Enterprise Networking and Communication Vendor Scorecard

Excerpts

July 15, 2014

This is an excerpt of the report provided at no charge that provides detailed information on Brocade, key summary information, detailed information on Brocade’s assessment, and the methodology behind the report. The full report can be purchased from Infonetics at www.infonetics.com.
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TOP TAKEAWAYS

This scorecard profiles, analyzes, and ranks the 7 largest vendors of enterprise networking and communication equipment. To qualify, vendors had to have more than $750M in enterprise networking and communication equipment revenue in 2013. Revenue of the vendors included ranges from $786M (Alcatel-Lucent) to over $24B (Cisco).

To eliminate subjective scoring and accurately and fairly evaluate vendors, we established 7 criteria using actual data and metrics, including market share data, publicly available financial data, and buyer feedback. Criteria include market share, market share momentum, financials, solution breadth, buyer feedback, technology innovation, product reliability, and service and support.

Like last year, Cisco has the highest score by far, getting perfect scores on 6 of 7 criteria and even improving on market share momentum this year. A solid margin separates Cisco from its challengers, which we expect to serve as a bulkhead in the coming years and ensure Cisco's continued market leadership.

Less than ¼ of a point separates the next three players:

- **Brocade** is 2nd, like last year, thanks to strong financials and good momentum.
- **HP**'s overall score and rank rose this year due to improvements in its financial shape and being #1 for market share momentum.
- **Juniper** is in 4th place this year, and its overall score is unchanged from last year—improvements in buyer perceptions and market share momentum were offset by a lower score on financials (though they remain in the top 3 for financials).
PORTFOLIO OF INFRASTRUCTURE AND SERVICES COVERED

This scorecard profiles, analyzes, and ranks the leading global vendors of enterprise networking and communication equipment. The 3 core components are:

- **Networking**: Equipment used to build enterprise networks
- **Communication**: Equipment and software that provides real-time enterprise voice and video communication
- **Security**: Products that provide security for networks and network-connected devices

Please see the Methodology summary section at the end of this report, including detailed descriptions of the categories and the scoring process.
MARKET OVERVIEW

Enterprise networking and communication infrastructure is a critical component of the day-to-day operations of any organization. It is the glue that connects people, devices, and IT systems together and allows them to communicate with each other securely. The enterprise networking and communication infrastructure market is highly fragmented, with well over 100 vendors vying for a piece of the market, which totaled over $50B in 2013 according to our various enterprise market size, share, and forecast services. Only 16 vendors capture more than 1% market share each; of those, we’ve selected the 7 largest vendors with diversified product offerings.

Vendor Product Matrix

The vendors included offer solutions across the enterprise networking and communication infrastructure spectrum, and in many cases, have offerings beyond, such as servers, storage, devices, and services. Vendors outside the top 7 tend to be limited in scope and tackle only a specific problem rather than offer overarching enterprise networking and communication infrastructure solutions. The following table lists each one and the segments in which they participate.

Exhibit 2 Solution Portfolios of Top Enterprise Networking and Communication Equipment Vendors

<table>
<thead>
<tr>
<th></th>
<th>Switching</th>
<th>Routing</th>
<th>Networking</th>
<th>SAN</th>
<th>App Delivery</th>
<th>Communication</th>
<th>Video</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcatel-Lucent</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avaya</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td>✔</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Brocade</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>Cisco</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>HP</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>Juniper</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>NEC</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✔</td>
</tr>
</tbody>
</table>

SCORECARD RESULTS

The table below summarizes the 7 vendors’ scores and revenue.
## Exhibit 3

### Top Enterprise Networking and Communication Equipment Vendors Scorecard Summary

<table>
<thead>
<tr>
<th>Rank</th>
<th>Vendor</th>
<th>Score</th>
<th>2013 Revenue</th>
<th>Score Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cisco</td>
<td>4.6</td>
<td>$24,228M</td>
<td>Perfect scores on 6 out of 7 criteria and improving market share momentum over the past 2 years</td>
</tr>
<tr>
<td>2</td>
<td>Brocade</td>
<td>3.3</td>
<td>$1,668M</td>
<td>Strong financials and good momentum, offset by limited portfolio</td>
</tr>
<tr>
<td>3</td>
<td>HP</td>
<td>3.2</td>
<td>$3,089M</td>
<td>2nd largest vendor; has strong momentum and improving financials; gets strong endorsements from buyers</td>
</tr>
<tr>
<td>4</td>
<td>Juniper</td>
<td>3.1</td>
<td>$1,411M</td>
<td>Good market share momentum and financials</td>
</tr>
<tr>
<td>5</td>
<td>NEC</td>
<td>2.6</td>
<td>$828M</td>
<td>Smaller enterprise presence and solution portfolio; limited endorsements from end users</td>
</tr>
<tr>
<td>6</td>
<td>Alcatel-Lucent</td>
<td>2.5</td>
<td>$786M</td>
<td>Smaller presence and limited endorsements from end users; has fairly broad portfolio</td>
</tr>
<tr>
<td>6</td>
<td>Avaya</td>
<td>2.5</td>
<td>$1,898M</td>
<td>3rd largest vendor with broad portfolio but high exposure to PBX market slows momentum; weak financials</td>
</tr>
</tbody>
</table>
**Exhibit 4**

Score Composition for Top 7 Enterprise Networking and Communication Equipment Vendors

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**VENDOR PROFILE**

**#2 Brocade**

Brocade is the recognized industry leader in Fibre Channel SAN solutions and enjoys broad acceptance in the enterprise community for its data center fabric. Since Brocade diversified in 2008 by acquiring Foundry Networks for $2.6B, it has launched its data center fabric VCS and acquired Vyatta for its high performance virtualization technology, the foundation for Brocade’s new vRouter. Brocade is leveraging the Vyatta technology to target NFV in service provider networks in complement to its SDN strategy.
Markets and Technology Segments

Compared to other vendors in this scorecard, Brocade is a much more focused company, principally targeting the data center, and its product portfolio is representative of this strategy. Brocade’s revenue still revolves around Fibre Channel storage networking, which contributes approximately 2/3 of its top line revenue. The remainder comes from its IP networking business, which includes routing, switching, and application delivery products. The Fibre channel business is stable and will provide steady revenue for Brocade as it works to solidify itself as a leader in data center fabrics, NFV, and SDN.

Score Analysis

Brocade is in 2nd place in our vendor ranking this year, just like last year. Brocade is buoyed by strong financials, but the lack of a broader enterprise portfolio and brand awareness hurt its score.

Exhibit 9: Brocade’s Scores vs. Average Scores of All 7 Vendors

Strengths and Weaknesses

Brocade’s biggest strength is in our financial stability category. The stability of the FC storage networking market and its relatively price-inelastic behavior provides an excellent cash generating vehicle to fund other investment areas (Brocade has the 2nd-highest operating margin of the vendors examined in this scorecard).
Brocade’s biggest weakness in our scorecard is its solution breadth. Brocade has chosen not to participate in the unified communication or security market segments and remains focused on its core competencies. This will limit Brocade’s market share potential in the enterprise networking and communication market but could benefit Brocade financially in the long term, as it doesn’t overextend itself.

Brocade’s other main weakness is limited brand awareness, which translates into lower scores from end-users. OEM sales drive a big portion of Brocade’s business (SAN), which limits Brocade’s brand exposure. This is something that will take time to fix, and Brocade has started to market itself as a provider of DC fabrics, looking to catch the SDN and NVF wave.

Bottom Line

Brocade has a very strong brand in the storage networking community and is leveraging those long-standing and loyal customer relationships as it expands its data center portfolio to logically adjacent areas. Clearly, Brocade is not just a storage networking company anymore, and it is well positioned to gain market share in its key focus areas.

METHODOLOGY

Segments Covered

The 3 enterprise networking and communication segments are:

- **Networking**: equipment used to build enterprise networks, including: routers; Ethernet switches; WLAN; application delivery controllers (ADCs) and WAN optimization appliances (application delivery); and Fibre Channel storage networking equipment and storage adapters
- **Communication**: equipment and software that provides real-time enterprise voice and video communication, including private branch exchanges (PBXs), video conferencing systems, and unified communication software
- **Security**: products that provide security for networks and network-connected devices, including integrated security appliances, VPN/firewall software, client security software, web and mail security, network access control and authentication solutions, security management, storage security, and encryption
Vendor Inclusion Criteria

This scorecard includes Alcatel-Lucent, Avaya, Brocade, Cisco, HP, Juniper, and NEC; these are the 7 top enterprise networking and communication vendors, each with $786B or more in 2013 enterprise networking, network security, and communication equipment revenue. We did not include vendors with less than $750M in annual revenue or those with a single segment focus.

Leadership Score Criteria

We evaluate the top 7 vendors in 7 criteria using actual data and metrics. For each criterion, we scored vendors on a 5-point scale, with 1 being the lowest possible score, 3 being an average score, and 5 being a perfect score. Specifically, we evaluated vendors on the following:

- **Market share:** a measure of how successfully a company has penetrated its target markets; having significant market share creates awareness with buyers, improves scale, and reassures buyers that companies are here to stay for the long term; some RFPs require vendors to meet certain market share thresholds to ensure vendor viability; successful vendors will have above-average market share that is increasing year over year
  - **Market share:** vendors’ percentage share of the enterprise networking and communication infrastructure market revenue
  - **Market share momentum:** changes in revenue market share over time
- **Financials:** an analysis of a vendor’s financials; a strong financial position improves long-term viability and allows a company to stay ahead of the competition by investing in R&D and/or acquiring other companies/technologies; we base the score on the Altman Z-score non-manufacturing model.
  - **Solution breadth:** a measure of how many enterprise networking and communication infrastructure segments a vendor addresses; a broader solution set improves a vendor’s potential and efficiency of its operations and allows it to differentiate by innovating across segments
  - **Buyer feedback:** an assessment of a vendor’s performance by buyers, based on interviews we conduct with hundreds of end-users every year
    - **Technology innovation**
    - **Product reliability**
    - **Service and support**
The information in this report is based on findings from multiple Infonetics Research services, including:

- Market Share, Size, and Forecasts
  - Ethernet Switches Quarterly Worldwide, Regional, China, and Japan Market Size, Share, and Forecasts
  - Enterprise Routers Quarterly Worldwide, Regional, China, and Japan Market Size, Share, and Forecasts
  - Wireless LAN Equipment and WiFi Phones Quarterly Worldwide and Regional Market Size, Share, and Forecasts
  - Enterprise Unified Communications and Voice Equipment Quarterly Worldwide and Regional Market Size, Share, and Forecasts
  - Enterprise Telepresence and Video Conferencing Equipment Quarterly Worldwide and Regional Market Size, Share, and Forecasts
  - Network Security Appliances and Software Quarterly Worldwide and Regional Market Size, Share, and Forecasts
  - Content Security Gateway Appliances, Software, and SaaS Quarterly Worldwide and Regional Market Size, Share, and Forecasts
  - SAN and Data Center Network Equipment Quarterly Worldwide and Regional Market Size, Share, and Forecasts
  - Data Center Network Equipment Quarterly Worldwide and Regional Market Size, Share, and Forecasts

- Survey-Based Research
  - UC Cloud and On-Premises Strategies and Vendor Leadership: North American Enterprise Survey
  - Data Center Security Strategies and Vendor Leadership: North American Enterprise Survey
  - Data Center and Campus Ethernet Switch Vendor Leadership: North American Enterprise Survey
  - On-Premise, Hosted, and Hybrid Security Strategies and Vendor Leadership: North American Enterprise Survey
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