Episode 17
The Software Series: LastMileXchange
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Speaker 0   00:00:00   I'm Danielle Royston and this is Telco in 20. A few months ago, I wrote an article in Light Reading about why telco software companies have such a lame valuation multiples. The key insight of my article was that the reason you don't see big valuations of telco software businesses is because they all have a significant amount of professional services revenue. I'm talking like 20, 30% or more. See, product focused, SAAS companies outside of telco get five to 10 times revenue evaluations, but software companies with a significant amount of services revenue usually only get two to three times revenue valuations. And the reason telco software businesses have such heavy services components is that the telcos like to customize the crap out of their software. It's really hard to say no to those telcos. And it's really harmful to the software vendors that allow it. And the smaller you are, the more it hurts.

So this article went around the world. I got tons of great feedback and I heard from a bunch of software vendors. It landed a lot of punches. In fact, it landed a punch with today's guests. Today, we have the co-founders of LastMileXchange out of London. LMX helps carriers digitize and automate their global access quoting process. They've been in business for 16 years and they just celebrated their 16th birthday and we're really excited to talk to them. So let's take 20 .

James Grant is the commercial director at last mile exchange. Hi James.

Speaker 1   00:01:45   Hi DR. Thank you very much for having me on your podcast.

Speaker 0   00:01:48   Yeah, I'm psyched. And Andrew Hoskin is the technical director. How are you, Andrew?

Speaker 2   Hiya, DR. Fantastic. Great to be here too. Awesome.

Speaker 0   That Aussie accent coming through. Welcome to Telco in 20. I'm excited to have you both on our podcast. We have two co-founders together, and I always like to hear the startup origin story. So James, tell me, how did you guys meet in, why did you guys decide to start a business?

Speaker 1   00:02:16   So we first met back in 1999 when we were both working for WorldCom and we suddenly had two thousand of us sales people looking for international access code. So I came over there to set the team up here. And then a young Australian came waltzing through the door to do the data analysis. When we started off, everything was manual. And when we left about six years later in 2004, we'd managed to automate about 70% of everything that WorldCom was doing. And then we decided that we can probably have a good go at doing it ourselves. So being, you know, still relatively young and naive, we started LastMileXchange.

Speaker 0   00:02:54   Yeah. So brave to start a startup, you know, so I always admire entrepreneurs that take that leap, just like all the emotions you go through from, like, this is totally gonna work too. What are we doing? This is the stupidest idea. And literally you have those emotions in the same day.

Speaker 1   00:03:09   Absolutely. You always begin on the mountain of eternal optimism before you end up in the valley of despair, but uh, hopefully you make it through.

Speaker 0   00:03:16   Yeah. So, you know, sort of switching into what you guys have been doing. Andrew, I know LastMileXchange has been an early adopter of a thing I love to talk about – the public cloud. What are the objections you guys got in the early days around public cloud when you first started thinking about using it?

Speaker 1   00:03:33   Yeah, I mean, that's a really great point and we moved to Amazon in 2010. So they'd been around for a while, but still it's a good 11 years ago. So in the early days we had our own servers and now we're in Harbor Exchange, which is one of the big data centers in London, but we would read about the cloud and we kept testing it with our customers and they kept pushing back.

But eventually the story was just too hard to ignore. The flexibility it gives ,the price comparisons, and even just the services. So we made the jump, but at that time, the telco industry was slowly coming around to it. You know, at first they were going, "we could never possibly be outside our data center," but then that happened. "It could never possibly in the public cloud," but then everyone started doing cloud. So the mind shift occurred and we were always slightly ahead, but luckily it caught up soon enough.

Speaker 0   00:04:14   Where did you see that inflection point that you started to see people really open up to it?

Speaker 1   00:04:18   We operate in the telco space, we go to ITW. There was one year we went there and every major telco is there going, "it's all about the cloud." There's enormous posters. And suddenly the cloud had arrived. I mean, of course Amazon had been doing it for a while and the telcos were trying to get itnon the game and pushing it. And it was pretty hard for them to say, "look, actually, you know what, we, we don't believe in the cloud" whilst also trying to sell it really hard. So I don't know, maybe 2014. James?

Speaker 0   00:04:43   Yep. And so are all your customers running in Amazon and AWS, or do you still have sort of the classic on premise? Where are they running?

Speaker 1   00:04:52   Everyone's in the cloud. So we absolutely run everyone in the cloud.

Speaker 0   00:04:56   That's awesome. Is that like a multi-tenant SaaS offering or everyone has their own instance and they're running separate, but they're running at Amazon?

Speaker 1   00:05:03   That's a really interesting question. I mean, the quick answer is they're not multi-tenant. Everyone has their own stack from the database up to the load balance, but it wasn't designed that way. We designed our software originally to be multi-tenant and kind of a parallel of the story I told before, about how a lot of companies said are, you know, "I don't feel good about having our data in the cloud" or "I don't feel good about having our data outside our data center. "There was this idea of, I'm not sure if I really want my central quoting process to be multi-tenanted in a platform with my competitor's data. So that was also a bit of a mind shift and a bit of a mental hurdle for people to get over. So we sort of went for a full stack approach per customer, but interestingly, we've got new products on the horizon and we are definitely thinking multitenant as we bring those on board because, you know, there's been a general acceptance about that. Things like Salesforce, things like Office 365, all these sorts of things – it's become normal.

Speaker 0   00:05:50   The multi-tenant SaaS offerings. Well, I think that's really where you start to get some of the big benefits and big cost savings in the public cloud. When software vendors can start to get the economies of scale, instead of having like one database per customer, like you were just talking about, you can have a mega database. And so you get into interesting situations with customizations, for example.

So I think you guys found me through this article I wrote last year for Light Reading, that was all about, "why do telcos software companies get such a lame valuation multiples" is I think the title of it. And I made the point that I think customizations really kill the products in software vendors, right? It really takes you down a path that is not good for the product. And so with everyone running in different instances with a long-term goal of getting them multitenancy, today do you allow your customers to customize? And have you guys started to think about how you're going to manage customizations in a sort of multi-tenant world?

Speaker 1   00:06:52   Absolutely. And I mean, to be honest, your article, we read it and kind of went, wow, this is somebody who completely gets it because we absolutely see that. We do customize. We do, but our products fall into two camps. One has a UI and a number of user facing functions, and one is like a big automation play where we aggregate all the APIs, we aggregate all the cost models. We do a lot more customizations, as I guess you'd probably expect, around the UI facing product, but certainly there's a big market where we become part of the whole "quote to cash" play. And we integrate with ERP players and CPQ players and focus on our core skill, which is around providing the best experience possibly in automation of quotations. And that is something we think we're pretty good at, our customers think we're pretty good at, and we don't do as much customization around that.

Speaker 1   00:07:39   And so certainly to your, at the point of your article, we don't expect the customization to go away, but we certainly see the growth and that's a good thing for us. And we become part of everyone's system process and do that well, rather than trying to tweak things for one particular use case. I was going to say, one thing that we have learned is essentially everyone's on the same journey. They've got the same or very similar processes, but

different people want to see data in different ways. So one of the things that we've sort of learned is to try and make any customizations configurable. So you can actually have filters of how you want to use the data, because that means that rather than having one size fits all, people can actually go in and they can sort of say, okay, well I want to see my quotes coming back like this and they can set it and they can consume data that way.

Speaker 0   00:08:22   Totally agree.

Speaker 1   00:08:25   Just add to that, in our experience, as a rough round number I would say, in terms of the business space, we operate 80% of the DNA of the problem is the same. Possibly higher, maybe even 90%. So the opportunity to standardize to not customize is completely there. And it is really just ensuring that in fact, the customization happens in the right place. And what we're actually seeing is a lot of that customization does and should happen within the CPQ process or the ERP process , where they're worrying about the end-to-end quote to cash, buy-to-sell, and we can focus more on what we do, which is getting quotes, get them fast, get them good.

Speaker 0   00:08:58   I think you guys bring up some really, really great points that I just want to sort of dive into a little bit here, which is people say customization, and that can be everything from a configuration where I change out a logo and vendors make it really easy. And that's totally great. That's not really what I talk about, right? More in the middle, I guess, the best way to do it is through an API where the code is abstracted away from the core product, and you can do some programming and attach it. And so that works, that's probably the best way to do it, but still not super ideal.

And then I think on the far end, which is what I think a lot of vendors do, which is "here's this request from a customer." And I think Andrew, you mentioned it … "here's this request from a customer that I can't really solve through the first two ways, not a configuration. I don't have like an API." And so companies make the decision to add it to their product roadmap, even though the feature is only for one customer and they label that R&D and they label that product and I'm like, no, that's really a customization. You just stuffed it into your product and made your product worse because it wasn't a feature that everyone wanted to use. And that is, like, just so terrible that people do all the time and telco software all the time.

Speaker 1   00:10:13   You're preaching to the choir here. And I am kind of just nodding as you talk. And there's probably a certain amount of pragmatism there as well. I mean, we've grown now, we've done the hard yards. And I think we're probably firmly in the size of a scale-up company now, rather than startup, but still something I say a lot, even a small telco is a big company, certainly relative to us. And so if they come along and say, this is what we want to do, when you're in the scale-up phase, you look to be accommodating without compromising yourself too much. You look to find a way to make it work. But I completely agree with you. I think the best way to do software these days is a collection of partners that have a real skill and do that really, really well, and then find a way to orchestrate all those services. So they're done really, really well without breaking what's good about them.

Speaker 0   00:10:52   Well, I think your point earlier about the CPQ process inside the telcos is, I agree, it's a large percentage high, like it's 90% the same, right? I mean, if Elon Musk can build a reusable rocket, I can code whatever version of whatever process you want, but just because you can doesn't mean you should. And I think getting into the next question here, talking about customizations, I sort of feel like I'm an outlier. I feel like maybe you guys might be in my tribe a little bit here, which is, I think customization', that's like the death knell for your product. But everyone I talked to says, the telcos make you do it. If you're going to compete in telco, you've got to do customization. They force you to do it. You know, maybe the vendors need to band together and say, "no, we won't." And hold the line kind of like the wall in a Game of Thrones and not let the white walkers of the telcos come in with their customizations. But it's hard and saying no to the big guys is super hard.

Speaker 1   00:11:54   Andrew and I act as the gatekeepers to the products. And we've been around in the industry long enough to know what we feel is a good feature. And if you can talk a customer out of doing something, that's where we'd step in, because ultimately this is our product. And we only really wants great features to go into it.

Speaker 2   We view our customers as partners. It's a long-term relationship, there's mutual interest there. So we are not the kind of company that just drops product and go "right, use it or lose it or love it or leave it." We tend to have a pretty strong, collaborative relationship with all our customers and we converse with them a lot. So we even provide advisory services and discussions with our customers about their process and go "look, you're asking us to do this, but maybe we can think of a better way to do that, where we'll focus on this thing. And you can do that over there." We've done that in a few places as well, which again, allows each company to focus on doing what it does well the best.

Speaker 0   00:12:48   Yeah. Yeah. So let's bring them back to the customers in the business and talk about what LMX offers to telcos, right? So our podcast focuses on telco executives. And so that pitch of, why use your software? Why is it special? Why is it really valuable? And I think previously people were maybe solving it in spreadsheets and not automating it. But if you had 30 seconds in an elevator, what would you tell telco execs about why they need to use it?

Speaker 1   00:13:18   It's a bit glib, but nobody builds email software anymore. Outlook solved it. Gmail solved it. It's a good service. You use it, you get on with your business of telco or whatever it is you do. And that's sort of what we want to become. We do access. We think we do it really, really well. And in some respects, we sort of want to become a verb, like to Google something. We become the default for getting good quote automation. So, you know, your salespeople worry about selling your solution. Engineers worry about solutioning, your innovators innovate. But you know that access will work. If I had to put it into an elevator pitch, that's probably what I try and say.

Speaker 0   00:13:55   And James, anything to add?

Speaker 1   00:13:57   Yeah. Adding to it, Andrew said there is a tendency still for IT teams to want to try and do this themselves. And it's an incredibly complex and tricky problem to solve. One of the key things that we bring to this is the fact that we have looked at a lot of these problems and we have solved them.

Speaker 0   00:14:16   That's awesome. That sounds like LMX has some cool software. What's coming down the pipe for your customers in the future. What do you guys planning to do next?

Speaker 1   00:14:24   There are two things. So at the moment, what we do is we aggregate pricing, right? We already aggregate and pull together pricing from 60 plus API-enabled telcos around the world. But we also still have a large, long tail of carriers that are using spreadsheets and data files three to 400 odd that we use, but there's a much longer tail than that. So we see those 300 to 400 as, they're the next big thing. They've got to make the jump to digital. They've got to bring their system and their pricing into the digital world and we've got plans to try and help them do that. So that's one big thing.

And then, James, I think we're also looking to bring a more open-access type system, I guess we call it. It's a marketplace, which is for the even longer tail beyond that, which would have been more of the multi-tenanted play.

Speaker 1   00:15:09   That's something that we're starting to roll out at the moment. We're actually getting quite a lot of traction, particularly with some of the smaller providers. You can't necessarily justify a massive telco expense, but also want to get something set up quickly and want to get their solutions visible to global carriers.

Speaker 2   It's about providing off the shelf solutions that mean that telcos, the small and medium telcos, can get involved in the automation game and all the benefits that gives including freeing up resources to do other stuff, but also getting visibility into their quote pipeline, without having to take the risk of finding an independent software developer and build a product with all the risks that entails. They can get something which they know works because 20 other people use it in the industry. And that's what we want to do. We want to lower the bar for people to get into the automation world when it comes to access quoting.

Speaker 0   00:15:57   Well. Yeah, I think that you guys said it, the long tail where these are the people that need these services. Historically, the prices to get this kind of software is exorbitantly high. They can't afford it. And now you're offering this opportunity, multi-tenant SAS, where you're going to offer the economies of scale. It'll be dramatically less expensive. And now they get access to wonderful software that previously they wouldn't be able to afford, and now their businesses better. And I think that's great insight, but I think people are ready for that. I think people are finally understanding what cloud can do and see the successes of, like, Salesforce and NetSuite and these other multi-tenant web scale applications. And so I think that's a great idea. That's awesome.

Speaker 2   Great. We hope so.

Speaker 0   Fingers crossed. So let's shift a little bit here. I don't know if you guys have been watching the news, but in Texas, the governor of my state ended the mask mandate and just told businesses, basically do whatever you want. And so it's causing a shit storm over here. It's so interesting. Cause everyone's country, and at least in America, every state is kind of doing their own thing. And so I think you guys are still in lockdown in the UK, is that right?

Speaker 1   00:17:10   Absolutely. Yeah. And in fact, today is a Friday and it's the last day of three months of homeschooling on Monday. Our kids go back to school, which I'm quite excited about it. They're quite excited about it too, but I'm also very excited about, yeah, we've got a roadmap to start releasing things. Our prime minister hasn't been as liberal as your state governor, but yeah, we've got, I think a two or three month process of stepping out of these things.

Speaker 0   00:17:32   Well there's big conference in our space, Mobile World Congress Barcelona, usually is held at the end of February, now pushed to the end of June. And I think your lockdown is ending like June 21st or something. And so I'm planning to go to MWC. I'm planning to go big and maybe I'm the moron that's like the optimistic dunce, but maybe I'm a genius. Right? I'm the one who's, like, calling the shots and making my plans. And so I am hopeful that vaccines are ramping up. I do think it's going to be tight, but I'm crossing my fingers and hoping it happens. So yeah, I think it's a good hope. I think it's worthwhile.
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Well, it'd be great to see you guys and meet you in person in Barcelona. And I really thank both James and Andrew for coming on the podcast, I think it was a really great conversation. So thanks.

Stick around because we're ending each podcast with a Telco in 20 takeaway. I have 20 seconds to tell you something you need to know.

Speaker 0   00:18:34   Have you ever seen a snake swallow a mouse? It unhinges its jaw ,swallows it whole. And for a little while, you can see the little mouse in the body of the snake. I sort of feel like that snake, but instead of a mouse, I swallowed the 65,000 square foot Erickson booth, and now we've got to fill it up and make it great.

So I'm looking for disruptive, innovative telco software companies like Totogi, Mavenir, DigitalRoute, and LMX ,that have pivoted their company and are using the public cloud, to come share my space with me at MWC. See, my vision for my stand is to build a Cloud City filled with all-things public cloud. So telco execs like you can come to one place and learn how to leverage the public cloud from core to edge, from the back office to the subscriber. I'm trying to get the BFCs there. I'm trying to get Elon Musk there. I'm trying to get cool, innovative startups like Totogi there. And I'm paying for it. It's a party at my house. If you want to be in the best booth at MWC, then apply on my website at, and I'll wait while you grab a pencil, TelcoDR.com/mwc-21. If you didn't catch it, we'll be sure to put a link in our show notes.

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I should add, Gulp.

Later, nerds!