

## Financial Express

## Telecom industry does not have pricing power

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*Subex, an operations and business support systems firm servicing telecom companies, is one of India's most successful software product companies. The firm is looking at 20% top line growth and EBIDTA of over 35%. Subash Menon, founder-chairman, managing director & CEO tells FE's Goutam Das on how the firm plans to profit from the prevailing business climate.*

## Indian IT service providers have struggled to raise revenues from the telecom sector. Why is it so?

The telecom industry has got commoditised quite significantly. This means it does not have pricing power. There are headwinds such as more competition and demands for bandwidth and better quality from subscribers. It is a difficult scenario. It

has to provide much more and when you do that, costs go up. Telecom companies have to strike a fine balance between costs and offerings. The reason some of the IT services companies are facing issues is because telcos are not looking at systems upgradation such as ERP packages or billing systems. They are looking at improving their operations. That's where we come in.

## How conducive is the current environment for Subex?

We don't expect the environment to change in the near future because commoditisation is not going to go away. If telcos have to make profits, they need to control costs and improve their operational efficiency. That's the sweet spot for us. Our offerings in the operating expenditure



segment (opex) help them improve operations. Managed services are very attractive for telcos. We are seeing good traction in revenue operations centre (ROC) and managed services – the two key offerings we are pushing extensively now. This has resulted in much larger order intake in the past couple of quarters. I would say that the business climate has improved significantly for us.

## Are you expecting the operating expenditure part of your revenues to grow significantly faster given the aversion towards software licensing expenses?

That's been happening. Percentage growth is faster in operating expenditure segment, but in absolute terms, it is much lower. For opex to eclipse license revenues will take a long time. Last quarter, licensing formed 50% of the sales whereas the managed services mix was at 16-17%. In FY10, 10% of the revenues were from managed services.

## Will the Software as a Service (SaaS) model work in the telecom?

Managed services are close to a cloud model. However, it is specific for a customer. In managed services, we implement the solution in a set of

servers in a public datacentre dedicated for the customer from which data can be uploaded or downloaded. We do have ROC in a cloud format for one application – fraud. Customers here pay on a monthly basis. The uptake is not much. One issue is data privacy and telcos look for specific solutions.

## With new solutions, has your total available market expanded?

There is no proper estimate of the managed services opportunity. There are no comparative platforms for ROC and no market statistics are available to determine where opportunities lie. It is a virgin market. We believe that the market is quite significant between ROC and managed services. It would be higher than \$500 million if you look at the potential.