

First Half Spending Boosts 2Q Router and Switching Market

Service providers are requiring more capacity because of an increase in mobility and agile cloud solutions, which are stimulated growth.

GILBERT, ARIZONA, USA, August 19, 2014 /EINPresswire.com/ -- The Worldwide Carrier [Routing & Switching](#) markets increased revenue 7.0% in Q2 but

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Ray Mota

remained flat 0.0% year over year. Global capex was up 5% q/q, and IT spending increased 6% q/q. In spite of this positive growth, ACG Research anticipates a challenging market in the second half of the year and lower service provider routing spend in Q3 with projects being pushed out to 2015. “AT&T and Verizon continue to surpass the industry average for operating margin. AT&T posted 17.2% operating margin while Verizon posted 24.4%. Many other SPs also saw solid margin gains, which had a positive impact for service provider equipment vendors in the first half of 2014,” states Ray Mota,

CEO of ACG. “The router market outlook is uncertain because of architectural transitions, consolidations and larger than expected spending in the first half. The good news is that projects are not being cancelled but just pushed out.”

The rise in fixed broadband traffic and mobile broadband traffic on 3G/4G and LTE networks will continue to put pressure on providers' networks. Streaming residential video is rapidly driving average household bandwidth requirements: 31% CAGR from 2.9 Mbps in 2014 to 7.3 Mbps by 2018. Smart phones, tablet, and next-generation devices as well as pressure on service providers to provide content-rich applications will force many service providers to upgrade their access, aggregation, and core networks, and mobile backhaul.

Q2 Total Worldwide Carrier Routing & Switching market posted revenue of \$2.9 billion. Core Routing revenues were up 3.0% q/q but down 3.8% y/y. Edge Routing and Switching revenues increased 8.0% q/q and slightly up 1.0% y/y.

Alcatel-Lucent reported routing and switching revenue of \$603 million, increasing 17.3% q/q and 2.8% y/y. ALU's solid quarter in routing is primarily attributed to the company's gains in the IP Edge Routing segment, Multiservice edge routing and mobile backhaul. Cisco posted router and switching revenue of \$1.46 billion, flat -0.05% q/q and -4.3% y-y. Cisco, which had a solid Q1, is transitioning from a hardware-based revenue to an annuity model, which impacted Q2. Juniper Networks has router revenue of \$579.8 million, increasing 12.2% q/q and 12.5% y/y. Juniper continues to focus on launching new products and initiating cost reductions to drive growth. With software defined networking gaining traction as a solution for deployment, Juniper expects to capitalize on the anticipated increase of [SDN](#) and [network function](#) virtualization.

TREND and DRIVER HIGHLIGHTS

Data center interconnect is a vital part of the service provider edge; 6% of the overall edge market is

dedicated to data center interconnect.

Operators are more focused on the drivers in the edge of the network. The outlook for routers: the edge segment, which is projected to reach \$12.2 B in 2018, is three times the size of the core router market, which will increase \$3.3 billion in 2018.

Service providers are struggling with both internal and external challenges: rapid technology adoption, ongoing support for legacy technologies, heterogeneity of technologies and multivendor networks. External challenges include loss of high-margin legacy services, over-the-top providers, low-cost providers, regulations, increasing traffic, and competition from their own suppliers.

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