Pipeline
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The Dangers of a Disorderly Market

OSS Suffers its Adolescence

By Edward J. Finegold

The OSS market reveals its immaturity in ghastly ways. Having only emerged in 1996 – at least in its current form – OSS is a young market and lacks many of the forces necessary to bring it to order. More often than not, outsiders coming into OSS from more established industries are surprised at how inconsistent pricing is, at the difficulties even in simple customer-vendor interactions, and at how unnecessarily slow, lengthy and political OSS sales cycles can be. Further, from customers' perspectives the majority of OSS vendors still carry a reputation for over-promising and under-delivering, and OSS is still viewed largely as a cost center. All of these factors – and more – result in a market that is suffering its adolescence while reaping that which it has sown.

Bubble Memories

Many folks in the OSS business have a faraway look in their eyes as they recall the glory days of the Internet bubble. OSS sales were easy – customers were actually calling to get on vendors' schedules – and up-front payments were being handed out like signing bonuses on NFL draft day. Money was flowing and a host of venture-backed start-ups, and more established vendors, found rapid success. Many OSS vendors remember this period of the late nineties as the good old days. Unfortunately, the same cannot be said for customers or investors.

OSS vendors' customers – both start up and established service providers - in an overwhelming number of cases paid too much for OSS and received too little. They saw millions of dollars take them into dead-end projects, products and architectures. Right or wrong, they blame much of it on vendors for overstating their capabilities and failing to deliver capable solutions. Remember that reputations – even when embellished – are rooted in truth. Now that the leverage has changed and OSS is a buyer's market, all vendors are paying for their colleagues' past, and continuing, misdeeds with grinding sales cycles that often result in unfavorable contracts and declining pricing. And in the meantime, many vendors continue to offer capabilities they can sell, but have not built and cannot reliably deliver.

From an investment perspective, there is relatively little interest among venture firms to invest new money in OSS. Some vendors have gained investments recently, but many of the firms that were once active in OSS have lost their appetite for the market. Many venture investors are hoping for their investments to pay off modestly, or to execute an exit strategy that is not entirely unfavorable. When venture investors become disinterested, and customers lend little credibility to vendor's promises, it becomes very difficult for innovative young companies to introduce new technology into a market that

needs it desperately. It also means that publicly held OSS firms are likely to continue suffering poor valuations from disinterested investors.

Discovery: Today's Great Over-Promise

There are many examples of over-promises that have hurt OSS vendors, but the one that is perhaps most prevalent today – involving discovery - is particularly dangerous. For more than a year, a number of OSS vendors have pitched the benefits of discovery, inventory reconciliation, and data integrity.

This segment has grown as vendors in surrounding functional areas – like activation, inventory and network management - have jumped into the fray. Some vendors offer products that are meant to discover network devices and paths and report this data to other applications. Most of the inventory vendors have some kind of reconciliation offering that is meant to report discrepancies between the inventory database and discovery information coming from some other system. The combination of these two capabilities in theory helps to enforce data integrity in service fulfillment and cuts down significantly on exceptions and fall out, for example. Unfortunately, there is a long swath of scorched earth from one service provider IT shop to the next that connects the smoking remains of the bridges one or two discovery vendors have razed.

In this case, the problem – according to numerous purchasing decision makers who will remain nameless – is that many of the discovery solutions they have seen are slow to assimilate new technologies, poorly architected, and expensive. Worst of all, they fail to do the job for which they are designed. For example, one product has been known to take so long to discover devices, that by the time it finishes processing, its newly discovered data is out of sync with the network. Several providers learned this the hard way, and have become convinced that either no one can deliver discovery, or it's not worth the risk to pursue. The problem with this is two fold: first, it retards a potential growth area for OSS vendors; and second, if OSSs hold bad data, and no one believes it can be cleaned up, the perceived value of many solutions – like inventory and service impact analysis – is greatly diminished.

Another result of this is that other vendors that follow these gross failures have zero credibility. IT professionals on the service provider side have been burned so many times that they are unwilling to take a chance on new technology, or on OSS vendors at all in some cases. This creates several major problems for the OSS market. First, it stifles innovation by making any new product or architecture introduction extremely difficult. This holds true for new vendors, and established vendors trying to migrate customers to a new product. Second, it only gives service providers' reasons to make the sales cycle more costly and lengthy for every vendor in the process. Third, it creates an extremely disorderly market for pricing, and this is particularly troublesome.

Pricing Disparity

There is very little consistency from carrier-to-carrier, and from segment to segment, in pricing for OSS solutions. Pricing models span a range from utility computing, pay-as-you-go models, to all-you-can-eat license deals paid out in large lump sums. It would seem that two service providers rarely pay the same amount for virtually the same solution. This holds true both within and across markets. If any generalization can be made, it's that LECs are paying more – 400 to 500 percent more in some cases – than the large, independent mobile operators for very similar solutions built on the same software. While LECs tend to bring greater scale, the difference is not enough to justify a 400 percent or greater disparity in pricing for OSS software.

The disparities arise for numerous reasons. First, the large OSS vendors will generally state that smaller players are giving their software away, which undermines pricing overall. This is not untrue, but it's not the whole story either. Often, smaller vendors are being forced into unfavorable deals because they have no leverage or credibility in negotiations because of the OSS market's history. They do not get paid until something works in production, and then are often paid less than what their software is probably worth. Either way, this is significant negative price pressure – at least within certain carrier organizations.

Another reason for pricing disparity is that the carriers rarely communicate. Often pleading that OSS is too critical a competitive advantage to speak of openly, carriers clam up when it comes to simple OSS functionality, never mind price. There is plenty of motivation for ILECs to keep quiet about their inefficiencies, not the least of which is the fact that their ability to price services is tied to them. Without effective peer to peer communication from one provider to the next, however, there's no way to enforce consistency in budgeting, pricing or negotiations. Remember, Adam Smith called it "the invisible hand" – he did not say anything about it also being silent.

In the end, all of this disorder is a problem, because it leads down two dark paths. One path brings the price of OSS so low that vendors and their investors cannot make money in it anymore. This is already the case for numerous companies, including some of those that essentially founded the sector. The other path, unfolding in the hallways of some of the largest LECs in North America, leads to more scorched earth. Some service providers are making enormous upfront payments, in many cases to unproven vendors. While the bad decisions may lie with the carriers, it is the vendors who will ultimately suffer if and when the resulting OSS base cannot justify the excessive cost of building it. Once again, they will be marked for over-promising and under-delivering, this time on their ROI models – another notorious OSS sales tool.

Service Provider Politics

Very often, the really bad decisions service providers make in selecting OSS solutions have nothing to do with the people involved in the actual OSS project that is at stake. These decisions are instead made at executive levels, and based solely on politics. Politically motivated decision-making is rampant in all businesses; hence telecom is not

unique in this way. From an OSS perspective, however, politically driven decisions can have real and extremely negative consequences.

Political decisions are often made counter to the judgments and recommendations of service providers' own best experts. Experienced OSS architects will go through months of evaluations with OSS vendors to determine which is most likely to deliver specific functionality that is critical to some service the OSS in question will help deliver. Due to politics, they are overrules and stuck with a product that cannot deliver what the project needs. The architects are unhappy, the politically connected vendor's people are set up to fail, and there's no chance the project can meet expectations. IT takes the blame and points to the OSS vendor for failing to deliver. When this happens, it is not overstating the case to say that the entire OSS market's reputation suffers another blow. Unfortunately, OSS vendors can do very little to change carrier politics. There is much the OSS community could do, however, to help the market mature, improve its reputation, and make business better for everyone.

It'll Take More Than a Village

The onus is on the OSS vendor community to enforce some maturity, have more integrity and communicate its true capabilities more clearly to its customers. Today, there is no watchdog organization or any kind of neutral body to deal with these market issues. The TeleManagement Forum is perhaps the only organizational body dedicated to OSS, but it deals largely with technical standards and does not have the resources, or the directive, to police the vendor community. There are no "Consumer Reports" for OSS products on which carriers can rely. There are no published pricing lists based on actual contracts, rather than on vendor marketing.

Further, the groups that would in theory bring these control factors to the industry – consultants, analysts, and the media – are unable to do so for various reasons. Consultants and systems integrators are beholden to their channel partners and thus rarely make neutral recommendations to carriers. Analysts are carefully neutral in order to serve some of the carriers' interests while not also offending their valuable OSS vendor customers. Most members of the media are simply denied information on topics like pricing, and the tangible results of OSS projects. Hence, even OSS vendor success stories – and there are actually many – are almost never made public. Ultimately, however, the responsibility falls on vendors to be forthright about their capabilities and practical with their promises. If OSS vendors do come together to raise their integrity and promote order, it will be the primary reason the OSS sector realizes its apparent upside.