TEM Consolidation

What is the fallout for enterprises?

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It's no secret that the Telecom Expense Management industry, or TEM, has undergone massive consolidation in recent years. Tangoe, the largest TEM provider, has grown through a multitude of acquisitions and mergers which include Profit Line, Rivermine, ttMobiles, and others. After Tangoe's NASDAQ delisting in 2017, private equity (PE) firm Marlin Partners LLP took the company private and merged with Asentinel. The firm recently acquired MOBI Wireless Management LLC. Another TEM firm, Calero, was formed by PE firm Clearlake Capital Group by merging Veramark Technologies, Movero, and PINNACLE. Calero then acquired additional companies including ComView and most recently MDSL.

Currently, mergers and acquisitions have resulted in fewer firms to choose from. We see three key areas of concern: platform confusion, deterioration in support, and shift in business focus. This article explores each one.

A Tangle of Platforms

Unlike other mergers and acquisitions that add a tangible business or expand into additional markets, most TEM acquisitions add "more of the same." This means the merged firms now have multiple platforms and processes to support. The larger providers have anywhere from three to eight platforms performing the same overall tasks. To be an efficient and focused TEM organization, most of those platforms will have to consolidate. And while each platform may have the same intent, there are definitely unique differences. Determining which platform to keep and where to invest in development and upgrades takes time. Meanwhile, each of the platforms need ongoing support to protect the enterprises who use them.

It's tough to manage multiple acquisitions and so many platforms. Sometimes there is directional confusion by the provider themselves. One provider spent several years and a significant investment on the development of a new platform in an attempt to create a single solution to their multitude of platforms, only to scrap it right after an acquisition. And the acquired mobile only platform doesn't offer the same expected capabilities.

Of course, all of this creates confusion and disruptions to any client's operation, ultimately costing time and money. Decommissioning of platforms are expected to occur, and any transition to a different platform will be a major disruption for the customer.

Questions enterprises should ask of their TEM

If you have a TEM provider in place, here are some questions to ask:

> *When will a transition to another platform and changes in process occur?*
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> *Which platform will the provider decide on?*
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> *How well will all of the platforms and current processes be supported?*
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> *How much effort and time will be involved to transition? What about training? What about security?*
>
> *What will happen with the existing data?*
>
> *What are the anticipated process and workflow changes?*
>
> *Does the platform support all services desired of a Procure 2 Pay (P2P) model?*

Dramatic Support Changes

To gain economies of scale through an acquisition, support overlap will usually be eliminated. This can mean reduction of back office personnel, developers, technical support staff, account representatives, and management personnel. As overlap is eliminated, remaining staff may be required to "do more with less," which may affect service levels. We've also seen providers simply offshore support roles to a call center.

Additional questions regarding account support from the enterprise side:

> *Who will be my account representatives?*
>
> *Where will technical support come from?*
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> *Will support operations be served from a different country?*
>
> *Will they even know who we are?*
>
> *What is support like at the acquiring company?*
>
> *What will be the change in the support processes?*
>
> *Do you anticipate changes to our SLAs?*

Private Equity Firm Direction and Intent

Type of ownership also matters. Much of the TEM industry consolidation is now under private equity ownership. This type of ownership can enjoy the advantage of capital infusions where warranted. However, it can also bring significant downsides for customers, particularly TEM customers.

PE firms by their nature, are investment firms in the business of maximizing their return on investment. A business flip, in other words. The primary objective is building financial value in their acquisitions to either become a ***cash cow*** or ***sell for a premium***—typically within four to seven years. The vast majority of PE owned companies are re-sold within 3 to 5 years, with the average holding period in 2018 at 5.3 years, according to McKinsey & Company's Private markets come of age: McKinsey Global Private Markets Review 2019, using Prequin data.[1]

In either scenario, the intent is to cut costs and maximize financial value. Cash cows typically mean cutting costs, investing only the minimal amounts needed to keep the company generating cash.

In the sale scenario, it also means changing the company focus to match the highest market valuation. For example, software firms (SaaS) typically have higher valuations than technical support companies. To shift to a SaaS focus, it may mean shifting to a single cloud platform and dramatically reducing or eliminating support to create higher valuations and profit. Off shoring call centers is one way to accomplish this, using trouble shooting scripts rather than staffing with support personnel actually familiar with the core services offered.

Private Equity Owned	**Private Ownership**
Focused on financial returns	Focus on building a business, growing and keeping customers
Pay themselves first (fees, distributions)	Invests in long term of business
Primary interest in maximizing price company will bring in market	Primary interest in growing company value and place in market
Money	Operations
Mid-to short term	Long term

Private Equity firms are in the business of finance. Compare this to privately held TEM firms focused on the business of expense management.

Takeaways

Mergers and acquisitions of TEM providers can create confusion and cause disruption for enterprise customer operations. Some key pitfalls to look for include shifting to a different platform, changes in support processes, and support delivery.

The type of TEM ownership may also affect the value of service. If the ownership is "not in the business" of expense management, the shift from operational focus to a financial valuation focus may affect service levels.

If your provider may be shifting to a new platform, it makes sense to evaluate an alternative provider now. The disruption and a transition to a different platform with the same vendor takes the same due diligence, time, and effort as moving to a new TEM provider.

And wouldn't life be better to work with a stable TEM provider that is solely focused on supporting their customers with experienced US based support and a single SaaS platform?

McKinsey & Company, Private markets come of age, McKinsey Global Private Markets Review 2019, p.25 https://www.mckinsey.com/~/media/McKinsey/Industries/Private%20Equity%20and%20Principal%20Investors/Our%20Insights/Private%20markets%20come%20of%20age/Private-markets-come-of-age-McKinsey-Global-Private-Markets-Review-2019-vF.ashx