieve and maintain global leadership.

The question of how realistic these targets are can be answered in several ways. The first is by looking at our competition: We estimate that Alcatel, our largest competitor last year, grew about 5 percent but still maintains a slight edge over NS. We estimate Ericsson

grew by 36 percent in 1994 over 1993. Ericsson is expected to continue this growth rate in 1995, growing its revenues by about \$2.5 million that's due to the growth of wireless. At this rate, Ericsson would pass NS and Alcatel in 1997. NS will push ahead of Ericsson and Alcatel only if it achieves its targeted growth.

A second view focuses on the dollar growth of the market since NS has a good shot at every dollar

spent. We estimate our market grows approximately \$10 billion each year. We think NS's capabilities and our product line will make it possible to get a larger and larger share of this new growth from new customers as well as continuing to earn return business from our existing customers. NS' strategies for growth are intended to target both continuing and growth areas.

More answers to come...

Network Systems employees phoned or mailed in a number of questions on Customer Architecture implementation, the CBU/OBU structure, profitability, sales compensation and other related topics. Rather than answer each question individually, we'll cover these topics and more in a special issue of Network! devoted to an update on Customer Architecture. □

"We think NS's capabilities and our product line will make it possible to get a larger and larger share of this new growth from new customers as well as continuing to earn return business from our existing customers."

-- John Miller, NS Chief Strategy Officer

Give us your thoughts!

We'd like to hear from you if you have any questions about the state of the business, the progress of Customer Architecture or any story ideas you would like covered in future issues of Network!. Fill out the form below and fax it to us at 201-606-3306.

Name: _____ Phone: _____ Email _____

Question, Comment or Story Idea: _____

