



## **Will OSS Consolidation Benefit Carriers?**

**Sector leaders sound off**

By Edward J. Finegold, Editor-in-Chief

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The OSS sector has seen its fair share of acquisitions, but few could be characterized as true examples of consolidation. Regardless, the conventional wisdom has suggested for some time that consolidation is coming. Perhaps Telcordia's recent adoption by private equity parents will accelerate the pace. Discussions with leaders in the sector suggest that further acquisitions and aggregations are in the works, though there is debate over who will remain standing in the end. The most important question is not, however, whether consolidation will happen. What matters is whether consolidation will benefit service providers.

### **What Are OSS Leaders Planning?**

For OSS consolidation to benefit carriers, it must result in solving some of OSS' biggest challenges. Critical issues like the integration tax, lack of data integrity, data model disparity and vendor and product longevity are some of the biggest cost concerns for carriers. It seems logical that consolidation should help rationalize and aggregate the range of products in the market, moving the cost to integrate and normalize applications to the vendor rather than having such costs recur with every implementation. The aggregated vendor's economy of scale is found in footing the bill for integration, and repeating the positive results as deliverable product for multiple carrier customers.

To this point, the majority of acquisitions and acquisition strategies have not been focused specifically on fixing the big issues. While problem solving is generally in the acquirer's plans, it's not the real driver. In discussions with CEOs, chief strategists and general managers of more than ten leading vendors, it was clear that most often acquisitions are being driven by the vendors' need to survive and expand. This suggests that the sector is in a period of aggregation which may produce a number of attractive targets that much larger players may ultimately consolidate.

*Matt Desch, CEO, Telcordia*

Mr. Desch and Telcordia have stated consistently for some time that the company intends to pursue an acquisition strategy. Cynical observers believe Telcordia's acquisition by Warburg Pincus and Providence Equity Partners may send it down a very typical path for a leverage buyout. Mr. Desch stated clearly that Telcordia's new parentage will allow it to pursue its acquisition strategy more effectively than could SAIC. "Acquisitions were the important, fundamental part (of the ownership change). We indicated that we thought we could continue to lead in growth segments by acquiring certain companies that made sense. It was clear talking to Warburg and Providence that they had plans in this



acquisition to support us,” said Desch. With strong capital partners in the background, Telcordia will have the ability to pursue its strategy aggressively and will continue what it began with its successful acquisition of Granite Systems. What remains to be seen is whether the end result of Telcordia’s activity – and its Elementive strategy – will produce an integrated suite that’s compelling to service providers for new generation technologies.

*Curtis Holmes, President and CEO, MetaSolv Software*

Mr. Holmes says that he and his company are proponents of consolidation because “there are too many niche players out there.” He also says that he intends for MetaSolv to be one of those that remain standing, and points to MetaSolv’s history of acquiring other OSS vendors as a sign that the company has staying power. He also admits, however, that MetaSolv’s acquisition strategy was driven by a need to survive and grow, and points to the fact that more than 50 percent of the company’s revenue is now derived from its acquired assets. Acquisitions allowed MetaSolv to expand its geographic footprint, customer base, product line and cash flow significantly. Several industry analysts suggest that MetaSolv’s next important step is to demonstrate the rationalization and integration of its product line, which speaks directly to overcoming the integration tax. MetaSolv has always pursued a strategy of integration within its various product suites, which are aimed at different market segments, and challenges its critics to look at its increasing number of customers with integrated solutions. Some analysts also believe MetaSolv will be one of the more attractive targets for larger acquirers in the market (see *Acquirer or Acquired?*)

*Todd DeLaughter, Vice President and GM – Management Software, HP*

HP is often at the center of any consolidation discussion. Mr. DeLaughter says that while HP is always on the look out for opportunities, there’s nothing specific he can comment on today (see Pipeline Q&A with HP). Yet, HP’s Adaptive Enterprise strategy is so closely aligned with TMF’s NGOSS approach; it would seem to set the stage for pulling more applications into the TeMIP-OpenView family. In fact, the TeMIP platform itself is built around an integration framework, which is at least part of the reason for its longevity with large carriers. HP is a natural candidate for a potential consolidator not only because of its deep pockets and product framework, but also – and perhaps most importantly – because it is one of very few companies that is both a large scale systems integrator and a product developer. What makes OSS important to massive and diverse company like HP, says DeLaughter, is that it adds significant value to HP’s hardware offerings and allows its account teams to engage clients in strategic operations discussions that hardware alone won’t always access.

*Karl Whitelock, Lead OSS Strategist, Agilent Technologies*

Agilent has played something of a consolidator’s role already. Remember that Agilent acquired OSI NetExpert and effectively merged it with products like Firehunter and mature applications developed when Agilent’s OSS business was still part of HP’s Telecom Systems Division. While Mr. Whitelock was unable to comment on whether



Agilent has an acquisition strategy, he did suggest that consolidation needs to benefit the industry in several key areas. “I think the model needs to be organized around who has a services focused strategy...managing network components is not where the sector needs to be anymore,” he says. In addition to a focus on managing end to end services, Whitelock bolsters the argument for improved integration. He says, and the other executives interviewed for this story agreed, that architecture is a focus for carriers today and will be a critical part of any consolidator’s strategy. He cited a common need for improved architectures built on technologies like JMS, and stressed the relationships among integration, business process management and a move toward real-time information enabled by these capabilities.

*Robert Curran, Director of Global Marketing, Cramer Systems*

Though many observers believe that Cramer Systems is a prime target for acquisition (see sidebar: *Acquirer or Acquired?*), Mr. Curran insists that “Cramer is not for sale, ergo we must be a consolidator ourselves in the grand scheme of things.” How Cramer might execute an acquisition strategy remains unclear considering the relative size of the company. However, Cramer’s philosophy centers around development and not acquisition of “cheap technology,” says Curran (see *There’s Consolidation, and There’s Consolidation*). Cramer is generally opposed to component or best-of-breed approaches to OSS solutions, and suggests what the sector needs is a player modeled after solution providers like Siebel Systems which often plays a role in integrating, coordinating and defining processes that bring horizontal communications to vertical organizations. Curran suggests this approach has been validated as Cramer will soon announce that it has displaced its two largest competitors at accounts in Europe and the United States.

#### **Attention Acquirers: Sleep now and pack plenty of suits**

When MetaSolv began to bid for Nortel’s OSS assets, Holmes knew that winning was critical to his company’s future. He says he was actually surprised that MetaSolv won the bidding – not because he lacked resolved, but because he was surprised that other, larger bidders didn’t step up to the challenge. When it came time for negotiations with Nortel, Holmes and his team flew to Toronto on a Sunday, expecting to return home Tuesday night with the agreement complete. Nine days of 20 hour negotiations later, the deal was finally done. Holmes says he saw nothing more of the outside world than a cold, windy, two block walk from his hotel to the attorneys’ offices in downtown Toronto. With two days of traveling clothes, Holmes and his team wore one suit while the other was at the cleaners. “We ran up quite a cleaning bill,” quips Holmes. So, to all those acquiring or being acquired: make sure to pack for a long week and get ahead on your sleep now.

*George Jimenez, CEO, Ace-Comm*

Ace-Comm, known best for its mediation technologies, is one of the few public companies in the OSS sector. Mr. Jimenez has specific plans to raise the presence, capability and value of his company. “There were hundreds of millions invested in technology companies in various segments of the OSS space. A lot of those are on life support today, but they created some very compelling technology...One of our premises



is that we can take what's been done and integrate them, embed them and operate them together to make a more compelling offering." Jimenez points to several drivers behind this strategy. First, he says Ace-Comm's customers are asking it to bring more to the table as a trusted supplier of OSS in general – not specific to mediation or billing alone. He also says that from a valuation perspective "size matters, so our objective is to bulk ourselves up and be a substantial player." The end game, says Jimenez, is to make Ace-Comm particularly attractive to a much larger acquirer as the industry consolidates. Ace-Comm already has an established global presence and footprint to lever and has begun its acquisition activity with the recent purchase of biller Intasys. With this acquisition Jimenez stressed a focus on gaining technology, customers and strong managers.

*Julie Wingerter, vice president strategy, NetCracker Technology Corp.*

NetCracker is a company that often flies under the radar, but it's built a tier one customer base steadily while expanding its product capability. Critical to its strategy, explains Ms. Wingerter is to "get the customer up and running as fast as possible" and "get rid of conflicting objectives by having someone else in the middle." In other words, she says, a full service OSS provider has to bring significant professional services to the table, along with a product suite. NetCracker's recent acquisition of AVD, a professional services firm, represents this philosophy. AVD "was doing 100 percent of its work for NetCracker," explains Wingerter. The company wanted to insure this professional services partner would not "do work for other vendors just at the point when we needed those resources available to us." NetCracker is also developing talent in Russian universities and has begun a similar program with the Massachusetts Institute of Technology. "If we were to make another acquisition," says Wingerter, "I would expect it to be in the services area, though we are not actively engaged in any discussion right now."

*John Lochow, CEO, Syndesis Ltd.*

While developing our monthly Q&A with Syndesis (see [Pipeline September 2004](#)) Mr. Lochow made it clear he has big plans for the company. If and when the market is favorable, an IPO appears to be in Syndesis' future. Though some view Syndesis as a specialized, stand-alone product vendor focused on activation and discovery, the company's vision and capabilities are greater. With carriers looking for fewer moving parts and more functionality, Syndesis product road map is aimed toward a near-future intersection. The company sees a crossroads where networks are smarter, service delivery and assurance are automated, the need to assimilate new technologies is further intensified, and management of network-to-service relationships is critical to it all. It believes its platform is best suited for these requirements and Telecom Italia, SBC and Bell Canada have agreed with their checkbooks. Syndesis pursues very large deals – relative to OSS – with tier one carriers and places a heavy focus on customer service and cooperation to build entrenched relationships. Observers are split almost 50/50 on whether Syndesis succeeds on its own as a small-cap, public venture or is itself assimilated into a larger entity that would desire its technology and customers.



### Billers

Large billing companies are likely to play a role in sector consolidations. Amdocs, for example, has demonstrated a willingness to make aggressive acquisitions and aborted an attempt to acquire Architel in the late 1990s. Acquisition chatter around trade shows always seems to include Amdocs, CSG Systems, Convergys and Intec Telecom Systems, though none has yet stepped up to make a major OSS acquisitions, focusing such activities instead on billing and billing-related companies. Analysts suggest, however, that billing is better business than OSS, and the economic reasons for a major biller to dive into a crowded OSS market are not yet apparent.

### Time to Play Pipeline's "Acquirer or Acquired?"

Shira Levine, Senior Analyst, Strategist

Brett Azuma, Executive Vice President Research and Strategy, RHK

Pipeline challenged two experienced OSS analysts to name each of five companies among the acquirers, the acquired or neither and to give us their reasons why. *Pipeline* picked the five companies based on questions we had about each company's exact role the OSS sector's future. Here's what our experts had to say. You can let us know if you agree by emailing Ed Finegold, Editor-in-Chief, at [efinegold@pipelinepub.com](mailto:efinegold@pipelinepub.com).

Shira Levine, Strategist	Company	Brett Azuma, RHK
<p><b>Acquirer.</b> Amdocs is definitely an acquirer. It's sitting on a lot of money, and has attempted OSS acquisitions before. Getting into new areas means bringing in a skill set that they don't have right now. The question is whether what they acquire will really help their business.</p> <p><b>Acquired...</b>but I answer cautiously. I don't see them being appealing for another ISV because they've had so much trouble with integration. Their product line is not well rationalized...and it can make them less appealing as an acquisition target.</p> <p><b>Acquired.</b> I would not be surprised to see them acquired by a network equipment firm. I think that service management capability will be appealing for them. Service management and assurance will be increasingly important to network offerings - consider the OEM</p>	<p><b>Amdocs</b></p> <p><b>MetaSolv Software</b></p> <p><b>Micromuse</b></p>	<p><b>Acquirer.</b> They've shown a propensity to be an acquirer. But what can they do to broaden beyond their core as a billing company that will be financially attractive? They've got a nice market now, and the OSS business isn't all that healthy.</p> <p><b>Acquired.</b> MetaSolv is not an obvious company to be acquired, but it has some very attractive assets. It's not only a software company, but an SI also. They have footprint outside the US market, a market cap just shy of \$100 million... when I look at Telcordia, I they could be a decent fit. MetaSolv could also continue to be an acquirer because they've got a lot of money.</p> <p><b>Neither.</b> I agree that service assurance requirements for network equipment will continue to increase. But Micromuse has done a good job of diversifying outside of telecom and into enterprise customers. I can see how (equipment vendors) might gain by this, but it's not clear which of their</p>





relationships Micromuse has with equipment vendors already.	<b>Syndesis</b>	organizations would be able to leverage both Micromuse's telco and enterprise business.
<b>Neither.</b> I don't see Syndesis being acquired by another ISV. For the near term I seem them succeeding as a stand-alone niche player. They don't need to do anything in the near future like being acquired.		<b>Acquired.</b> Syndesis is still private and their investors will want a return, something over \$100 million. The market is horrible for going public and it looks tough in the financial markets for anyone to go public in the next couple of years, particularly a company of this size. They have good relationships with equipment vendors for channel purposes and at face value, they look attractive.
<b>Acquired.</b> But my question is who's going to buy them? There was some talk that HP would be interested in buying Cramer and I still think that could be an interesting acquisition for them.	<b>Cramer Systems</b>	<b>Acquired.</b> They're prey. I see them being acquired. They've been able to get good press with some of what they've created. Not sure what revenue there is in the near term, but Cramer has good SI channels in Europe. They are just getting established in North America and are not big enough to be sustainable. Though they suggest otherwise, I don't see them being an active acquirer – they don't have the money.
It really depends on the SI. I don't think IBM will buy any application companies, for example, but HP might because they have their own applications and close partner relationships.	<b>Bonus Round: Will SIs be a force for consolidation in the OSS sector?</b>	One or two of the potential targets might be attractive to SIs. But will SIs inherently be the ones to do all the roll-ups? I don't think so. I think they want channel relationships and assets, and you don't need to acquire a whole software company for that. Companies like HP and IBM still put a line between software and systems integration, so the leverage is not overly apparent to me.

### What It All Means

If most of the leading companies in OSS aren't planning acquisitions, then consolidation isn't really happening. Notable acquisitions have occurred every six months or so, but this represents aggregation more often than consolidation. Examples such as MetaSolv's acquisition of Architel and Watchmark-Comnitel's acquisition of Metrica are essentially changes of ownership for a product group. Ace-Comm's acquisition strategy and NetCracker's purchase of a firm with which it was already working are examples of aggregation - this is not a condemnation either company's growth strategy. Perhaps the one caveat is Telcordia, whose acquisition of Granite Systems is an example of consolidation – one competing vendor buying another, and resulting in fewer total players in the market.

If consolidation isn't really happening, then it can't very well help to solve OSS's big problems. If nothing else, the period of aggregation should attack the integration tax, and it is essentially the responsibility of the vendors involved. Solving this problems will make aggregated entities far more attractive to larger players that may not want to deal



with such tactical details. Telcordia, however, may be the chip leader at OSS's "hold 'em" table. Its actions in the marketplace certainly could spur other large players – like HP, Agilent, Amdocs or even a major SI – to change their tunes and become more acquisitive. However, only when such activity begins will it become evident whether the "big guys" back up their words and solve carrier's biggest OSS challenges, or whether it will remain business as usual.