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Carriers and vendor profitability: why making it solely “the vendor’s problem” is too risky

Carriers have traditionally left vendor profitability as a concern for the vendors to work out themselves. But carriers take note: your viability is dependent in part on the viability of your key suppliers. Assessing that viability is critical, and at times ensuring it (at least in the short term) may be good business. While in theory your vendors will always make perfectly rational decisions based on profit and loss, economic theory is just that - theory.

Real people run vendors, not economic theorists. And sometimes that means pride, wanting to relive the past rather than accept the present, management telling the board what they have to do in order to ensure their own short term survival, decisions to take a gamble that may not have great odds but have a far more acceptable potential upside, and short-term focused decisions that appease the financial community by providing a knee-jerk reaction to immediate performance issues while failing to optimize the long-term can and will happen.

What’s more, this kind of behavior can be expected to accelerate during a downturn, particularly if it pushes more vendors toward a scenario of potential consolidation.

We have heard a number of operators loudly praise Nortel’s development of cutting edge Long Haul technologies in one breath, while condemning Nortel’s decision to sell off the Optical business in order to raise enough cash to survive in the other.

We think it should be no surprise to the operators that these issues are related. The reason that Nortel sees more value in selling off these assets than in farming them

is that Nortel's Optical group has done a better job at occasionally developing real technology leadership for selected product lines while letting others fall behind than it has been at calling the market correctly and consistently commercializing the right technologies at the right time.

We wish Nortel the best of luck in selling off Optical and Metro Ethernet Networks, and if they do and gain financial support they could have a real impact on the optical market if that buyer has the deep pockets we think are required in the short-term to make Nortel's Long Haul strategy a success. But those carriers that rely on Nortel as a key supplier to their networks need to pause and give thought to the potential business impact and cost that could result in the case that Nortel does not find that potential buyer. That's worth considering before trying to negotiate even lower pricing from key suppliers just to see "if they will go there," and before questioning other vendors as to why they do not just replicate Nortel's Long Haul technology development.

Assessing vendor viability is going to become a critical skill for carriers in the next couple of years. And at times, at least in the short-term, helping to a reasonable degree to ensure the survival of key vendors may even be in your best interest. Adam Smith's "invisible hand" never got stuck with an installed base with high book value, no development roadmap, and only third party service and support.