

Turmoil in the TEM World

The big news in TEM is the changes in the industry, including (and especially) among the leaders. Not to mention the products and how users pay for them, or don't.

By way of background, consider that in 2010 Gartner's top 4 TEM providers were Tangoe, Rivermine, Symphony and Vodafone. The next 4 (inferior in "vision" but equal in "ability to execute") were IBM, Accenture, Invoice Insight and Profitline. Compare the rankings published by AOTMP, which also rates TEM providers, but solely on customer feedback. In 2010, the only one of the Gartner top 8 listed above that also ranked high in AOTMP's top 25 was Invoice Insight. Tangoe, Rivermine and Profitline made the AOTMP top 25, but were close to the bottom. IBM, Accenture and Vodafone didn't make AOTMP's list.

A couple of months before those rankings came out in the fall of 2010 Vodafone acquired QuickComm and TNT, which fueled its appearance in a prime spot in Gartner's magic quadrant. In the six months after the ratings came out, Emptoris acquired Rivermine, which itself had earlier acquired MBG and its substantial book of large enterprise customer business. Tangoe acquired the TEM businesses of Telwares and HCL (formerly Control Point Solutions) and firmed up its plans to go public to cash out its investors and fund further acquisitions. And last but hardly least, last week Invoice Insight rebranded itself as Xigo and announced a new business model for wireless management -- the fastest growing part of the business -- that involves providing basic management services for free and somewhat more robust services for a nominal price. Whether or not Xigo and its new product suite succeed, they will likely upend that segment of TEM.

What to Make of This

Here are five thoughts.

First, in the old days, customers saw TEM as a way to resolve an administrative problem at little or no cost, and maybe even to make/recover some money. The TEM provider would find and fix billing errors and in the process more than pay the costs of its services. That's no longer the

case, because telecom rates have declined, TEM providers and their customers are victims of their success in finding and correcting recurring billing errors, TEM prices have declined as a result of aggressive competition (led by Tangoe, now the largest freestanding TEM provider), and wireless services -- which have fewer billing errors though more opportunities for optimization -- have grown as a portion of total telecom spend. "Classic" TEM is now boring and less profitable for all of those involved in it -- though still essential.

Second, we have the utmost respect for Gartner and agree with its analyses in most areas, but we don't think the carriers are going to end up as major players in the TEM space. The conflicts are too obvious and stomach-turning: customers won't trust carriers to audit their own bills (think of a fox guarding the hen house). On the flip side, Verizon will blanch at the thought of its bills being audited by AT&T, and vice versa. Then there's the fact that TEM is outside the core competency of the carriers, who can't even get their own bills right, much less fix someone else's. Nor is there enough margin in TEM to attract the sustained interest of major carriers, who have demonstrated a hunger for lucrative new value-added services, not ho-hum cash cows. So here's a prediction -- Vodafone faces insuperable hurdles to becoming a recognized brand in the US, and we expect it to sell what it is building in the North American TEM and outsourcing space in a couple of years.

Third, and here we agree with Gartner, the traditional outsourcers *will* be a factor -- Accenture, IBM, CSC and [sooner or later] HP/EDS will become more aggressive in pushing TEM, and though their offerings will be expensive some large customers will buy them as an add on to broader telecom/IT management.

Fourth, after Invoice Insight's new play, there will be no going back to the old business models, especially for the WMM-only players. Then there's the potential landline version of Xigo Pro, which competitors will have to match (even if they can't afford it) if it appears, because when it comes to cannibalism you'd always rather have a seat at the table than be on the menu ...

Finally, Tangoe is the biggest TEM, and it is growing rapidly. But its growth has been fueled by its willingness to buy market share, and it isn't actually making much money, meaning that its margins aren't fat. Tangoe's problem is that not making much money doesn't work after you go public. It's not clear whether Tangoe would retain its customer base, much less keep

growing, if it tried to 'firm up' pricing. Complicating this, like everyone else Tangoe will be forced to respond to Invoice Insight's free/cheap services initiative. Tangoe thus faces cascading challenges: Xigo will put pressure on its bottom line, which could hurt its stock price, which would make it harder to do further acquisitions and keep prices low to attract new customers ... and so on. Tangoe has strong leadership, but remember what happened to TPI, which went public at something like \$7 per share but is currently trading at less than a third of that.

So What Happens Next?

For TEM providers, life is nasty, brutish, and only sometimes long. Nobody has yet found a way to exert market power in any meaningful way, and it's a buyer's market for the TEM tools needed by larger consultancies and systems integrators, who have stronger enterprise relationships and a broader suite of services than even the strongest TEM provider. All of this suggests that the trend is toward TEM providers playing an important, but ultimately secondary role in the outsourced enterprise space.

Meanwhile, Tangoe continues its effort to use acquisitions to produce "one TEM to rule them all." It may be a coup for Tangoe to buy the TEM businesses of rivals at a good price, but it's also possible that the sellers know something that Tangoe doesn't: one way to read the recent acquisitions is that investors are anxious to get out of the market in a way that recoups *some* of the cash that they have invested. Tangoe has cemented an alliance with IBM that may help it a great deal, but if that relationship doesn't yield large dividends Tangoe could end up fighting a two-front war against both the outsourcers *and* the better small TEM providers.

Stay tuned. In the words of the ancient Chinese curse, may we live in interesting times.

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