

SunNetwork Shanghai Keynote

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Sun Microsystems Inc.

Male Speaker: Ladies and gentlemen, Executive Vice President Sun Microsystems Incorporated, Robert Youngjohns.

Robert Youngjohns: Good morning and welcome back to the first business session of day two of SunNetwork 2004. I hope you enjoyed yesterday as much as I did. I particularly enjoyed being able to visit the first floor and see the energy and innovation in every single exhibit. To me that was particularly encouraging because there is a view with industry today that perhaps innovation is finished; innovation is dead. In fact there are very senior professors and business analysts today in the United States who make money giving speeches on IT does not matter; innovation is finished. I think what I saw yesterday down there on the first floor proved to me that this industry has immense scope for

further innovation. The imagination that came out of every exhibit to me demonstrated that very clearly. To me that was really good news because for Sun we believe fundamentally in innovation. We believe the way that we differentiate ourselves long-term in this industry is to innovate and to spend money on developing the new products and services that our customers need and will bring real value to our customers. What I want to talk about today is how we take that innovation and how we have a methodology for turning that into real customer value because innovation by itself may not be enough. Innovation is interesting. Innovation is great for demonstrations. But when it comes to real customers, real business problems we and our partners have to be able to demonstrate a road map from great products, great ideas into things that really deliver business value for our customers. We have developed this methodology that has these six steps to it. It starts with how we bundle our Sun systems. It moves to a methodology of how we define solutions and how we relate those solutions to customer business problems. Then how do we prove to customers this stuff will work in their world? That is called proof of concepts. How do we distill the information we get from existing customer implementations and turn those into reference architectures, blueprints that can be used to build further customer solutions in the future? How do we pull all this together in terms of the product we actually deliver to customers? Then finally how do we support,

encourage and help manage the customer environment? Those are the steps in the methodologies we are deploying now worldwide to take the innovation that you heard about yesterday, that you have seen downstairs and you will hear more about later today and how we turn it into real, sustainable, long-lived customer value.

We start with what do we do with our products? How do we bring our products together into attractive bundles? How do we pre-integrate products in a way that makes sense? You have seen already the history, the ideas that we have in that arena. For example, our Java Enterprise System; we took a very strong view that if our customers spend time and energy integrating together middleware components that is time and energy they probably should have spent developing new applications and new services for their users. They should look to us, the vendor, to pre-integrate that middleware stack and deliver it as a sustainable product on a quarterly basis pre-integrated by us. That is what the Java Enterprise System was all about. We have many other examples in other parts of our business and you have heard about those both yesterday and will hear more about them tomorrow. So we will continue to try to distill the essence of systems into effective combinations that reduce the cost of implementation and make the road map to business value much quicker.

The second step is the methodology we use to engage with customers. We call this our architect, implement and manage methodology. What this is about is making sure that the relationship that Sun and our partners have with our customers goes beyond that initial transaction of buying some equipment or installing a piece of software. But it extends to cover how we architect the solution and then how we work with our customers to insure it is implemented effectively, and the business value is achieved, and finally how we manage it on a sustained basis going forward. What we have done to make that real in the field is to define six practices, six places where the methodologies associated with the effective use of our technologies will reside and these are the six. We have a data center practice. If you have people who are skilled for example in consolidation they know how to take a customer from an environment of maybe thousands of servers to many fewer servers and in the process save a lot of money and operational costs. They have methodologies; they have done it before. They know how to do it. We have had people and partners who are skilled and trained to go out and deliver that consolidation to a customer. That is within our data center practice and the other sub-practices. We have a security and identity practice that will focus on how do we implement our security and identity products to solve the business problems that most customers face of managing identity and the rights that people have

to access applications through the life cycle of an employee. Again it is not just about product; it is about methodology, it is skills and working with our customers to make it implementable for real. So we are putting a lot of work now into getting these six practices up, running and deployed worldwide. Where we have done it already, particularly in our European market where we are seeing very, very good results, both for Sun, our partners and particularly for our customers who have seen a map for getting to value, to get into the business value much more quickly than they were able to see in the past. Now obviously if you have talked to the customer about a potential solution, what they want is to see you prove it. Show me that it will work in my environment. Show me that I can actually pull these components together. Do a proof of concept for me. We have set up a series of iForce Centers worldwide to allow this to happen. They are centers manned by Sun or by our partners or in many cases jointly where customers can come and almost white board with us what they are setting out to achieve. We can build a proof of concept. We can build this is how it might look in practice in your environment. We can stress test that proof of concept and then start to turn it into a real set of products, services and partner services to create a customer solution. This gives you a map very roughly speaking of where our iForce centers are located. I think a little bit of artistic license was taking in the positioning of some of the dots. For example, I do not

think we have one there in the desert somewhere in East Australia. But broadly speaking it gives you an indication of the number and scale of those centers worldwide. Now obviously to be successful here we have to have a huge partner network. We have continued to work this through every year that Sun has existed. To us, partnering is not an optional extra. It is not today's fashion; it is a way of doing business. It is a way of doing business that is both critical to us and it is critical to our customers because through the iForce Partner Program we are bringing together 20,000 partners worldwide, 12,000 applications. We are bringing those together in our iForce Centers in a way that we could demonstrate real solutions to customers and test them out in real customer environments. That is a really important part of how we make that linkage from innovation into customer value.

The next part of this methodology is what we call our Reference Architectures. What reference architectures do is they distill the best experience from real customer implementations. They create from that a methodology, a set of instructions as to how you might go about implementing these applications and these solutions in other environments. By doing that they reduce our costs, they reduce our partner costs and they speed the road map to value very, very significantly. So we have got a number of these and we are announcing 16 new reference architectures at this conference

bringing the total number of global reference architectures we have to nearly 50. I want to stress again these are not just an example of how one customer did something. This is a distillation of a number of customer implementations into a methodology, into a set of instructions, into a road map that Sun and our partners can use to implement these things in real customer situations and insure that customers get a far faster route to business value. One example here is business intelligence. We have worked with GE Healthcare initially and Cognos to produce a business intelligence system that allowed them to track much more fundamentally where their components were, where their parts were, where all the aspects of the value chain were for their healthcare practice. We were able to reduce costs by 50%. We were able to reduce the speed to implementation by similar amounts. We took that experience and we distilled it to create an architecture, a methodology that we can now use in deploying business intelligence solutions in many other industries. We have another 49 examples of that very successfully deployed worldwide and available for any customer or any partner to use with Sun. We have also been encouraging local innovation, local reference architecture work. These are just some examples of work we have done recently to create the same concept, a repeatable methodology, a distillation of customer experience here in China. The example in the top left-hand corner is work we did with NES to work with an oil

company here on how better to manage the supply chain into petrol or gas stations depending on your use of the language. In doing so we were able to reduce the number of supply outs and the speed to replenishment very, very significantly by implementing supply chain applications. This is a huge business benefit and we took that now, distilled it, created a repeatable methodology that we can use in similar process orientated industries.

The next piece of our value chain is what we call customer ready systems. We have now taken a reference architecture, we have taken a proof of concept; the customer now says, "You say we are ready to go but actually I would like you to build this for us. I would like you to take your components. I would like you to add third party products. I would like you to add your software. I would like you to add other people's software and I would like you to deliver this to my site ready, tested and working." We put a great deal of effort into making sure we can do that. Now working with partners we have a sustainable process that allows us to build these systems, pre-integrate, pre-test the software environment, even customers applications before the products, the systems arrive on the customer data center. It is producing some very significant savings. Here is one example, an example from the UK, Her Majesty's Customs and Excise where working with Fujitsu Systems. We pre-configured and deployed over

100 servers with their applications with a whole range of other third party applications. As a result of that we were able to reduce deployment time by a factor of three from 15 weeks to 5 weeks; an extremely significant savings. This is becoming the dominant way we deliver systems, whether it is into the telco space, the network equipment providers or examples like this. The customer, you turn to us and say, "You integrated this stuff for us. You are the experts. You know how to do this. Deliver it to me working, tested, ready to go and that is what this is all designed to achieve.

Now the last aspect and I have certainly deliberately hurried over the first because I want to spend some time on the last aspect of this value chain, which is what we call our Advanced Services offerings. We put a lot of thinking into how do we better manage the long-term relationship with a customer. How do we work to ensure more up time, better availability from systems? How do we break out of the traditional thinking on the services business? We have come up with I think some really interesting and new ideas. The first of those is what we call Preventive Services. Now I would stress for those of you looking at the slide, when I first saw this slide I thought that the picture was a picture of a hammer and I was trying to work out how a hammer was connected to Preventive Services. It was much more like the plumber who visited my house recently and whose only technique for

fixing things seemed to hit them very hard with a blunt object and hope they started to work. This is a stethoscope. What this is designed to do is to say if you are thinking about service, traditional thinking about services have been if it breaks fix it. You optimize the way in which you go about fixing systems. You optimize your response rates. You get to your customer's site as quickly as you can. You have spares on site and so on. We thought that the medical analogy was a very good one. If you go to see your doctor you can take two approaches. They can cure you or try to cure you when you become ill or they can work with you to help you improve your lifestyle, to cut down your cholesterol level, to maybe persuade you to stop smoking, to maybe drink only what is the recommended amount, which seems to vary significantly depending on the doctor you talk to. But we can do those things and as a result improve your health and actually reduce the costs of long-term healthcare. Now we have taken that sort of approach and it applied it to the maintenance business. We said as we look at our customer sites we can identify risk factors. We know the things that contribute to up time or down time and it is far more than just a raw availability of the product. It is far more than whether the hardware breaks at a particular time. It is much more about the total environment, about the skills that are deployed there in the customer site. How up to date the software environment is; are the latest fixes applied? How are the systems configured? We have developed

what we call an actuarial approach, very scientifically based to assess what those risk factors are and what actions we can take to work...over half of the actions we take in respect to this customer, in respect to the maintenance of their systems are what we call proactive. In other words initiated by us rather than in reaction to a customer event or a customer crisis and I think those results are absolutely fantastic. They have reduced the cost as well of delivering that service and as a result reduced the costs that the customer has to pay to get these services. So I think this technique that we are announcing of Sun Preventive Services has huge benefits, real benefits, which is not just in terms of cost savings but in terms of real improvements in operational systems availability. Allowing data center managers and CIO's to achieve much better results without having to say, "I cannot do it. I am going to let someone else manage this for me." It is saying, "Let us approach this systematically. We can do this ourselves with Sun's help." Another example, a similar example in many ways is General Motors; the same techniques are being applied. We have now produced a system where of the 50 we have installed a box in one, 159 out of 160 has shown 100% availability since we have implemented these services. We have seen a two-thirds reduction in the severity one calls and again much lower operational costs and enhanced efficiencies. We believe with the approach we have taken there with Sun Preventive Services,

which we are now rolling out worldwide as a formal offering from Sun is really breakthrough thinking in the way in which we approach maintenance and service in the data center. It has massive value, both in terms of availability and reduced cost. It helps our customers get from uncertainty about what they can deliver and the potential of simply having to hand over their operations to other people to a sense of we can do this ourselves. We can achieve these levels of availability with our own resources providing we get the help that Sun offers with Preventive Services, risk assessments and so on that go. It is a highly structured and highly technical approach and those of you that are interested we have service representatives available here at SunNetwork who are more than happy to talk through the detail of how we go about doing this. It is a very technical, scientific and analytic approach.

Alongside that we are introducing a number of what we call Managed Services. This is an example, the example of disaster recovery. This particular example is delivered into the junction with one of our partners, SunGuard. But we are working on similar examples worldwide with different partners, many partners here in this audience. This particular example is saying for many customers disaster recovery is simply too expensive. It is something we really need to do but are really concerned by the level of costs to do it on the scale that

they believe is needed. This gives a much lower cost entry point to it. It allows people to get going quickly to build for a 48-hour recovery time the (inaudible) that is done in a way that is sustainable and is scalable because another pressure the CIO faces, disaster recovery is one that always (inaudible) of something that maybe you should do. We may have some sort of plan but really the costs against all the other things we have to do make it unsupportable. This is one way through our Managed Services offering that we are able to do that. We are extending our Managed Services offerings again working very closely with our partners very, very significantly. Another example is that we are offering what we call Interim Operations. That is where you have a concern about the skills in the data center or the amount of people you have and you want us to come and help you get the people trained, put in place the best operational processes and then hand it back to you to operate. That is our Managed Services interim operations approach. It is highly effective and again allowing (inaudible) managers to achieve many of the savings and operational efficiencies that otherwise might tempt them to move to outsourcing or some completely different approach.

We are also still focusing on training. One of the comments that our customers have made to us is that you have huge amounts of training in Java but it is a little bit fragmented. What we are doing is pulling all

that together and creating a very comprehensive, unified program for Java training with the appropriate certification. Some customers and some partners can move this through process with a very firm Java certification that we recognize worldwide from it. Already we have seen maybe a million students worldwide for this and we will extend that working with our partners to make sure we continue to deliver the best in class training for Java and the best in class certification alongside that. To allow you the customers and partners to make sure you have people who are well-trained, effective and can deliver on the applications you need.

The third example and really I cannot give you a sense here that we really have a huge number of changes and development in the services arena. This is to support the vision that Jonathan set out yesterday that we have to build a much more sustained long-term relationship with our customers. I am giving you here more examples of what those are but there is much more to come. This is an example that says when customers express to us a huge amount of interest in the Java Desktop System, the system that Jonathan used yesterday to demonstrate and to run his presentation from. The system unleashes on Looking Glass, that breakthrough thinking of how you visualize the desktop, how you can turn the desktop from a flat two-dimensional environment into a logically three-dimensional

environment and as a result be more efficient and effective. But many of our customers say to us the issue here and similarly the issue that I know Bill Vass will talk about later, which is SunRay and thin client. The issue here is not the attractiveness of the solution. We love the idea. We love the solution. The issue is how do we get from where we are today into this new world? How do we make the changes, the migrations we need to make from an existing desktop world into the new world of the Java Desktop System or SunRay? So what we have done here is to create a set of service offerings around the deployment of the Java Desktop to allow you to look at if it is going to make sense for your enterprise. Do a return on investment analysis. Do a proof of concept. What does this actually work? Where would we take this first? Would it be better to put this into marketing or should we put this into our financial department or should we put this into our call center? Where is the best place to get started with this transformation of the way in which you think about the desktop? As we do that we will quiz you on the issues that you might encounter. There may be migration issues. There may be conversion issues. We will find those and work them through with you and we have a great partner network worldwide, which really has massive experience for example in converting Excel macros into StarOffice macros. You can take an application that maybe someone in your financial analysis department is using largely in Excel macro language and convert it to

run in the StarOffice Java Desktop environment. We are offering that set of services (inaudible) what we know that we deliver to you; improved security and virus protection. So these are just examples of the new services offerings that Sun is delivering. The most important of them is the Preventive Services that I talked about first. But you should expect Sun to deliver a whole new range of service offerings around Managed Services, around Transition Services, around Implementation Services; all delivered in a way that brings our partners in and helps our partners to make it happen for real in our customer environment. It is a big change. What it goes back to is my passion that innovation in itself is really important. Innovation is what drives Sun. Innovation is the reason that in spite of all the pressure we have had from analysts and external observers we have kept going on the amount of money we spend on research and development because we believe that makes us different. We believe in the long-term if you want to be a computer company you have to invest. You have to invest in research and development to produce new products, new technologies and new services. Without that innovation you simply become one of the pack. You simply become the company that distributes other people's technology and hopes to make a small margin on it. We do not believe in that model. We believe fundamentally in innovation. But we are also focused very much on how you turn those great ideas into real value for customers. How you

ensure that customers can see that all these great ideas have real business value. We have a very formal methodology in six places. It starts with our bundling system. Then it moves into the total methodology we use in the field to engage with customers, our architect, implement and manage methodology. We have iForce Centers where we can do proof of concept. It distills our customer experience into reference architectures that we can use as recipe books, cookbooks if you like for how to build these solutions in the customer environment. It then builds on that and pre-prepares those solutions in our factories with our partners so that we can deliver pre-tested, pre-integrated systems to our customers and cut down the time to implementation. Then finally it builds a whole range of advanced services; Preventive Services, Managed Services, Education Services that allow us to sustain that investment. To make sure that the relationship with the customer and the business value the customer sees goes on in a sustainable way. We think by doing that we have closed the link. We have closed the link from innovation, which is our lifeblood to customer value, which is what matters to our customers. By doing that I think you will see a relationship with Sun that delivers ease of use and business value to your enterprises going forward. This allows you to focus much more on the delivery of value from information technology and worry much less about how you translate great ideas into things that matter to your business. So with

that I would like to thank you for your time. I hope you have enjoyed the conference so far. I hope you enjoy today. I hope you take the time to go around to as many booths as you can downstairs and talk to (inaudible) the imaginative individuals I have seen there. Just feel the enthusiasm. There were one or two occasions where I thought they were going to stop talking but it was a pleasure and a joy when they were talking to me because they were so enthusiastic about what they are doing. That sort of pleasure is something that is just great to sit and listen to. Please enjoy your day.

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