

About Sterling Commerce

Sterling Commerce, a wholly-owned subsidiary of SBC Communications, Inc. (NYSE:SBC), based in Columbus, OH, provides a range of products and services for internal integration and B2B integration. Specifically, through the GenTran and Connect product lines, the company provides software to enable EDI trading networks and the internal integration needed to complete EDI-based business processes. The company also provides hosted network services under the Electronic Trading Network banner that provide hosted EDI networks, but also a range of hosted services for collaboration, payment processing, small partner access, and gateways into other networks. Recently, the company has expanded into the broader enterprise application integration (EAI) space with its Sterling Integrator product line.

Sterling has been a pioneer in e-commerce, introducing EDI software and service solutions since its inception in 1980. Through an initial public offering in March 1996, Sterling Commerce came into existence as a result of a spin-off from Sterling Software. SBC Communications acquired Sterling Commerce in March 2000 to provide businesses with Internet-driven solutions and services.

With major operational facilities in Columbus, Ohio and Dallas, Texas, the company has 38 direct sales offices and more than 50 distributors worldwide. There are around 2,000 employees of the subsidiary. Sterling Commerce provides e-business integration solutions for companies of all sizes. Its list of customers includes ABN AMRO, BMW, Do It Best Corp., Honda, McDonalds, Mitsubishi Electric, SBC Communications, New Balance, Owens Corning, Snap-On Tools, Tyson Foods, and Wal-Mart Stores.

General facts about their business:

- GenTran has been #1 in the AS400 and mainframe environment for many years
- Moved to a UNIX platform (bought ABC out of Ann Arbor 8 yrs ago – still develop there)
- Their VAN last year raked in \$200M; however, VAN is quickly becoming LESS of their revenue focus – attention on software

Product focuses:

- VAN – network
- GenTran – translator
- Connect – large file transfer software (non-EDI B2B transactions, such as EFT for banks, etc.).
- Strong presence within the following verticals: Government, Telco, Banking, Pharmaceuticals

New products:

- GIS, GenTran Integration Suite (integration broker, release November 2003)
- Brand new, slick J2EE, EJB based mapping/config tools
- Leverages their strong history of application extensions
- Very graphical product, user friendly
- Has 50-100 adapters for various applications (developed by iway) ex: b2b services, UCCNet, Transora, RN
- Focus: legacy EDI, internet B2B, internal EAI and human workflow

Strengths

- GenTran is a familiar and widely adopted platform (largest EDI install base worldwide)
- Strong EDI/enterprise customer base, approx. 4,500 + 50,000 customers connected to their network
- Strong vertical offering/focus for example RN, UCCnet, etc.
- GenTran has its own scripting language (not sophisticated, but easy to use)
- Strong prof services group, many resources
- GenTran offers a very slick partner wizard for ramping up quickly

Weaknesses

- Software can be expensive... are NOT really totally on VAN fees, so discounting is less frequent... focused on selling software, not VAN
- Make most of their revenues (estimated 76-85%) from VAN (value added networks) fees, threatened by newer technologies such as AS2
- Sterling's possible plans to migrate users away from GenTran and Connect could prod this installed base to look at other solutions
- TCO should be presented...this can be high w/ Sterling (software, services, mapping, components, support, assurance, warranty, etc.) – high cost for upgrades
- Support can be very difficult (have heard this from other Sterling users)
- Using the new GIS mapper will force users to re-do their maps!!!
- SBC's reported plans to sell the Sterling division is giving fodder to competitors and is causing some uncertainty among users. This issue will likely not be resolved until a sale is made or SBC decides definitively not to sell the division
- Current Sterling GenTran and Connect customers that are considering Sterling's new GenTran Integration Suite may evaluate issues such as scalability, availability of adapters, and support for their in-house applications and formats

Some other important facts to consider while competing with Sterling – “knock offs”

Q: Sterling currently offers a GenTran version for NT. Are there any plans to offer a Windows Server 2003 version?

Opportunity: GenTran 3.2 and up is supported on Windows 2000. Lots of their current NT customer base will be upgrading to 4.0 within a years time frame. Based upon Sterling's past release history, support for Windows 2003 will probably occur within 1-2 years of release of the new OS version! Fits nicely into the CSI initiative, meaning current MSFT sales getting incentives for upgrades from NT to Windows Server 2003

Q: If a customer currently uses GenTran on Windows, do they also need to buy the Connect product as well to get a communication gateway? Is that true for all the platforms they support? Do they also offer newer technologies such as AS2?

Sterling has an “adapter” sales approach. Their “Integration Broker” appears to be their EDI Management system. Within this product you have a communications gateway that can be used to connect to VANS, etc. so you are NOT required to purchase their “Connect” product with all their products/platforms. Their B2B Adapters provide XML, RossettaNet, AS2, AS1 and other functionalities including their Connect Product” If their past marketing is any indication, they sell these adaptors individually as add-ons to the Integration Broker. Sterling also offers adapters for EAI (MQ series, Unix, etc.)

Q: What does Sterling's maintenance offer? Does that include free support and upgrades?

Sterling's maintenance fees entitle customers to enterprise support and upgrades to their licensed products and adaptors.

BizTalk/Covast value proposition:

A key success factor for companies in today's business environment is the ability to extend their enterprise beyond traditional boundaries to connect employees, customers, partners, and the underlying applications in real-time. The .NET platform consisting of BizTalk and Covast provides a customer with a straight-forward path to build this capability into their business in a cost-effective manner.

Some challenges you might face:

The challenge will be to convince the business and technology decision maker to look beyond just replacing for example an EDI translator (some of the current Sterling customers have sunk costs in their currently functioning EDI/EAI implementations with GENTRAN). The BizTalk/Covast solution provides them with an opportunity to quickly re-engineer their business processes using Biztalk, .Net and SharePoint and standard Microsoft development tools. Easy of customization to meet their B2B/EAI needs is going to be a selling point as Sterling pretty much has out-of-the-box solutions.