

Hardware proves hard-wearing

Industry onlookers examine whether VARs can continue to thrive on kit sales amid the cloud hype

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"I don't want to do business with those who don't make a profit, because they can't give the best service," said best-selling US author Richard Bach.

This might seem like a sound philosophy, but how much service do you really have to provide to turn a healthy profit? A raft of recently released research has shown that the market for core comms hardware – routers, switches and PBXs – is in rude health.

You seemingly cannot go five minutes without some industry figure espousing the virtues of cloud-based or hosted models. But, with so much tin flying off the shelves, do comms VARs really need to overhaul their business models to grow their top and bottom lines?

Figures from Infonetix Research show that the PBX and unified communications (UC) market saw global revenues in 2010 grow almost eight per cent annually to \$8.3bn (£5.16bn), and the world's two top PBX vendors – Avaya and Cisco – both enjoyed "robust revenue growth in 2010", with Avaya narrowly topping the vendor league table.

Diane Myers, directing analyst for VoIP and IMS at Infonetix, said: "The enterprise telephony and UC market is experiencing a slow, steady recovery. Leading the recovery is the move from TDM to IP across all regions."

John Massey, managing director of comms VAR Actimax, asserted that hosted voice will take off one day, but that end-user appetite is still lacking. Margins remain healthy on PBX hardware, he added.

"We are really, really busy just selling normal telephony solutions," he said. "Mainly IP telephony – these are quite complex and converged technologies – and people are still buying a lot of onsite solutions. Hosted and cloud solutions are a



Quality never goes out of style: After a turbulent 2009, the core comms hardware market is back in excellent health

good story, but I do not think the market uptake is there. It is like *The Emperor's New Clothes*."

Jonathan Greenwood, UK managing director of IP phone maker Snom, argued that hardware resellers will always have extra margin opportunities, as even low-end plug-and-play technologies require some degree of wrap-around support. Small businesses, which often have little or no in-house IT expertise, are also more likely to take a punt on emerging technologies, giving the channel additional services sales, said Greenwood.

"The 1 to 10 extension market is extremely price competitive and there is a full range of solutions on offer. However, this availability does not necessarily mean that businesses can upgrade their phone systems themselves," he said. "Out-of-the-box solutions come with no help or support."

Recent figures from IDC show that the nuts-and-bolts networking market performed equally well last year. Global sales of routers rose 17.8 per cent in 2010, while switch revenue grew 28.1 per cent. Worldwide enterprise Ethernet switch sales in Q4 grew 13.4 per cent annually to \$5.35bn, and full-year revenue stood at \$21.1bn.

The carrier switch and router market also enjoyed a stellar 2010, according to numbers from Infonetix. Global sales rose 20.5 per cent to \$12.8bn, with market leaders Cisco, Alcatel-Lucent and Juniper all enjoying impressive revenue growth.

Tony Butler, chief technology officer at third-party services provider Intact Integrated Services, agreed that end users are buying more kit. But, as customers begin looking to collapse their supply chain, resellers will need to offer "an end-to-end solution", he said.

"The challenge here is not whether a client will buy more comms equipment, they will, the challenge is who will they buy it from," said Butler. "There is a place for core comms in the market as all this new advanced technology has to sit on something. But clients do not want to have to start working between two providers. If a reseller does not start offering additional advanced technology solutions, they are in danger of losing market share."

Mark Kacary, director of distributor-cum-technology-incubator Cirrus, claimed that "the demise of hardware sales and services has been forecast all too quickly". He added that, whatever their virtues, cloud and

managed services were not right for certain verticals.

"Businesses that rely on hardware manufacturers' level of innovation and on speed, such as gaming companies and banks, and rely on high-level security, such as government and military, will tend to opt for hardware to provide the highest levels of performance," he said.

But Joe Mayhew, chief technology officer of Calyx Managed Services, joined the ranks of those claiming VARs that do not move some of their business towards managed services revenue streams will inevitably fall behind. Price is no longer the be-all and end-all for customers, he argued.

"Currently, there is still a very large market for routers and switches," he said. "But PBX sales will undoubtedly decrease as voice moves into the cloud. Suppliers such as Mitel are now beginning to see the benefit of virtualising their platforms."

"Resellers will begin to struggle if they are dependent upon hardware sales – customers are now not solely looking for low prices. They look at how easy the transition will be and the effect this will have on their business function."

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