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 Enterprise Telecom Purchasing Plans for 2005 presents results from an invitation-only, worldwide online survey of enterprise users conducted to gauge overall perceptions of enterprise spending plans and technology and service preferences for 2005 and beyond. The survey was conducted to capture an informal view of how the telecom recovery is expected to progress, using enterprise employees with direct personal involvement in specifying, purchasing, or administering communications services as a sounding board for how recovery prospects are perceived.

In total, 109 respondents from a wide range of enterprise organizations participated in the survey, answering a series of questions focused on the following topics:

- General telecom spending plans for 2005
- Specific spending targets for telecom hardware and software
- Specific spending targets for telecom services
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 service provider, and worldwide systems and components vendor markets.

Key Findings

Key findings of the report include the following:

**Enterprises appear ready and willing to start spending more on telecom products and services in 2005.** More than 70 percent of all enterprise respondents indicated that their organization's telecom budgets will increase in 2005, and 38 percent said spending would rise by 10 percent or more. These results suggest that many organizations are now ready to ramp up new investment in telecom products and services.

**Companies with multinational operations are ready to make significant increases in their telecom budgets.** 46.3 percent of respondents whose organization operates in more than one country said their telecom budget will grow by 10 percent or more in 2005. In comparison, only 28.8 percent of respondents working for companies that do business within a single country pegged budget increases at 10 percent or more.

**Enterprises appear ready to allocate significant portions of their telecom budgets to new equipment and new advanced services.** Overall, nearly 60 percent of all enterprise employees surveyed said they expect their organization to earmark at least 10 percent of its 2005 telecom budget for new equipment or advanced services, with 29.9 percent estimating that 20 percent or more of all 2005 telecom spending will go to new products and services. This result is another positive indication that enterprises will be investing in emerging new technologies and services, rather than simply maintaining telecom infrastructure already in place.

**Network security and wireless LAN products are at the top of most enterprise shopping lists for 2005.** More than two-thirds of all respondents said their organization would be acquiring VPN and firewall equipment in 2005, and just under 65 percent said their company’s purchase plans included 802.11 wireless LAN equipment. Larger enterprises are even more likely to spend on network security products in 2005, with more than three-quarters of respondents from that group saying their company will buy new VPN and firewall equipment.

**Interest in VOIP hardware is particularly strong at larger organizations.** 64.3 percent of respondents from that demographic said they expect VOIP gear to be in the 2005 telecom budget, compared with 48.4 percent of respondents from organizations with fewer than 1,000 employees.

**Corporate spending will slightly favor Gigabit Ethernet products over conventional and Fast Ethernet switches, according to survey results.** Although interest in all flavors of Ethernet appears strong across the board, a slightly higher percentage of respondents indicated that Gigabit Ethernet switches would be part of their organization’s 2005 equipment budget, compared with conventional Ethernet and Fast Ethernet products.

**Enterprise users, especially those in large organizations, indicated a clear preference for multipoint Ethernet services over point-to-point Ethernet.** Nearly 55 percent of respondents from organizations with 1,000 or more employees said their company will include multipoint Ethernet service in its 2005 spending plans, compared with only 35.7 percent for point-to-point Ethernet. This could pose a problem for service providers that have continued to emphasize point-to-point Ethernet in their service rollouts.
Report Scope and Structure

The *Survey of Enterprise Telecom Purchasing Plans for 2005* provides unique insight into budget and spending plans and expectations within enterprise users worldwide as the telecom industry heads into this critical stage of its recovery. It reaches beyond the official pronouncements from corporate management to offer a compelling view of how demand for telecom and networking products and services is expected to develop within enterprise organizations.

Survey participants included corporate management and network operations and administration staffers from more than 100 different organizations worldwide. All respondents are directly involved in specifying, purchasing, or administering communication services for their organizations.

Excerpt 1: Respondents by Job Function

Excerpt 2: Respondents by Industry Sector

In addition to presenting overall results, the report drills down into key demographic sectors to pinpoint revenue and spending trends in those important subgroups.
This report is structured as follows:

- **Section I** includes an introduction and a full accounting of key findings from the survey.
- **Section II** provides key demographic data on survey participants, including the types of enterprises included in the respondent base by industry and by size, the geographic regions represented by respondents, and respondent job responsibilities.
- **Section III** covers the overall 2005 telecom spending expectations of survey respondents, including spending projections for new telecom products and services.
- **Section IV** includes survey results related specifically to projected 2005 enterprise spending on telecom equipment and software, as well as the perceived importance of different types of telecom products to future enterprise communications plans.
- **Section V** focuses on projected 2005 enterprise spending on telecom services, as well as the perceived importance of different types of services and key criteria used by enterprises to evaluate and select telecom service providers.
The report is essential reading for a wide range of industry participants, including the following:

**Service providers:** How do your revenue plans for 2005 match up to your enterprise customers' spending expectations? Which types of services hold the most promise for significant revenue growth? Which service areas are likely to experience softer demand that will negatively affect revenues? Do your plans for service rollout truly match your customers' needs and expectations, or do you need to consider making some adjustments?

**Technology vendors:** What product sectors are likely to draw the most capital spending from enterprise users in 2005? Which types of technologies are enterprise users most interested in acquiring, and how does your product line mesh with those targets? What are the most important emerging telecom and networking technology sectors from the enterprise point of view? Are your revenue expectations in sync with enterprise user spending 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 and service providers are likely to benefit most from enterprise telecom spending in 2005? Do carrier plans for service rollouts match up to anticipated demand from enterprise customers? Do service providers and equipment vendors have realistic expectations for revenue growth in 2005? Which service and technology sectors are headed for a downturn?

**Survey of Enterprise Telecom Purchasing Plans 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 enterprise users, complete with database tools that allow for further analysis of results by enterprise type, size, geographic scope of operation, and other demographic criteria.