The next big thing

What OSS technologies will be in demand by carriers in the coming year and beyond? Clarissa Jacobson believes that the way investors and industry experts answer this question influences decisions about venture capital investment and mergers and acquisitions

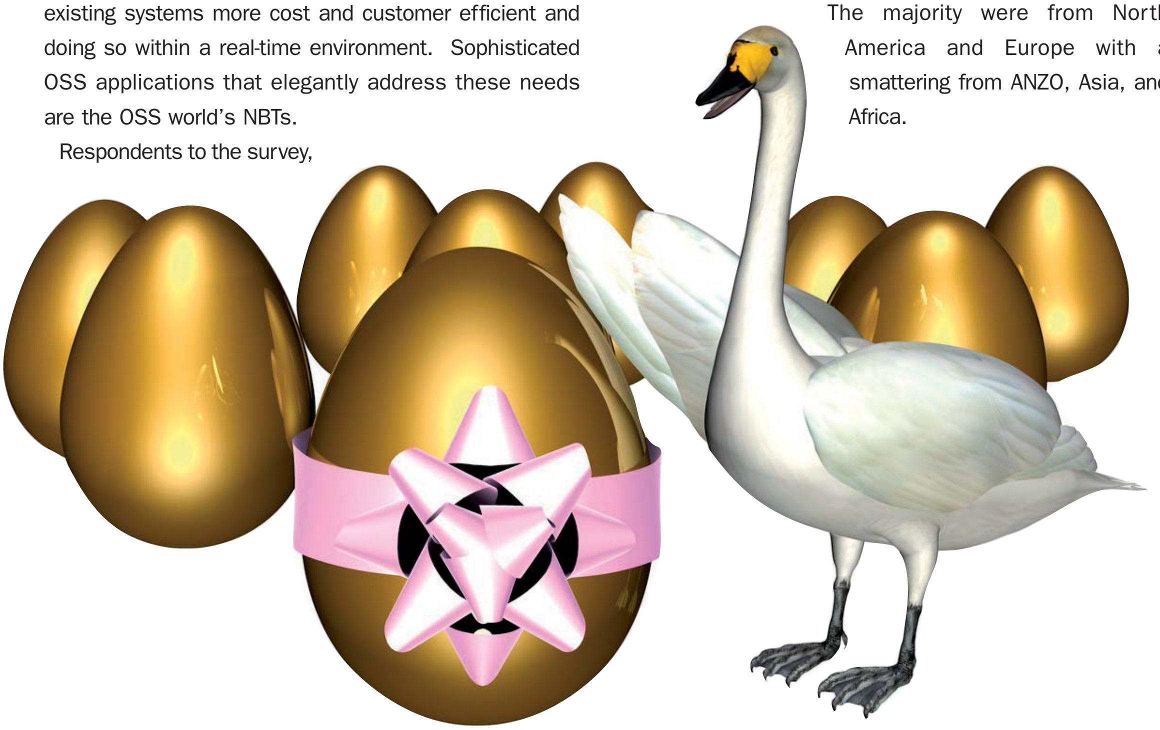
In this world of advancing technology where wrong bets on the future can result in major failures, telecoms executives and investors are constantly on the watch for what might be termed the "Next Big Thing." Since our industry is so replete with acronyms, we shorten this to "NBT." In this article we explore current thinking about NBTs via a survey we conducted of a number of top executives and venture capitalists who are intimately familiar with the telecom/OSS space. We also review some recent merger and acquisition trends.

Both the survey and M&A review heavily point at a tidal shift in carrier requirements. The emphasis during the last five to ten years has been on rolling out new services and adapting systems to IP architecture. While this continues to be of importance, our study indicates that carriers are increasingly turning their focus to making existing systems more cost and customer efficient and doing so within a real-time environment. Sophisticated OSS applications that elegantly address these needs are the OSS world's NBTs.

Respondents to the survey, asked about what was most likely to capture venture capital investment, cited several areas over and over again: business and network intelligence, customer self-care and product lifecycle management (PLM). One respondent articulated it very clearly: "Any technology that supports automation of customer processes and reduced administration will garner VC interest. Carrier focus is definitely on operating expense reduction."

Companies that can demonstrate good return on investment and overall lower total cost operation for their solution set were ideal according to Nick Stanley, VP Networks of Brilliant Cities, a designer, builder, and operator of regional broadband telecom networks.

The survey results came from a wide girth of OSS business owners/executives/board members, consultants, venture capitalists and carrier executives. The majority were from North America and Europe with a smattering from ANZO, Asia, and Africa.



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From 1999-2005 the major trend was that of adapting to the explosion of new services and deploying IPplatforms. Companies hustled to deliver the vast array of new products; and software that could guarantee seamless capabilities was all the buzz. Fast forward to today. Now that most carriers have next-gen service capabilities in place their primary concern returns to managing costs and improving customer experience. At the risk of oversimplifying what the future has to offer, it can be seen that applications that help increase arpu, reduce churn and lower costs are where the deals will happen, and are happening. Several big acquisitions in the past year confirm this.

In September of 2007 Cisco Systems (NASDAQ:CSCO) bought Web Business Intelligence and Analytic Reporting Company, Latigent, whose product helps to cull call centre data into reports to improve customer service and analyse customer behaviour. "By acquiring Latigent, Cisco is signalling a commitment to increase the value of customer investments in our customer interaction solutions, by providing appealing, robust and dynamic tools to enable increased visibility and efficiency, resulting in improved customer experiences," says Laurent Philonenko, Vice President and General Manager of the Customer Contact Business Unit, Cisco.

One of the biggest deals announced in 2007 and closed in 2008, SAP (NYSE:SAP) acquired Business Objects for 4.8 billion Euros. A French company, Business Objects software helps companies analyse data to detect market trends. SAP had been comfortable making smaller targeted acquisitions, but in an effort to compete with Oracle, which has aggressively been acquiring business application companies over the past three years, SAP took the leap at the end of October with its decision to acquire Business Objects. Oracle has spent more than $20 billion on companies that offer software which manage human resources, supply chains and customer relations and previously acquired SAP’s competitor, Hyperion.

At practically the same time as the SAP activity, NetScout Systems (NASDAQ:NTCT) announced their intent to acquire data mining and network analysis company Network General for $213 million. They closed the acquisition January 14, 2008. NetScout said the combined company would focus on reducing Mean Time to Resolution for enterprises, wireless providers and government agencies. NetScout President and CEO Anil Singhal said: "Today, we are bringing together two established companies with complementary technologies to form a new, stronger organisation that will have the scale, technology and mindshare to meet some of the greatest challenges associated with virtualisation, convergence, SOA and highly distributed network-centric operations." With the ability to integrate the companies, they expect to achieve numerous cost synergies and $30 million in expense reductions.

In December of 2007, Motricity announced the completion of its acquisition of InfoSpace’s Mobile Services Business. A provider of mobile content services and solutions, Motricity acquired the InfoSpace unit for $135 million. It served to expand their customer base and offer a full range of services

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with an end-to-end platform. Ryan Wuerch, Chairman and CEO of Motricity says: "Perhaps the biggest differentiator of the combined company is that we offer unmatched insight into the mobile consumer. This insight is invaluable for our partners."

Finally, but by no means the last of the business intelligence deals that we expect to see in the coming year, was Nokia Siemens Networks' announcement to buy Apertio for 140M Euros, which is expected to close in May. Apertio is a provider of mobile subscriber data platforms and applications. Key to the acquisition for Nokia is that Apertio will give them the added edge to help customers simplify their networks and manage their subscriber data.

Jurgen Walter, head of Nokia Siemens Networks, notes: "The race is on to deliver seamless and highly targeted services to end-users across various access devices and this requires a unified approach to subscriber data. Enabling access to this information in real-time means you can profile subscribers and deliver new services and advertising appropriately."

Paul Magelli, Apertio CEO puts into a nutshell exactly the reason business intelligence deals have been so prevalent: "With Internet services, communications services, and entertainment services now converging, operators must simplify their networks and focus on subscriber intelligence to stay competitive."

One area that several of the survey respondents mentioned, but that did not show up in the merger and acquisition deals of the past months, was Customer Self-Care. No longer does this mean a simple web portal for customers to review a bill or get information. The next generation of self-care automates the entire move, change, add workflow process from customer entry to provisioning and activation. Providing customers with the ability to help themselves is extremely beneficial to a carrier's business as it reduces operational costs and improves customer experience. With churn rates averaging 1-3 per cent monthly and the typical carrier spending $300-$600 to gain one new customer, it is obvious why this is a hot topic.

Lane Nordquist, President Information Solutions, a subsidiary of HickoryTech Corporation, a diversified communications company, states: "Customer Self-Care through the web or mobile devices is becoming increasingly pervasive as customers/prospective customers take advantage of their ability to execute consumer choices without interference. Any technology that seamlessly links customer self care to automated provisioning of services should attract venture capital investment."

One can only deduce that the capital hasn't been put forth, as the technology to make Customer Self-Care seamless is not quite there yet.

The number one area cited by survey respondents can be lumped together under what today is loosely referred to as Product Lifecycle Management (PLM). Conceptually, PLM allows a carrier to build, introduce and deliver services and consumer choices much faster. This requires managing and coordinating many divergent systems and databases. A true PLM system integrates network and business intelligence with back office functionality.

A few survey responses suggested that emerging WiMax and Mobile Communities, and the OSS software for managing these areas was an up and coming NBT. With high profile M&A deals for companies like FaceBook and MySpace, some see this area as ripe for investment as on-line communities extend into the mobile and wireline environment.

Carriers are faced with fickle customers with increased demands and little patience. Competition is cut throat, and carriers that are able to streamline costs while delivering a better customer experience are the companies that will succeed in the years to come.

Clarissa Jacobson, is Director, Research and Administration with Peter A. Sokoloff & Co - an investment banking firm that specialises in mergers and acquisitions of companies in the Telecom and Security industries. She can be contacted via:
cjacobson@sokoloffco.com
www.sokoloffco.com