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SBC Long Distance  
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Pleasanton, CA 94588

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December 29, 2003

PUBLIC UTILITY COMMISSION  
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Public Utility Commission of Texas  
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1701 N. Congress Avenue  
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RE: Project Number 28691 – Southwestern Bell Communications Services, Inc., d/b/a  
SBC Long Distance's Five-Year Plan to Enhance Supplier and Workforce  
Diversity.

Dear Sir or Madam:

In accordance with Substantive Rule 26.85 (e), enclosed for filing are the original and four (4) copies of Southwestern Bell Communications Services, Inc., d/b/a SBC Long Distance's Five-Year Plan to Enhance Supplier and Workforce Diversity

Consistent with the requirements of the above-referenced rule, copies of this report are also being provided to: (1) the Governor; (2) the Lieutenant Governor; (3) the Speaker of the House of Representatives; (4) the African American Caucus Office of the Texas Legislature; (5) the Hispanic Caucus Office of the Texas Legislature and (6) the House Mexican American Legislative Caucus.

We have included an extra copy of the transmittal letter and request that you please file-date stamp this copy and return it to us for our files in the enclosed self addressed stamped envelope.

Please contact Amy Berlin at (925) 468-5923 if you have any questions.

Sincerely,

Lisa M. Andrejko  
Associate Director – Regulatory

CC:

The Honorable Rick Perry, Governor of the State of Texas  
The Honorable David Dewhurst, Lieutenant Governor of the State of Texas  
The Honorable Tom Craddick, Speaker of the House of Representatives  
The Honorable Joe Deshotel, Chairman, House Legislative Black Caucus  
The Honorable Juan "Chuy" Hinojosa, Chairman, Texas Senate Hispanic Caucus  
The Honorable Pete Gallego, Chairman, House Mexican American Legislative Caucus

# **SOUTHWESTERN BELL COMMUNICATIONS SERVICES, INC. FIVE-YEAR PLAN TO INCREASE OPPORTUNITIES FOR SMALL AND HISTORICALLY UNDERUTILIZED BUSINESSES**

## **Year Two Progress Report: Oct. 2002 – Sept. 2003**

*OUR VISION: No matter how much our company grows and changes in response to our dynamic industry, Southwestern Bell Communications Services, Inc., d/b/a SBC Long Distance's ("SBC Long Distance") commitment to our communities won't falter, but only grow stronger. And, through our best practices, SBC Long Distance will make significant contributions towards the growth of diverse suppliers within our supply chain.*

In 2002, SBC Long Distance filed our initial five-year plan with the Texas Public Utilities Commission (TPUC) outlining its commitment to further developing a successful, innovative program that results in a more diverse supplier base. The key areas of focus that the plan addresses are:

### **1. Performance**

Over the next five years, SBC Long Distance will strive to achieve annual procurement of 20% from small and historically underutilized businesses.

### **2. Initiatives**

In support of our performance objectives we will pursue the following initiatives:

- Develop and maintain a world class supplier diversity program with staff dedicated to improving and increasing opportunities for small and historically underutilized businesses;
- Encourage our largest prime suppliers to develop their own supplier diversity programs and increase the opportunities given to small and historically underutilized businesses to serve as subcontractors, business solution partners or value added resellers in the business they do with SBC Long Distance;
- Encourage companies across the telecommunications industry to join us in developing world class supplier diversity programs and in establishing supplier diversity procurement goals of at least 10%.
- Implement a targeted portfolio management approach to increasing opportunities for small and historically underutilized firms' participation in our procurement processes through the use of Cross Functional Sourcing Teams (CFSTs) and Supplier Diversity Business Development Managers.

### 3. Programs and Activities

- **Outreach** – We will engage in targeted outreach activities that include sponsoring and/or participating in supplier diversity trade shows and events, maintaining membership in organizations that promote supplier diversity, providing website access and information so that small HUBs can easily gain information about our Supplier Diversity Programs and how to do business with SBC Long Distance.
- **Educational Opportunities for Entrepreneurs** – We will contribute to the education of small HUBs through several options, including underwriting executive management educational programs designed for HUBs, offering workshops and training seminars and by providing coaching and mentoring to HUBs. Access to affordable training and coaching and mentoring are designed to help HUBs improve their competitive positions to gain more business.
- **Prime Supplier Program** – We will educate our prime suppliers about the importance of working with small and historically underutilized businesses in the work that these prime suppliers do for SBC Long Distance. We will provide them with guidelines and training that will help them in implementing supplier diversity solutions.
- **Results Tracking and Reporting** – We will maintain a results tracking and reporting system that will provide the Texas Public Utilities Commission with the annual results of procurement from certified small and historically underutilized businesses.

## RESULTS

### 1. PERFORMANCE

For the reporting period of October 2002 to September 2003 SBC Long Distance achieved supplier diversity spending results of 8.54%. This represents a 35% year-over-year increase in our HUB spending. SBC Long Distance is particularly pleased to report this HUB spending increase in a year where our overall procurement spending levels are down year-over-year by 66%.

SBC Long Distance's commitment to purchase from HUBs is evident in the progress we have made towards our stated 20% goal and the results are detailed in our Large Utilities HUB Use Reports. Throughout 2004 we will continue to use established supplier diversity best practices for maximum results and closely monitor our progress to our five year goal. We look for every opportunity to include HUBs in our business and to link our supplier diversity programs to top company spending initiatives.

## 2. INITIATIVES

- **Developing and maintaining a world class supplier diversity program**

SBC's family of companies has long been recognized as a leader in the use of HUBs. One of the reasons for this success is the unwavering commitment provided by our corporate officers and dedication and ownership of employees across the business, not just in Procurement. We keep a strong corporate-wide focus on supplier diversity through annual employee training, employee involvement and recognition, access to current program information on our supplier diversity website and through officer involvement in key initiatives and events. Employee training and involvement is an important perennial initiative that is core to our maintaining a world class supplier diversity program.

Our Supplier Diversity Team revamped our Procurement training in 2003 and held the first pilot class mid-year with several more to follow in 2004. The training updated procurement and purchasing personnel on sourcing processes--as we work to find new HUBs for our supply chain, new supplier performance metrics which help HUBs to meet SBC's on-going requirements and the current challenges and solutions in supplier diversity in a reduced spending environment. We also began development of our new web-based all-employee training program that will be available in 2004. The all-employee training will provide employees in all departments general orientation of our programs' history, TPUC regulation, tools and processes and the value proposition of utilizing HUBs

SBC annually rewards our employees for their work to increase HUB purchases. In April 2003 we awarded over 80 employees at our 5<sup>th</sup> Annual Supplier Diversity Achievement Awards for their innovative solutions to include HUB firms in our supply chain. Over 10 officers were involved in either hosting ceremonies or sending congratulatory taped messages to employee winners. The event was a live telecast and also included an important videotaped message from our Chairman and CEO Ed Whitacre, Jr. who underscored the importance of supplier diversity to SBC. The event and winners are publicized in our internal news source, SBC News Now. This high visibility keeps SBC's Supplier Diversity Programs at the fore-front of company events.

Our website improvements for this reporting period included providing employees with more sourcing tools and leads to prospective HUB suppliers. We have over 45 current SBC HUB suppliers listed on our internal website for employees to consider as they seek to fill the company's procurement needs. The profiles present detailed information on these HUBs to help position them for potential new business opportunities. Another new tool is our Hot Prospects profiles which is a list of prospective HUB suppliers that the Supplier Diversity Team has pre-screened and

recommend for new contracting business. These sourcing tools help guide contract managers to utilize diversity suppliers through an easy-to-use template and provides a ready portfolio of both existing SBC HUB suppliers and prospective suppliers.

Another measurement of a world-class supplier diversity program is the use of quality processes. SBC's Supplier Diversity Programs' are ISO 9001 quality certified. This certification recognizes an operations' use of total quality management principles and our team also coaches diversity suppliers to meet these quality standards as well. Quality standards and certifications are becoming more and more critical as HUBs compete for the business of national and global corporations.

- **Encouraging our largest prime suppliers to develop their own diversity programs**

SBC Long Distance encourages our prime suppliers to develop their own supplier diversity programs and to work with us in meeting supplier diversity spending goals. This policy was emphasized throughout 2003. The involvement of our primes expands the opportunities for including HUB suppliers in SBC's supply chain. By encouraging prime suppliers to develop their own programs, SBC Long Distance ensures that HUB firms get increased opportunities for business in our industry.

SBC Long Distance encourages prime suppliers to develop diversity participation within the business they do with SBC Long Distance by including such diversity participation as part of standard contracting language. It is SBC Long Distance policy that any prime supplier with one or more contracts totaling at least \$500,000 must submit an annual plan stating how they will assist in meeting SBC Long Distance's 20% diversity achievement goal with HUB firms. Moreover, we require that primes submit quarterly reports so that progress can be tracked and recommendations for improvement can be made, if necessary.

Our company works closely with our primes and often helps introduce methods by which they can increase their diversity participation. Typically, this is achieved by encouraging the use of business solution partners, Value Added Resellers (VARs) or subcontractors. SBC Long Distance helps educate the prime supplier on how to use diverse companies to improve quality, increase efficiency and reduce costs and cycle time. HUBs in partnership with large primes can often help improve SBC Long Distance's supply chain and ultimately help improve the products and services we provide to our customers.

- **Encourage companies across the telecommunications industry to join us in developing world class supplier diversity programs**

In 2003 one of SBC Long Distance's key initiatives for increasing the utilization of HUBs in our, and other's supply chains, is through the release and publicity of the Telecom Supplier Diversity Task Force Report. Our company sponsored this year-long study to help diversity suppliers nationwide regain vitality and business

opportunities in a down economy. The study sought to revalidate the critical role diversity suppliers play in profitable supply chains.

The study, "Revitalizing the Supplier Diversity Value Proposition Through Supply Chain Effectiveness," finds that in order for a supply chain to be competitive, it must have the right balance between customization and scale. This balance involves successfully integrating smaller, diversity businesses into the value-adding supply chains of larger firms in order to leverage the competitive advantage small businesses offer - responsiveness, customized services and lower costs.

The study's task force included many of the best minds in telecommunications and supplier diversity, and was led by Dr. Alfred E. Osborne Jr., Sr. Assoc. Dean and Assoc. Professor of global economic management at UCLA. The study provides 21 recommendations to improve both supplier diversity and supply chain management. The report includes several practical and specific tools and processes, covering topics such as sourcing, risk mitigation, process quality and control, financial management, and collaboration, which can strengthen and balance supply chains in telecom and in other industries as well. The study has been made available free ([www.sbcsuppliers.com](http://www.sbcsuppliers.com)) to HUBs, corporate supplier diversity leaders, business leaders and utility regulators in an effort to successfully grow diverse corporate supply chains.

In October this year SBC's Procurement President, Maureen Merkle, and Executive Director of Supplier Diversity Program's, Joan Kerr, presented the history of SBC Long Distance's programs and the lessons learned from the study to the National Association of Regulatory Utility Commissioners (NARUC). The presentations were well received by the forum and future NARUC presentations are planned for SBC in 2004.

Another way that SBC Long Distance is actively leading supplier diversity efforts within our industry is through the Telecommunication Industry Group's "Supplier Diversity Challenge". SBC's Procurement officer delivered this "challenge" to the telecom industry in 1999 on behalf of 14 telecom companies pledging to increase supplier diversity spending by 10%. Since this public declaration, held at our industry's largest trade show, SUPERCOMM, our industry is now reporting an increase in the number of pledging companies from 14 to 94, and an increase in supplier diversity spending of nearly \$9B or 14%.

SBC Long Distance will continue to emphasize industry collaboration, benchmarking and networking as an important means to grow purchasing opportunities for HUBs, particularly through our work with key supplier diversity organizations such as the National Minority Supplier Development Council (NMSDC) where our Procurement Officer sits on the national board of directors and through the Women Business Enterprise National Council (WBENC) where our Supplier Diversity Programs Executive Director serves as chair of the national board of directors. Through these forums and others, SBC's family of companies explores business opportunities with prospective minority and women owned businesses, introduce these HUBs to our prime suppliers and provide critical training from using web-based performance metrics to obtaining quality certifications to HUBs to increase their overall competitiveness.

- **Implementing a targeted portfolio management approach to increasing opportunities for HUB firms' participation in our procurement processes**

SBC Long Distance utilizes a variety of tools and processes in a portfolio management approach to ensure on-going inclusion of HUBs in our vast supply chain. These include Client Purchasing Plan (CPP) meetings, Gap-Closing Initiative Projects, Prime Supplier Participation Program and Cross Functional Sourcing Team Supplier Diversity Targets.

Our CPP meetings allow the Supplier Diversity Team to work with our internal client regional organizations to set supplier diversity goals on their most crucial purchases. We use Gap Closing Initiatives in our client meetings that propose supplier diversity solutions to help close any gaps to target when it comes to including HUB suppliers. In 2003 we held at least 6 CPP meetings with regional organizations across our enterprise and developed strategies for increasing HUB spending in various parts of our company.

Our Prime Supplier Participation Program has remained one of our company's most effective processes for over 13 years. In 2003 our Supplier Diversity Team worked closely with Procurement's Strategic Sourcing Contract Managers to step up efforts for increased participation of our primes in this program. Another important vehicle for managing the targeted portfolio approach to increasing opportunities for HUBs is our Cross Functional Sourcing Teams (CFSTs). Using CFSTs helps us to focus our developmental efforts on firms by product and service areas where the very best opportunities exist for HUB development and growth. CFSTs are utilized by SBC's family of companies to improve overall efficiency and cost reductions, improve customer satisfaction and increase the utilization of HUB suppliers. The CFSTs are led by company executives and are comprised of Procurement Contract Managers, managers from supplier diversity and from a variety of "end-user" client departments. CFST members have the opportunity to grow in their subject matter expertise and are able to analyze the supply chain to identify additional opportunities for HUB participation.

Our Supplier Diversity Managers provide critical strategic and business solution support to ensure diversity results are achieved. They ensure that small and diverse firms understand the processes for gaining business with SBC and with other large companies. They also work with HUB suppliers to address issues of dependency and often introduce HUBs to opportunities with other customers and prime suppliers to SBC's Supplier Diversity Managers also encourage HUBs to develop quality processes, obtain quality certifications and explore strategies for reaching competitive scope and scale.

### 3. PROGRAMS AND ACTIVITIES

- **Outreach**

SBC Long Distance lives out its commitment, even in austere times, to meet and develop HUB businesses in the communities we serve. From October 2002 through October 2003 we participated in and sponsored numerous supplier diversity outreach events. Managers throughout the SBC family of companies serve on the boards of many ethnic chambers of commerce, M/WBE advocacy organizations and regional minority purchasing councils. These outreach events include trade shows, training workshops, and networking forums. As an example, SBC Long Distance has participated in and/or sponsored the following events and initiatives:

- National Minority Supplier Development Council's (NMSDC) Annual Conference and Trade Show
- NMSDC Annual Leadership Dinner Dance
- Women Business Enterprise National Council's (WBENC) Annual Conference and Business Expo
- WBENC Annual Awards Gala
- 2003 Texas LULAC Convention
- Houston Minority Business Council, Inc Sports Classic
- TAMACC Legislative Gala, Annual Conference
- Dallas Fort Worth Minority Business Development Council Access 2003 Expo
- Central South Texas Minority Business Council Trade Show

SBC Long Distance is a corporate member and/or holds Board of Director positions on:

- Dallas/Ft. Worth Minority Business Development Council
- Central South Texas Minority Business Council
- Houston Minority Business Council
- Women's Business Council Southwest
- National Minority Supplier Development Council
- Women Business Enterprise National Council

As a testament to the effectiveness of SBC's Supplier Diversity Programs, the following is a list of some of the awards presented to the SBC family of companies for best-in-class performance in supplier diversity:

- America's Top Organizations for Multicultural Business Opportunities by Div2000.com
- Best Companies for Minorities by Fortune Magazine

- Corporate Advocate of the Year Award by Asian Enterprise Magazine
- Top Companies for Diversity Suppliers by DiversityInc.com
- Corporate Partner of the Year Award by NAWBO
- Ron Brown Award, The Conference Board
- Billion Dollar Roundtable by Minority Business News USA Magazine
- America's Top Corporations for Women's Business Enterprises by the Women's Business Enterprise National Council
- Minority Business Leadership Award by National Minority Supplier Development Council, presented to SBC Chairman Ed Whitacre, Jr., 2001
- National Minority Supplier Development Council Corporate Coordinator of the Year
- Top 100 Corporations for Hispanics by Hispanic Magazine

SBC's family of companies is a major sponsor of graduate and executive level HUB and small business educational programs at:

- McCombs School of Business, University of Texas
- Kellogg Graduate School at Northwestern
- Tuck School of Business at Dartmouth College
- Management Development for Entrepreneurs program at UCLA's Anderson School of Management
- Minority Executive Education Program at the University of Madison-Wisconsin

- Prime Supplier Program

SBC Long Distance implemented several projects to increase the number of prime suppliers participating in our Prime Supplier Program and subsequently increase the number of HUB firms participating in our supply chain. Overall our company saw an increase of 7% more prime suppliers actively filing supplier diversity participation plans.

SBC's Procurement President issued a letter this year to underline the importance of complying with our program's requirements which requires all primes with contracts of \$500k or more to file Annual Plans and Quarterly Progress Reports for supplier diversity. Some of our officers are holding executive-level meetings with key prime suppliers to develop strategies on how they can increase the business they do with HUBs.

Our Prime Supplier Participation Program also had several process improvements to our results reporting which made reports more streamlined, accurate and user-friendly. These reports on key prime suppliers are provided to contract managers, Supplier Diversity Managers and other managers to assist them in the assessment of their prime suppliers' diversity participation. The summary reports include total purchases with prime suppliers, as well as VAR and subcontracting results.

In April our company produced a Matchmaker session to help over 10 of our prime suppliers meet over 50 minority and women owned firms with the goal of increasing contracting opportunities with these HUB suppliers. Our primes gave presentations to the HUB audience of ethnic chambers of commerces to explain how their respective supply chains function and identified areas of potential opportunity. SBC Long Distance participated in other similar sessions in 2003 and will continue these forums in 2004.

- Results Tracking and Reporting

SBC Long Distance requires third party certification of minority and women owned businesses seeking to do business with SBC Long Distance as historically underutilized businesses. As evidenced by our annual TPUC filings, SBC Long Distance has in place the data systems to be able to generate the required reports tracking spending data on HUB and small businesses. Internal tracking and reporting of data takes place on a monthly basis to provide the SBC family of companies' leadership with ongoing performance status for HUB and small businesses. SBC Long Distance also utilizes the data to conduct year-over-year comparison analysis. Additionally, HUB firms contracted by SBC Long Distance are constantly monitored to verify if certification information is still current and valid. Should a HUB firm certification status change from "verified" to "denied", notification is made to Supplier Diversity Managers, who then works with the SBC Long Distance contract manager and the HUB firm to determine whether re-certification is appropriate and if so, ensure that re-certification occurs as quickly as possible.