

# Why Subex is turning to managed services

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**July 1:** The global downturn has done strange things. It made software services companies think products and product firms explore services to boost drying revenue streams.

For Bengaluru-based Subex, a firm selling software products to telcos, services could be the future as it tries to make the most of a niche sector.

You could say this is the call of current times when any amount in the bank is gold.

Customers are scared of capital investments — software products typically have high licensing fees. Any talk of capex being converted into opex receives a lot of attention.

So Subex is offering a 'managed services' model: the firm installs, supports, upgrades, and services the software, charging customers on a monthly basis. Forget licensing fees.

The company already has fifty managed services implementations across 24 customers; the model now generates 11 per cent of its revenues and is growing at 15 per cent. Subex's founder chairman and CEO Subash Menon says it could grow even faster.



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Potentially, then, managed services one day could cannibalise on the firm's licensing fees, which contribute to more than 50 per cent of its product revenues.

The big picture: Subex, one of India's rare software product successes, may look more like a services firm. It would only reinforce a fact well known — making and sustaining products out of India without services support is an extremely difficult proposition.

Subex belongs to a handful of firms that have crossed the \$100 million benchmark doing products.

Relatively small by services standards where India now has multiple billion dollar babies, it is a reason-

**Managed services will always work; there's no capital investment, only a monthly fee, says CEO Subash Menon.**

*Photo: R Samuel*

able size in the Indian product space.

Founder Subash Menon hates the thought of 'cannibalisation'. He also dismisses the services company look it may sport in the future.

Even though the firm may depend more and more on managed services, it would continue to retain the feel of a traditional products company — it would conceptualise and build intellectual property, bring it to market, implement it.

"Nothing changes," says Menon. "Only your charging mechanism is changing.

That doesn't make a product company a services company."

But he has no doubt the monthly charging model is the future.

"In a pure licensing model, only those with strong balance sheets can do it. In managed services, just about anybody can go for it," he says. "This model will create a larger market."

The economic climate is certainly more conducive to this kind of a model — customers don't need elaborate capex approval processes — but Menon says it is also a reflection of changing

needs. Managed services would help customers lower cost, ensure optimal software utilisation while leveraging on Subex's expertise.

"Here, I am talking about managing the application from a domain perspective. Using the application, talking out the relevant reports, ensuring the application is tuned or tweaked to be in line with the requirement...that sort of stuff. We are talking about this being done by us instead of the customer's employees," Menon says.

Upgrading domain knowledge may not be easy and

often costs money. If employees quit, you begin from the scratch.

"Because we work with 200 odd telcos around the world, we have a deeper insight. Any one telco will not have that kind of knowledge base within their organisation. They will get better support from us than they can hope to get from internal resources," the chief executive says.

Managed services, say industry watchers, will also allow the firm generate stable revenue streams and create more wallet share over time. Besides acquisitions,

which may add products and customers, this would be another viable way to grow revenues in a niche market. The total available market for software products in the telecom industry may not be more than \$15-16 billion.

"If you do services, you build relationships with the customer. You do not just sell the license and move on. Better relationships will get you more business," managing partner of consulting firm Browne & Mohan Dr. T.R. Madan Mohan says. "The flip side: Subex's cost of engagement and marketing may shoot up."