

SATURDAY INTERVIEW

Retooling for a Changing Telecom Landscape

By JULIA WERDIGIER

LONDON — Competition is fierce in the European telecommunications industry, where companies are vying for customers by undercutting each other on prices for services like broadband while trying to keep up with new technologies.

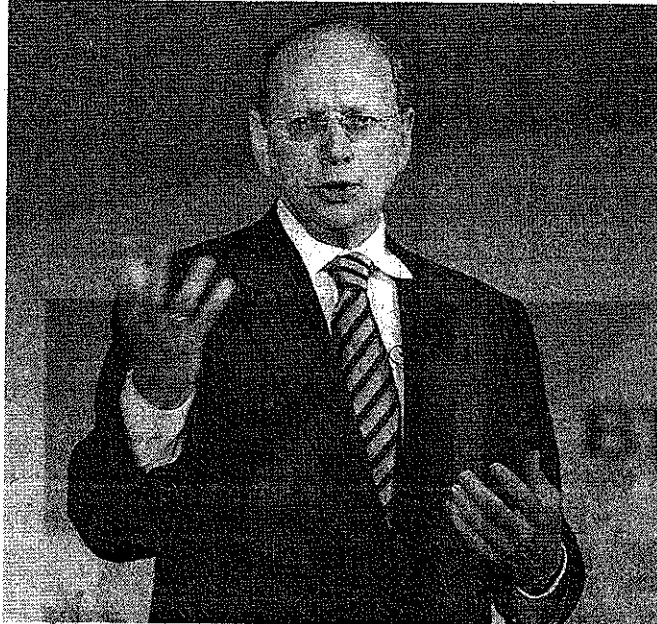
Some phone companies, including Britain's biggest, the BT Group, face an additional challenge in trying to replace some of the revenue they have lost as customers have dropped traditional fixed-line phone service. Some analysts say BT is in an especially difficult situation because it does not have a mobile phone business to help offset that decline.

But the chief executive, Ben Verwaayen, is betting that services like customized applications for corporate clients and advising companies on their networks can generate profit growth. As part of that plan, he has started to replace some of BT's traditional fixed-line phone engineers with technology "wiz teams" and plans to invest more in training and hiring.

Mr. Verwaayen, 56, spoke recently about how he expects the industry to change from one that focuses on gadgets and hardware to services, the war for talent and acquisition plans. Here are excerpts from that conversation:

Q. The market is moving quickly, customers are becoming more demanding and competition is fierce. In an environment like that, how do you gain an advantage over your rivals?

A. What we sell now is very different from what we sold five years ago. We don't sell telephony or sending faxes anymore. What we sell now is a collaboration of different services. We provide what we call experiences and not just sell the hardware. I believe the world is moving into the next phase, where customers will much less distinguish between fixed and mobile services but will look more for the most in-



BEN VERWAAYEN, CHIEF EXECUTIVE OF THE BT GROUP

novative service for any given application. That's why we focus on services and providing a social networking capability.

Q. Your main engine for growth is your services business, where you currently generate more than a third of total sales. Where do you see the biggest challenge with that approach?

A. It's innovation. The reason to buy products is more and more that little level of innovation you get offered on top of the machines or gadgets you buy. While for companies in the connectivity business the challenge is to cut costs and prices, for us the gamble is can I keep innovating?

Q. How do you make sure you do? Do you spend an increasing amount on research and development?

A. You don't need to have a massive corporate innovation group but you need smaller groups scattered around the organization and very close to your customer base. About 50 percent of our revenue today is from things

we didn't sell four or five years ago. When making investments, it is important to make them as neutral to any specific application as possible.

Q. Like many other former phone monopolies, including Deutsche Telekom, BT needed to transform itself by moving away from the shrinking fixed-line business toward new products and services to remain competitive. How difficult is that?

A. The challenge is how, in a company where everybody was born with a screwdriver in their hands, do you now start distributing keyboards. The innovation and the changes all happen on the software layer. The hardware layer simply is too expensive and changes take too long.

Q. BT is currently in the middle of a cost-cutting program that includes reducing positions on the traditional hardware side of the businesses while hiring staff for the services operation. How does that make the people with the screwdrivers feel?

A. They have to prove their value again because their world is more than ever about productivity. The screwdriver is not gone, but while in the past the screwdriver world would decide, now the people with the keyboard have the prime seat at the table. But if you look at our costs, it's the other way round. The bulk of it is still in the screwdriver world. So the key to any successful investment strategy is to understand talent.

Q. How difficult is it to attract that talent? In December you bought the Singapore-based Frontline Technologies for about \$140 million to expand in Asia. Most of your larger rivals have identified Asia as an area for future growth. How fierce is the war for talent there?

A. Very, very fierce. Talent is the differentiator. It's where we put our money and our resources. If you don't open your mind and offer more than just good pay in that environment, you lose out. That is the biggest challenge to corporations, and we have to adapt to the talent's needs by being flexible and offer schemes like working from home. The type of people you find in BT now is massively different than just some years ago.

Q. BT has made 27 small- to medium-size acquisitions in the last three years. Many recent ones were in the technology sector in the United States. Are you planning to continue that growth strategy?

A. You can expect us to continue with such acquisitions because we've not only found interesting applications through them but also talent pools. The whole debate that I'm seeing around the world today that the U.S. is losing out to the East is wrong. It is the talent that will win no matter where that talent is based. In India, where 26,000 people are working for us, it's not lower costs that we are after but the fact that the market there has entrepreneurial people.