Buy it, Bite it, Spit it out!

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The recent spin-off of OSS by the large network equipment vendors, so soon after their acquisition, raises questions regarding the viability of the integrated offering. The addition of OSS to jump start the generation of network revenue for the new entrant service providers seemed to make sense – so why is it these OSS vendor acquisitions are the first limb to be amputated when times get tough for the equipment vendors? And what are their chances of survival after the sale?

Network hardware vendors exit the OSS application arena

For network hardware vendors like Nortel and Lucent, pressured by their Service Provider clients to provide single sourced solutions, it seemed like a good idea to bundle Operations Support Systems (OSS) with their network equipment sales. After all, if you are financing the network, it makes sense to have some of the "services" money flow back to you too. Right? And, if you integrate the software into the network and surrounding interfaces, it makes sense to own the application and protect that investment from use by competitors. Right?

By now, we all know that the answer is "Wrong".

Let's step back a bit and examine the chain of events to see if we can learn some lessons, and perhaps correctly anticipate what will happen to those software applications like Architel, Kenan Arbor BP and Clarify now that they are back in the hands of software-focused companies.

For a number of reasons, there was a great temptation for network hardware vendors to ***"Buy It",*** *in other words, to add OSS software to their portfolios.*

First, the race to get as many service providers as possible onto <u>your</u> network hardware was run with the certain knowledge that many Service Providers would not be successful. Being the dominant supplier had to be an advantage when these networks were consolidated in the merger and acquisition round that would inevitably follow. (So, the reasoning went, anything that helped get the network deal – such as a bundled software solution – was worth doing.)

Second, partnering was one way of building a comprehensive solution to offer Service Provider clients. But, if the client could use any of my partners without me, how much of a differentiator would it be? By purchasing a software company, we could control who buys the software and who interfaces with our network. (Creating a lasting differentiator in the mind of the Service Provider.)

Third, call switching or data routing are software driven events. The software in a voice switch is, for example, more than 1 million lines of code. Therefore we must be in the software business already; and we must be good at it. (It will be easy to assimilate one more team of software developers into our existing software group.)

Finally, financing options (too) easily swayed client buy decisions, and bundled software did prove similarly attractive. Lots of "sales" were made.

The problem was, the hardware vendors decided to ***"Buy It"*** *without understanding at a detailed level what was really involved, and just how far outside their core business this would require them to go.*

So, when they started to **"Bite It",** or in other words, to make the acquisitions fit into their portfolios, they began to realize some of the complexity of the challenge. And, they discovered several business truths including:

- Service Provider clients, who make decisions based on financing options, and not on business requirements, competency, or service portfolio considerations, dramatically increase their likelihood of failure.
- Clients, who already own OSS software and use competing network vendor products, are not pleased at what they perceive as limiting their evolution path. They begin looking for migration options.
- Clients, planning to buy the OSS software, but not that vendor's network hardware, begin looking for other options.
- Clients who are interested in buying the network hardware, but insistent on buying competing software, cause big headaches for the sales team who are expected to keep the bundle together.

Inside their organizations, network vendors encountered other challenges that further weakened the "solution" offering:

- The software sales team and the hardware sales team had been made co-dependent whether they liked it or not.
- The software developers found it extremely frustrating to explain their evolution strategies and associated funding requirements to their new bosses.

Overall, the reality bore little resemblance to the "**Buy it**" decision. Instead of their OSS acquisitions increasing market share, leveraging synergies, creating powerful differentiators and bolstering revenue streams, network vendors found that:

- market visibility of the ingested products diminished;
- the evolution/development program for the product slowed down;
- new competing OSS software products on new computing platforms began to appear on the market;

- the best and brightest developers acquired with the purchase decided to go to other companies where their vision was shared.

Unfortunately, the network hardware vendors began to understand the depth and breadth of the problem at about the same time as the artificially supercharged network build market began to collapse – i.e. too late. And, in the scramble to arrest the complete collapse of the network hardware business, the decision was made to focus on core competencies and to **"Spit Out"** non-core acquisitions for tiny fractions of the original purchase price.

So what now for the software application groups sold off from the network vendors? And what now for the software companies who bought them?

The good news is they still have a good base of clients; many of them Tier 1 operators. The bad news is that competitors with newer solutions and higher profiles are targeting those same clients as a major source of revenue in 2002.

Because their recent OSS development was heavily biased towards the needs of the hardware business and its existing client base, the functionality of the OSS products did not keep pace with that of competitors who were focused on the evolution of their software as their core business.

While the software applications team members themselves find it good to be back in corporations where software development is a core function, the long process of cultural integration and product integration begins again. Along with it come nagging questions like, "were we bought for our core competency, skills and synergy" and "will we be cherished new members of the team" or, "were we bought for the client list"?

Lesson: *Have a clear strategy of what you want to accomplish and have a well-developed plan to get there, before expanding outside your core competency.*

Anticipate: *This lesson now applies to the acquiring companies as much as it did to the network vendors. We've seen evidence of a strategy (to broaden capabilities and open new markets); is there a plan this time that will successfully make use of these OSS acquisitions?*