

# Going Over a Speed-breaker

The networking product segment continues to grow at 25%, lesser than last year, but the market trends remain positive

If ever one desired to know the state of the economy, especially in an emerging economy like ours, all one has to do is take a look at the growth of the networking product segment. Since, IT spend is critical for any organization be it financial or manufacturing, the upswing or downswing of the market can tell a story as pertinent as those told by the various analysts firms and researchers. Thus, in many ways, networking products segment is the barometer of the health of the overall economy.

First up, the overall market has registered a fairly decent increase, grown over the last year by 25% and is currently worth around Rs 7,000 crore. Switches and routers continue to dominate, with both accounting for some 59% of the market. Structured cabling and wireless LANs or WLANs are the fastest growing segments among all, while modems continue to shrink over the year. Cisco continues to lead the market, and there is no company that gives direct competition to Cisco across the various segments in which it operates. Only Juniper has registered a higher growth than Cisco in the router segment, and with the launch of its switches, it intends to give some more headache to the networking giant. A few other in competition are 3Com in the switches market and Netgear in the WLAN space.

Though the market might have grown by 25% or so, a look at last year's DQTop20 and the growth suddenly does not seem all that great. In fact, comparing this year's growth with that of last year shows that there has been a discernible slow down. Last year the overall market had grown

## Enterprise Networking: Overview

Product Categories	Revenue (in Rs crore)		Growth (%)
	FY '08	FY '07	
Routers	1,810	1,437	26
Switches	2,316	1,980	17
Modems	390	335	16
Structured Cabling	1173	817	44
WLANs	210	150	40
Others*	1,019	824	24
<b>Total</b>	<b>6,918</b>	<b>5,543</b>	<b>25</b>

Source: DQ estimate

**There was a discernible slowdown in the growth of the enterprise networking segment (from 32% in FY '07 to 25% in FY '08), perhaps the first signs of slowdown impact on IT infrastructure investments. SMBs, however, continued to flourish; from the runaway market leader Cisco to aspirants like Juniper and D-Link, every vendor aggressively courted the emerging enterprises. India was one of the select markets where Cisco launched its "the human network" branding initiative targeted at SMBs**

by some 32%, as compared to this year's 25%. This could be reflective of the investment by the enterprise segment, especially the banks and the MNCs. There have been reports of how the slowdown is affecting the Indian economy, especially in the financial sector that is shying away from further investments. With the oil prices touching stratospheric levels, the manufacturing sector is reeling as well.

D-Link has been the underperformer in almost all segments except WLAN, registering static or negative growth.

### SMB Lifeline

The succour came from the SMBs. In fact, over the years, the networking companies have realised the potential of the small and medium business sector and attuned their strategies to target this sector. According to a survey conducted by New York-based

Access Markets International (AMI) Partners, SMB outfits in India are all set to splurge \$9.7 bn on IT in 2008. The spend is increased by 22% of what it was last year. This is the result of a boom in the overall economy and a rise in the number of Small Businesses (SBs). Thus while there bigger cousins are shying away from making IT investments, SMBs are spending on it. Little wonder that most of the companies are either strengthening their dealer network or introducing products at a price point much lower than the others.

For instance, in the year gone by, Cisco launched a major branding initiative, "the human network," that is specially targeted at the SMBs. India is among the select few markets where this campaign has been launched. Company officials from all the companies agree that the sector is the

fastest growing one and among the most profitable one. According to estimates, SMBs currently accounts for anything from 30-40% of the total market spend and are ramping up fast. Small Businesses this year. SBs are adopting the latest Internet-related technologies now—63% of Internet-owning SBs are broadband-enabled.

### Intelligent Routers

Traditionally, routers have been treated as devices that sit on the server room, distributing bandwidth among the various users. With increasing corporatization and the spread of Internet connectivity, companies are going in for routers that not only do the most basic of the function, as mentioned above, but also offer a lot more.

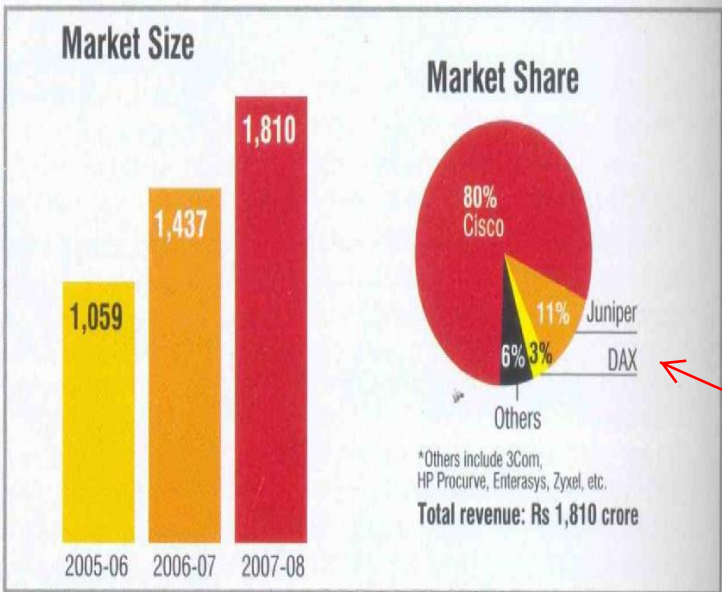
Across the globe, the momentum is toward integrated devices that have multiple functionalities. The big focus is on security, and a number of vendors are touting their wares based on this plank. In fact, the whole market is being driven by two major segments, the service providers namely the telcos and the enterprise segment. Both are seeing a major uptake of these devices.

Among the market players, Cisco continues to dominate with close to 80% of the market share, a fall of single digit over last year. The challenge to Cisco's dominance comes from Juniper that now accounts for around 11% of the market share. In fact, Juniper officials claim that recently and also for the first time, they had toppled Cisco

### Routers: Top Players

Rank	Company	Revenue (in Rs crore)		Growth (%)
		FY '08	FY '07	
1	Cisco	1,444	1,164	24
2	Juniper	192	152	26
3	DAX	55	53	4
4	BA System	12	NA	NA
5	D-Link	7	10	-30
6	Others	100	58	72
<b>Total</b>		<b>1,810</b>	<b>1,437</b>	<b>26</b>

Source: DQ estimate



Source: DQ estimate

**To be able to better challenge Cisco, the competing companies are resorting to price-cuts and launching newer tech routers. For instance, Juniper launched routers capable of supporting 100G interface. Meanwhile, D-Link has launched Business Gateway series priced appropriately for the SMBs**

from the top position in the service provider space, bagging orders from the likes of Bharti, VSNL, Reliance, and others. The other players like Nortel, 3Com, Enterasys, DAX, BA Systems

are operating at the sidelines of the whole contest. Meanwhile, the outlook for the routing segment remains positive. With government spending predicted to rise,

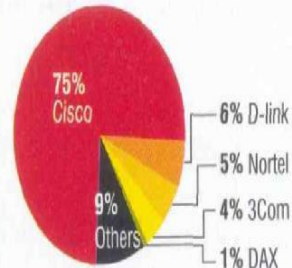
## Switches: Top Players

Rank	Company	Revenue (in Rs crore)		Growth (%)
		FY '08	FY '07	
1	Cisco	1,736	1,447	20
2	D-Link	130	129	1
3	Nortel	128	126	2
4	3Com	95	79	20
5	DAX	26	24	8
6	Others	201	175	15
<b>Total</b>		<b>2,316</b>	<b>1,980</b>	<b>17</b>

## Market Size



## Market Share



\*Others include HP Procurve, LinkQuest, etc  
Total revenue: Rs 2,316 crore

Source: DQ estimates

SMBs have become a force to reckon with in this market space, with all the major companies creating solutions and strategies to tap the segment. According to estimates, SMBs currently account for anything from 30-40% of the total market spend and are ramping up fast. Juniper's entry into switches would spice up the market this year

major WiMax deployments happening across the various cities, the market is set to grow at over 20% or so.

## Switch it On

In the enterprise networking space, switches accounts for the last category in terms of market spend, close to 33%. Though there has been a significant drop in the growth rate from 25% last year to 17% this year, it could also be attributed to emergence of a lot of low cost offerings for the SMB space.

Convergence is the big word that is driving the switching segment, especially convergence of the voice and video applications. As more and more offices are connected through video/audio conferencing, companies are installing high performance networks

## Modems: Key Players

Rank	Company	Revenue (in Rs crore)		Growth (%)
		FY '08	FY '07	
1	Atrie Technology	166	157	57
2	Bharti Teletec	56	49	14
3	MRO-Tek	41	55	-25
4	D-Link	37	37	0
5	Others	90	37	143
<b>Total</b>		<b>390</b>	<b>335</b>	<b>10</b>

Source: DQ estimates

Most of the vendors are facing trying times, as competitive tendering compels them to drop the prices resulting in declining margins of profits. Since the modem market is very price sensitive, profitability is a big question mark

that are able to deal with the additional load.

Consolidation of branch offices, new data centers and increase in demand of

bandwidth applications can be termed, as major growth drivers. Introduction of Gigabit Ethernet and Layer 3 switches will also supposedly drive the market

## WLAN: Top Players

Rank	Company	Revenue (in Rs crore)		Growth (%)
		FY '08	FY '07	
1	Cisco	92	66	39
2	D-Link	39	31	26
3	Netgear	31	17	82
4	Others	48	36	33
<b>Total</b>		<b>210</b>	<b>150</b>	<b>40</b>

Source: DQ estimates

**WiMax promises to revolutionize the WLAN space. In the last year, Reliance has started offering Internet connections over WiMax to customers and a lot more companies like Bharti Airtel and even Tata Indicom have similar plans**

demand in the coming days. Like the other networking segments, major demand for switches is being driven by the banking, IT/BPO, telecom, and manufacturing verticals.

The segment was yet again dominated by Cisco, accounting for close to 75% of the market. The company is riding on big wins in the year, like those of Balco, HDFC, Assam University, Presidency College, Future Group, Tata Communications, L&T, etc. Cisco also launched its Nexus 7000 series platform in India, which were quite well received by clients. The other players have been making noises as well, for instance, DAX Networks bagged a major chassis switches order from BSNL. D-Link has been talking about the Green Ethernet switches with in-built protection against DoS attacks and unified wired and wireless LAN switches. 3Com was another success story of the year, the company grew its

revenue at a healthy 20%, largely due to the introduction of Baseline Switch 2900 Plus, with numerous features.

But the most interesting thing is arrival of Juniper on the scene. This year also saw the launch of Juniper EX Series switches, directly aimed at Cisco. Will Juniper be able to

make any headway in this market, and by how much, is a question that will be answered in the coming year.

### The Spread of WLANs

The Wireless LANs or WLANs segment is abuzz with excitement and anticipation, thanks to major adoption by large enterprises, educational institutions, and small businesses. As a segment of the overall networking products pie, WLANs has been the fastest growing. The major driving factor has been increase in broadband access penetration, namely through Wi-Fi.

In this segment too, Cisco dominates with around 43% market share. The other major players are D-Link, Netgear, 3Com, Proxim, Allied Telesyn, Dax, and others. Many vendors have launched products and solutions that integrate Wi-Fi, mesh and WiMax. All in all, though the WLAN market might

account for around 3% of the overall enterprise-networking segment, it is the fastest growing one and expected to continue on the same lines.

### DSL Rules

The demise of the Dial-up modem is now inevitable, as year after year the market share keeps shrinking. The growth in the market has been on the basis of healthy growth on the DSL and ADSL modem space. In fact, the xDSL modem market stood at Rs 180 crore, while the dialup shrunk to Rs 25 crore. With the rapid increase in broadband users (the number stood at 3.9 mn in March 2008), the market is set to expand majorly. Not surprisingly, the drive will be coming from the SMBs and the SOHO segments.

Atrie Technology continues to be a leader in the space boasting of a market share of over 40%. The company grew on the basis of the orders that it bagged from major banks like Syndicate Bank, Oriental Bank of Commerce, Bank of India, Bank of Maharashtra, Dena Bank, and Vijaya Bank. Bharti Teletec displaced MRO-Tek from the second position.

With the growing need for 24x7 Internet connectivity, the modem market is set to continue growing at a healthy rate. Internationally, there has been enthusiasm for Ethernet and Wi-Fi modems with VoIP connectivity.

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