Pipeline
It's in here.

Syndesis CEO John Lochow

A Pipeline Q & A

By Edward J. Finegold

This month, Pipeline sat down with Syndesis' CEO John Lochow. Despite many internal changes amidst telecom's downturn, Syndesis has solidified a strong position with major Tier 1 providers including SBC, Telecom Italia and Bell Canada. Lochow has high aspirations for his growing company, which he hopes to build into the first choice for OSS among Tier 1 service providers. He answers Syndesis' critics who say his product is too expensive to maintain, and explains how he is reshaping the company's relationship with Cisco Systems. Lochow further describes the company's future, including preparing for a possible initial public offering within the next three years.

Pipeline: Syndesis has suffered its ups and downs like everyone else. What steps did you take during the downturn to make sure the company would be prepared when the next upswing happened?

Lochow: When I first arrived at Syndesis four years ago, we had very little in the way of formalized processes or controls. So we spent a significant amount of effort to first operationalize the business, and once we did we could focus on productizing the product line. So we spent 2 and half years of our 5 to 10 year plan on productization. We needed to have more on the IP side, plus a lot more breadth in our solutions. We were a one trick pony and really needed 10 or 15 different products.

A major part of our business plan was to get key customers in each part of the world - north and south America, northern and southern Europe and in the Asia-Pacific region. We would concentrate on one Tier 1 in each of those markets and have them prove out the product in their region. We wanted to find customers that would bet their business on us.

We lived through the downturn and didn't burn through any of our cash as we put the final bells and whistles on the product. Now we are about 5 months into a sales force expansion and have a lot of hiring going on. We are going back into the hardware vendors and SIs and building value propositions that would lead them to OEM, sell, recommend or support our product.

We are expanding into wireless and other areas we haven't been in before. And we are expanding our marketing and intend to spend the money we have been sitting on to promote the company. Our 5 to ten year plan looks like about 8 years, with an ultimate goal of doing a public offering in '07.

So far we've tracked to our business plan 100% and for the next three years we plan to drive our revenue up to a target level for the IPO, and add to cash. We've followed this plan while many other OSS vendors were doing foolish things and trying to win during the downturn, which was not going to happen.

Pipeline: What do you mean by "bet their business on us?"
A lot of OSS companies are selling a $200,000 license to solve a niche problem for a low level guy. But can they have $10 billion product lines that rely on them?
We wanted customers that would bet their business, so examples include SBC where we're doing between 15,000 and 20,000 DSL circuits, and Telecom Italia.I didn't want to sell $500,000 licenses and make a business on that. We wanted to create a Siebel or an SAP – charge a fair amount of money and deliver a fair amount of value.

Pipeline: What's considered "fair" can be very subjective. How does your personal sense of integrity insure that what you charge and deliver is "fair" for your customers?

Lochow: I was CIO of a service provider and had been burned too many times by software vendors that under delivered and over promised. After 20 years I swore I'd never do that myself. We over-deliver and under-promise. Our reputation is understated. People will say we don't know much about [Syndesis], but they are very honest. The second thing that comes across is that we aren't everywhere, such as in Tier 2s and we're not in enterprise, but where we are and have a customer, no one can get in because our customer service ethic is so thorough and it engulfs a customer. We had an example last weekend of shifts working 24 hours a day for two weekends to diagnose a problem for Telecom Italia. We've had 13 people 24 hrs a day for 2 days to find that problem over the weekend so they can do their month end. We will do anything and go anywhere to make the product look good.

Pipeline: Usually, when OSS look bad, it's because they cost more and do less than they're supposed to. How do you respond to critics who suggest Syndesis' equipment modules cost too much to develop and maintain?

Lochow: Everybody says my equipment modules are too expensive. A lot of these critics haven't had to build equipment modules for a Tier 1 with high volume and many permutations. If you're going to have full flow-through, the level of complexity is such that you have to have an off the shelf product and you have to take on the burden of the object libraries. We don't just activate - we build a service. Any typical box will have 1000 commands in it, and a service provider will use 100 depending on the service they want. I can write a [module like other vendors] for $90,000 also that is a query to a specific task in the box. But if you pick that query apart it's nothing like Syndesis', which sets up a service and manages a set of activities that are very complex. If you took Syndesis' specification for VPN, for example, handed it to one of these other vendors and they said they could build it for that price…I'd beg to differ.

The complexity in Tier 1 networks is there for all of us. If you're going to take on that complexity and let [carriers] build product on it, do it with an off the shelf product that you don't spend two years with an SI or a year with internal staff to implement. Ours is a product that in a given Tier 1 can put up a DSL product in a few weeks. The reason we can do that is because we bear the complexity. It's not fair to look at our $500,000 equipment module (EM) versus [another vendor's] $90,000 EM. For the greater cost, I can build a real product. My competitor can build a framework the carrier can then use to build on. But, you buy my product and we will bear that burden. I sell the simplicity and shield my customer from the complexity because that's my burden. But when you add up the real TCO at a corporate scale, not a departmental scale, I'm head and shoulders cheaper.

Pipeline: What is Syndesis' current relationship with Cisco Systems like and what are you doing to grow your ongoing relationship?

Lochow: The (original OEM) relationship was formed a year before I came here, but it was a good relationship that was really designed for Cisco to bundle our software with a big hardware sale for a CLEC. When the bubble burst, that model failed. In addition, they started creating an IP product that competed with ours, so we said "you go off and do that." Since then, we've come full circle. Now we're back in talks and are working closely with Cisco on the SBC account for a lot of IP [solutions]. We have a good relationship on the engineering side because we support all of their products. I have a strong desire not to have the old relationship back, but rather one where we might be the "Intel Inside" of some of Cisco's software products.

Pipeline: You've used the phrase "off the shelf" several times to describe your product. How do you define "off the shelf" in OSS terms?

Lochow: Customers ask, how can I ever use an off the shelf product here when things are changing every week? We'll say to the customer, "we looked at the network and of what you've got, 80 percent use EMs we already have. Some we've never seen before, but within 2 weeks we can turn the base product up and enable 80% of the network. We can begin provisioning and activating the majority of it. Within 6 months we can have the other 20%running - and that's part of the price. While we get the 80 percent base up and running, we're building out that other 20%. We take responsibility, through the maintenance fees, for the job of managing the libraries and managing complexity. That's what we call off the shelf. The way we always win is putting in a proof of concept. We are completing four or five at [a major European PTT] right now. We can do a major POC and show the value of the product and show it working on a live network instantly. That's what an off the shelf product can do that a framework can't.

Pipeline: What insights can you share regarding the challenges companies like Verizon and SBC face as they invest billions in last mile fiber networks and IP capabilities?

Lochow: The major challenge they are facing is cable, and the only reason they are doing it is cable. Companies like SBC are bundling to compete with cable. As soon as the fiber gets to the curb, SBC can bundle everything, including mobile and television, at one flat rate. The strategy is build out the fiber, negate cable's bandwidth, and offer a bundle. If you're in a bundle and you take one thing away it all goes up in price. This is all a strategy to force cable out. It means the cable companies have to offer VoIP and figure out how to offer cellular. It's all about who owns the customer and who's keeping the customer. Ask yourself why AT&T is going out of business? They don't have any customers. Every customer is owned by someone else.

Pipeline: What can you tell our readers about the work you're doing with SBC and the challenges of being a partner for such a large and complex organization?

Lochow: We sold [into SBC] at the senior management level, and obviously that angered and scared the IT people. We spent a year in SBC to win over the technology people. It's not enough to sell at the executive level. You have to win over the entire team. Part of the sale is starting with the execs and setting the value proposition, but then you have to go back in and win over hundreds of people.

SBC made the announcement that we are one of their premiere vendors and have admitted they're one of our customers. They have bought everything I have and stuff I haven't built yet. We're building proprietary product for them.
SBC says we can bring anyone through there except for AT&T. They are very good about talking one-on-one with other service providers about what we've built. We won one of their top vendor awards in our first year there, two years ago, and then again last year.

Pipeline: Where do you see Syndesis in the pantheon of OSS providers as the market matures and consolidates?

Lochow: If you're a CEO of a service provider the number one thing you wake up and worry about is that you are losing money for every broadband customer you get. At Syndesis, we want to concentrate on building products to solve that problem.

You have to think of us as a Telcordia or an Amdocs rather than someone who grew out of the CLEC environment and had nowhere to go. I think if we had been in the CLEC market and it hadn't gone away, we would have failed because the product would have overwhelmed them.

We are dedicated to the telecom industry and we can see the 10 or 15 years worth of work. A large portion of the work we're doing and seeing come up is on the legacy optical side. We see a long term opportunity to help telcos phase out old legacy systems and networks.

What we have going for us is a product line that Tier 1 carriers have bet their own product lines on. We have an engine that has stood the test of the Tier 1 market from a durability and quality standpoint. We have our reference customers and a road map now that has become routine, and we are getting ahead of the curve on IP products, fiber to the curb, GigE, VLAN and others. This gives us the opportunity to enable the Tier 1s to roll product out that would otherwise take much longer.

We have built logical follow-ons to our core product. We believe in the fulfillment space, so we've had to build physical and logical inventory and design and assign and had to encroach on the typical areas of the inventory companies. Ultimately, we like to be the Siebel of the OSS market – a nearly ubiquitous OSS solution for the telcos. Telcordia was more like an IT dept. They squandered their opportunity (to be the ubiquitous solution) and I want to fill that void.