

Microsoft Buys Tellme Networks, Becomes SEMS Prototype

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Dan Miller
Senior Analyst

With its acquisition of Tellme Networks, Microsoft enters the realm of speech-enabled mobile search (SEMS) in a very big way. Heated competition among search leaders (Google and Yahoo!) and speech processing partnerships (Nuance and IBM) should accelerate now, with mobile subscribers benefiting from stepped up innovation. But uncertainty remains in the role of wireless carriers and the structure of targeted advertising sales.

The Real SEM-antic Web

For some time now Tim Berners-Lee, the originator of the World Wide Web, has been a staunch proponent of building the "semantic web," a set of philosophies and design principles that promote easier identification, organization and sharing of Web-based resources. At Opus Research, we like to point out that the semantic Web begins with S-E-M for "Speech-Enabled Mobile."

Microsoft's acquisition of Tellme brings this second definition of the SEM-antic Web one step closer. Though Tellme is a private company and the terms of the purchase were not made public, the rumored price (\$800 million) is about six times Tellme's estimated revenues and is not expected to close until the end of the year. With about 320 employees, Tellme claims to be profitable, but we believe it to be about break-even.

Competition Enters a New Level

Microsoft has touted the value of the acquisition as part of an overall speech-enablement strategy that spans its "Unified Communications" product line. Nonetheless, the value of Tellme to Microsoft is not about its current "book-of-business," which is largely steeped in hosted VoiceXML applications.

Dating back to a groundbreaking contract with the "old" AT&T Wireless in 2002, Tellme is the long-term, leading platform provider for speech-enabled DA and has leveraged its experience into long-standing efforts to expand the range of services offered through DA platforms.

Certainly, there's fertile ground for Tellme's traditional application development and hosting resources to dovetail with Microsoft's CRM and Office Communicator Suite. Still, Speech-Enabled Mobile Search is at the core of the acquisition and it represents a major, highly visible, pre-emptive move against Google, the company with the undisputed leading share in Web-based search.

Although Google has intellectual property relevant to optimizing speech-initiated search, it has had little incentive to introduce a speech-based service, favoring innovations to its ad-purchasing engines and exposing application programming interfaces (APIs) that make it easier for third-

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parties to build mash-ups over such graphics-laden resources as Google Maps.

No doubt Google is monitoring the level of activity and efficacy of 877-520-FIND, which is a free service that behaves like a speech-enabled rendition of Google Local. Both Google and Yahoo! are destined to introduce speech-enabled mobile search engines; but they're now put on the defensive and cannot merely introduce a service that puts them at parity with Tellme. At a minimum, they must bring "carrier-grade," "voice and visual" services (exemplified by the Tellme by Mobile downloadable client), coupled with a simple way for advertisers to insert targeted, personalized and "mobilized" promotional messages (a la Microsoft's improved adCenter).

Don't Forget Nuance

While Microsoft's acquisition will stir activity among Google and Yahoo!, the Nuance factor should not be underestimated. Nuance provides the core speech automation for Jingle Network's 1-800-Free411 and AT&T's newly launched 1-800-YELLOWPAGES – which, like Tellme's DA, runs on the Envoy/Volt platform. Nuance's revenues of \$388 million (for fiscal year ended September 2006) are dwarfed by Microsoft's \$44 billion (for FY ended June 2006) and Google's \$10 billion (for calendar year 2006), but its incorporation wireless service delivery pre-dates Tellme and its wingspan in terms of carrier-based applications is unrivaled.

Microsoft's \$800 Million Validates the Marketplace

Microsoft's \$800 million investment in Tellme represents a vote of confidence that legitimizes SEMS. Also, it's a starter's pistol signaling the beginning of a race for market share that will be built on advertiser support and actual usage rather than positioning on a WAP deck or any other obscure measure.

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