

## And then there were few

### *How to survive the next wave of consolidation among Network Equipment Providers*

*Network Equipment Providers (NEPs) are experiencing resurgent growth after plummeting in the burst of the dotcom bubble. Consolidation and convergence are sweeping the industry, and only those companies that combine innovation and proper positioning – a handful, at best – are expected to survive to become true, global market leaders. Our research identifies the business trends likely to become dominant in the next several years and outlines the steps NEPs can take to try to join those elite few expected to flourish.*

Network Equipment Providers – those companies that provide equipment, software and services for communications solutions – enjoyed substantial growth during the dotcom boom for the late 1990s, but saw precipitous declines when that bubble burst in 2000.

NEP revenue declined more than 30 percent immediately following the dotcom collapse and is just now beginning to inch toward the position it previously occupied.<sup>1</sup>

As these companies attempt to continue their comeback, they find themselves challenged by a new set of market conditions and dynamics that we believe will define winners and losers over the coming decade. For example, the industry is in the midst of significant consolidation, a trend we expect to continue, even accelerate, over the next ten years. The market for NEP solutions is growing as well – services more so than equipment – but not as fast as the global economy and

significantly slower than the electronics industry as a whole. We anticipate this trend to continue as certain solution segments are facing saturation.

Another factor in the mid- to long-term NEP outlook is the convergence now evident in the electronics industry. Enabled by common IT standards, the lines between the telecommunications, media/entertainment and electronics industries are blurring as next generation networks (NGNs) enable consumer-friendly and industry-efficient crossovers, such as the provision of Internet videos on mobile telephones and MP3 music downloads. These converged providers are expected to demand more and more solutions from NEPs, but, perhaps, from fewer and fewer vendors.

When combined, we expect these new market dynamics – particularly consolidation and convergence – to

separate those NEPs with the capability and vision to compete globally from the remainder of the industry. We believe the number of viable NEPs will decrease during the next 10 years as those without comprehensive capabilities and/or market savvy are swallowed by their larger competitors, become niche vendors or just fade away.

By 2017, we expect only a handful of NEPs – perhaps even as few as three – to be legitimate, global players in the marketplace. To determine steps NEPs should take to be among the handful of survivors, the IBM Institute for Business Value analyzed trends in the industry and interviewed top executives from NEPs throughout the world. As a result, we discovered that NEPs currently occupy three categories in the marketplace:

- The artisan – Essentially an equipment manufacturer and is likely to be a follower, rather than a leader, in technology innovation
- The allrounder – A company that strives to do everything alone and features a highly self-sufficient business mode.
- The orchestrator – The most modular of the three business models, able to move quickly and seamlessly from a fixed to a variable cost structure.



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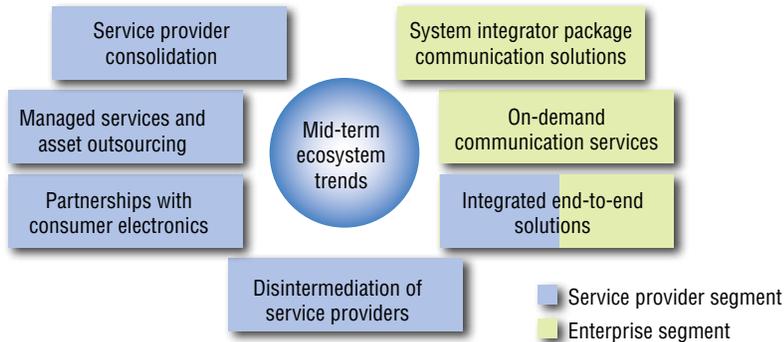
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## Reference

<sup>1</sup> IBM Institute for Business Value analysis of annual reports of public Network Equipment Providers for 2000-2006.

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### Mid-term ecosystem trends.



Source: IBM Institute for Business Value.

Over the long term, our research tells us the ecosystem for NEPs will undergo continued consolidation, driven by seven business trends expected to become predominant in the NEP ecosystem within the next three-to-five years (see Figure). NEPs will need to respond differently to each of these trends, depending on both their business strategy and market category.

Both the market categories and ecosystem trends will, we believe, lead to a transformation of the industry by 2017 in which a number of convergence opportunities will present themselves. These opportunities should set the stage for additional mergers and acquisitions among NEPs and provide a foundation for convergence with mainstream consumer electronics companies and IT service providers – with a substantial impact on the balance of power in the longer-term NEP ecosystem.

## How can IBM help?

- **Strategy and Change:** Define and implement organization change and strategic leadership programs.
- **Business Model Transformation:** Transform the business model from a device-centric to a software and services led approach (global integration of enterprise).
- **Customer Relationship Management:** Repositioning of NEP brand from equipment vendor to a solution provider

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