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## 3Com Rolls Up Its Sleeves

*By Norman Bartlett*

**Founded by one of the inventors of Ethernet, 3Com is bound to be a force in the networking field. Yet Cisco, bestriding the network business as IBM did the computer business in the 1980s, has always pushed 3Com into the background. And into brown stuff, some might argue, as 3Com has turned in whacking losses in the last few years.**

**Is this about to change? Well, it won't be for lack of effort on 3Com's part.**

Concluding a worldwide round of analyst, press and industry presentations during 2004, the message 3Com is putting out is quite clear: 'We will leverage our existing strength in the SME market to strengthen our position in the LME market', is its assertion.

It believes that is possible as the market moves into what it describes as the third phase of the networking. The first was the mainframe-based SNA phase, the second the wide area network (WAN), Ethernet and evolution to IP networks. Purists might argue that this was actually three phases but that might complicate the marketing message. So 3Com's third phase is network integration where data, voice and video are brought together within a secure environment.

As an example of 3Com's message, hear what Pax Andersson, EMEA sales director says. "We will be focusing on three sectors: government, education and retail/finance. These sectors provide four areas of opportunity for us: security, infrastructure, wireless and VoIP". He went on to explain that while 3Com had 62,000 channels in total, the intent was to create system distributors of which there would probably be about 200 worldwide.

This is evidence of the traditional focus on SME (small & medium size enterprise) and how the company is aiming to change. It also plans a trio of what it calls 'Gold Partners' to provide a much higher level of delivery.

"We will send in SWARM teams who can provide rapid response to support service providers. For enterprise customers we have already formed a service partnership with Siemens".

Wow! Siemens is a seriously large partner. The agreement was made on 1<sup>st</sup> October 2004 for a five-year period. It's part of what 3Com calls its decision to adopt a 'best of breed' solution to its service needs. 3Com had to have a multi-vendor service solution to provide convincing proof to its enterprise customers that it could meet their requirements to support heterogeneous networks.

The growth of spam, identity theft and penetration of networks have sent the matter of security right up the priority scale. 3Com is well aware of this. It will apply the principle of moving security functions away from the boundaries of the network into its content. Instead of merely setting gatekeepers, security will be provided by network

analysis and pattern recognition. Recognition tools will be used on signature characteristics and anomalous behaviour. Such deep penetration of customer content throws up all kinds of privacy issues that have to be addressed. These matters are ethical rather than technological.

Out on the front line of new product innovation, 3Com has trial installations of VoIP, one each in transport, retail and government environments. An education application is in the pipeline. In the last 12 months 3Com has introduced 150 new products and claims its revenues have grown more than a third in that period. It may be low margin but this suits 3Com, happy to be known as a “mean and lean company” according to Andersson. It may be the corporate approach to make a virtue out of a disaster but in fact, the gross margins in fiscal 2004 were down to 34.8% against 45.2% in fiscal 2003. Prospects on the first half of fiscal 2005 look not much better.

3Com is currently in a joint-partnership with Huawei Technologies, which produces its high-end enterprise switches and routers. These will complement 3Com's existing product portfolio and should improve its cost structure and price-performance proposition - but only if it achieves big volume.

The strategy is bold, its delivery made with panache, its translation to action unproven. After the e-business bust at the beginning of the century, 3Com share price has consistently under performed the Dow except for a brief rally at the beginning of 2004.

Those of us in the business may love you 3Com, but those cynics on Wall Street take some convincing.

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