Survey of Service Provider Revenue and Spending Expectations for 2005

EXECUTIVE SUMMARY

The telecommunications industry as a whole took its first steps toward meaningful recovery in 2004. Encouraged by positive economic signs in general, incumbent service providers and surviving competitors emerged from several years of post-bubble austerity to begin formulating and implementing expansion plans aimed at delivering new advanced services to the business and consumer markets.

The huge question facing the telecom sector now is, how sustainable is the recovery that began in 2004? It's a question that touches all of the links in the telecom supply chain. Are end users ready to increase spending on new products and services? Do service providers have the internal commitment to ramp up investment in the technologies needed to deliver those new offerings? Will systems vendors respond aggressively to renewed demand for new technologies? Can components makers deliver the product improvements needed to enable significant upgrades in performance?

To gauge the prospects for the telecom industry’s continued recovery in 2005 and beyond, Heavy Reading launched a series of surveys aimed at assessing the attitudes and expectations regarding telecom revenues and spending at each critical point in the telecom supply chain:

- Consumers
- Enterprise users
- Service providers
- Systems vendors
- Components suppliers

The Survey of Service Provider Revenue and Spending Expectations for 2005 presents results from an invitation-only, worldwide online survey of service provider employees conducted to gauge overall perceptions of service provider revenue, spending, and service rollout expectations for 2005 and beyond. The survey was conducted to capture an informal view of how the telecom recovery is expected to progress, using employees within service provider organizations as a sounding board for how recovery prospects are perceived.

In total, 120 respondents from more than 70 different service provider organizations participated in the survey, answering a series of questions focused on the following topics:

- Revenue growth expectations for 2005
- Capital expenditure expectations for 2005
- Advanced service rollout plans for 2005 and 2006
This survey is part of a massive project undertaken by Heavy Reading to assess the current state of the telecom industry supply chain. Preliminary results from this project were presented to attendees of the Light Reading Links 2004 Executive Summit, but this is the first time that full results from the surveys are being made available.

Other reports in this series present and analyze results from surveys covering 2005 spending and budget plans for the U.S. consumer, worldwide enterprise, and worldwide systems and components vendor markets.

Key Findings

Key findings of the report include the following:

The mood within service provider organizations is decidedly upbeat regarding revenue expectations for 2005. The majority of respondents (58.7 percent) said they believe their company will increase revenues by 10 percent or more in 2005, and only a very small minority (13.0 percent) say they expect revenues in 2005 to be flat or lower than in 2004. Even factoring in the probability that responses may overstate the case, it’s clear that service providers are heading into 2005 with a great deal of optimism.

Service provider revenue growth expectations for 2005 are highest for triple-play, Ethernet, and mobility services. The majority of respondents said they expect double-digit growth rates for each of these services, with triple play leading the way. Even among large service providers, expectations for strong growth are high for each of these three service types.

In the consumer market, service providers still see their most promising prospects in broadband Internet access, which has already proven a popular service with residential customers. Overall, more than 60 percent of respondents said they expected their company to realize monthly ARPU of more than $20 from broadband Internet, and nearly 20 percent set those ARPU expectations at $40 or more.

Survey responses suggest that there’s a growing optimism that carriers will ramp up capital spending in 2005. More than 75 percent of respondents said their company will increase its capex budget. In contrast, only 10.5 percent of all respondents said their company will cut back on capex in 2005. Although the degree to which capex will increase is not clear, the general perception among respondents is that capital spending will improve in 2005.

VOIP is the hottest technology button for increased carrier capital spending. 58.8 percent of all survey respondents said their company would boost capex for VOIP by 10 percent or more in 2005. Smaller carriers are ready to expand VOIP capex aggressively – 50 percent of respondents from small service providers (those with fewer than 5,000 employees) said their company would increase VOIP capex by 25 percent or more in 2005, and more than 70 percent from that group anticipated an increase of 10 percent or more in VOIP capex.

Survey results indicate a strong possibility for significant capex growth on the Ethernet front. Projected spending on products to deliver Ethernet services to business customers was fairly consistent across product types, with roughly a third of respondents indicating their company would increase capex on Ethernet-related gear by 10 percent or more.

Report Scope and Structure

The Survey of Service Provider Revenue and Spending Expectations for 2005 provides unique insight into revenue and spending plans and expectations within service providers worldwide as they head into this critical stage of the telecom industry’s recovery. It reaches beyond the
official pronouncements from carrier management to offer a compelling view of how the telecom market is expected to develop within service provider organizations.

Survey participants included corporate management, engineering, and operations personnel from dozens of major wireless and wireline carriers worldwide.

Excerpt 1: Respondents by Service Provider Type

Excerpt 2: Respondents by Geographic Region

In addition to presenting overall results, the report drills down into key demographic sectors to pinpoint revenue and spending trends in those important subgroups.
Excerpt 3: 2005 Capex Growth Expectations of 10 Percent or More, by Technology Type (Service Providers With More Than 5,000 Employees)

This report is structured as follows:

**Section I** includes an introduction and a full accounting of key findings from the survey.

**Section II** provides demographic data on survey participants, including the types of service providers included in the respondent base, the geographic regions represented by respondents, and the size and scope of included service providers.

**Section III** addresses revenue expectations of survey respondents for 2005, including both overall growth projections, projections for specific types of enterprise services, and projections for advanced consumer services, including VOIP.

**Section IV** covers capital expenditure expectations for 2005, including general capex plans and capex for specific technologies, such as service delivery platforms for consumer and small/medium business (SMB) services, Ethernet service delivery products, network security and VPN products, and mobility products.

**Section V** includes results of survey questions regarding current availability and expected rollout of advanced services in 2005 and beyond, with a focus on key services for the SMB market, Ethernet-based services, and network security and VPN services.

The report is essential reading for a wide range of industry participants, including the following:

**Systems and components vendors:** What product sectors are likely to draw the most capital spending from service providers in 2005? Will those spending trends carry over to 2006 and beyond? Which services are carriers most interested in pursuing, and how does your product line mesh with those targeted services? Are your revenue expectations in sync with carrier plans, or are there potential dislocations that need to be addressed?

**Investors:** What are the service and technology hot buttons for 2005? Which types of vendors are likely to benefit most from carrier capex expansion plans? Do carrier plans for service rollouts match up to anticipated demand from consumer and enterprise customers? Do service providers have realistic expectations for revenue growth in 2005? Which service and technology sectors are headed for a downturn?
**Service providers:** How do your revenue and spending plans for 2005 match up to overall industry expectations? Which types of services hold the most promise for significant revenue growth? Which service areas are prone to price pressure because of a surplus of competition? Do your plans for service rollout truly match your customers’ needs and expectations, or do you need to consider making some adjustments?

*Heavy Reading’s Survey of Service Provider Revenue and Spending Expectations for 2005* is published in PDF format. Purchasers of this report also gain access to a searchable online database of full results from the exclusive online survey of service providers, complete with database tools that allow for further analysis of results by service provider type, size, geographic coverage, and other demographic criteria.