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In-Stat MDR

The Big Comeback?

Excerpts from “Business Broadband in a Changed Economy”

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Kneko Burney

Director, Business Infrastructure & Services

Phone: (480) 609-4544

E-mail: kburney@instat.com

In-Stat / MDR

6909 E. Greenway Parkway, Ste. 250 • Scottsdale, AZ 85254

1101 S. Winchester Blvd., Bldg N • San Jose, CA 95128

275 Washington St. • Newton, MA 02458

Sales/Customer Service • 480-483-4441 or 480-609-4540

www.instat.com • info@instat.com

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Table of Contents:

List of Figures:	ii
Executive Summary	1
Methodology	2
Structured Research Sources.....	2
Business Broadband (in a Changed Economy), 2002	2
Spending and Channels, 2001	3
Telecom, 2001	3
Technology Adoption Panel (TAP) Research.....	3
Business Market Overview	4
Number of Firms	4
Number of Full-time Employees.....	5
Perceptions	6
Is the Economy Recovering?	6
Telecom Investment Plans, 2002	7
Areas of Focus	7
Broadband Usage	8
What's Considered Broadband?.....	8
Conclusions	10

List of Figures:

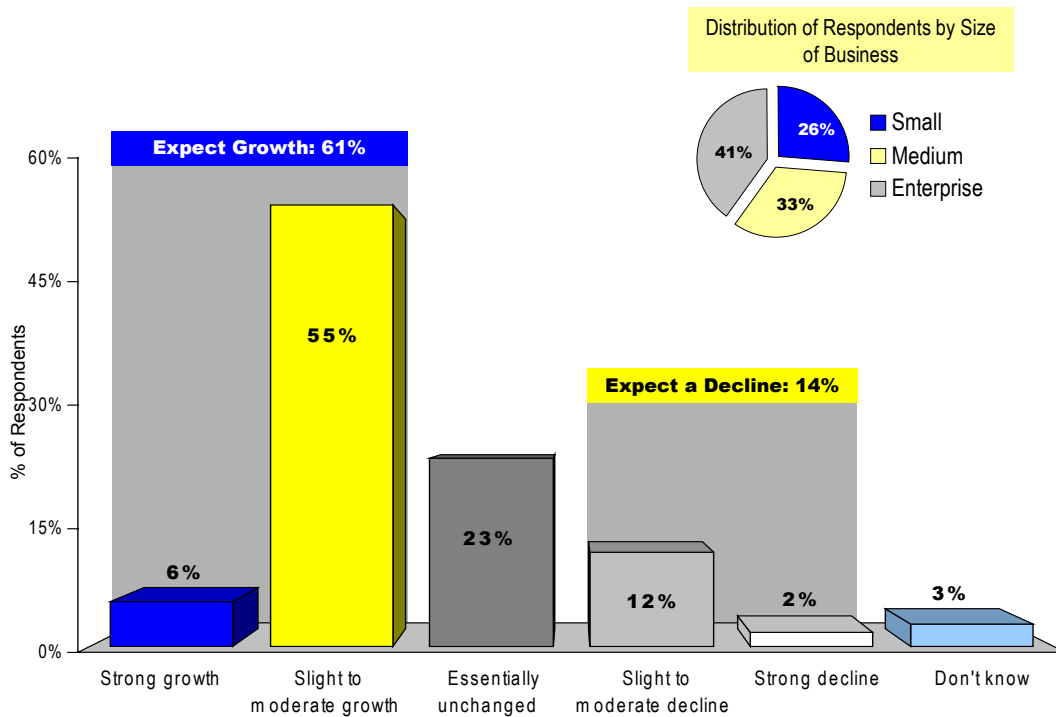
Figure 1. Perceptions of the US Economy by Decision-makers - US Businesses, 2002.....	1
Figure 2. Number of Firms by Size of Business - US Businesses, 2001	4
Figure 3. # of Full-time Employees by Size of Business – US Businesses, 2001	5
Figure 4. Perceptions of the US Economy by Decision-makers - US Businesses, 2002.....	6
Figure 5. Key Areas of Planned Telecom Investment – US Businesses, 2002	7
Figure 6. Services & Equipment Classified as “Broadband” by Respondents – US Businesses, 2002	8
Figure 7. Services & Equipment Classified as “Broadband” by Respondents Continued – US Businesses, 2002	9

The Big Comeback?

Executive Summary

Without question, the telecom sector suffered in 2001. Despite all the investment and new services entering the market, cost out-weighted revenues for the industry as a whole. As a result, some market watchers have been so bold as to say that the broadband bubble has burst and the days of data are over. However, In-Stat/MDR believes things are just beginning to heat up. The year 2002 might be the “big broadband comeback.” According to 400+ business decision-makers surveyed between November 2001 and February 2002, broadband connectivity continues to be a major priority for US firms. In reality, these customers are looking for something more fundamental and less tangible than “access.” They are looking for “solutions” to their problems.

Figure 1. Perceptions of the US Economy by Decision-makers - US Businesses, 2002



Source: In-Stat/MDR, 4/02

N = 401

Methodology

In-Stat/MDR relied on structured telephone interviews to collect data regarding the IT preferences, spending and behavior of US businesses during the 2001 calendar year. A symmetric survey tool was used across all sizes of business, grouped into four segments: SOHO Business, Small Business, Middle Market and Enterprise. These segments are then broken into more detailed sub-segments depending on the demographics in each market.

With regard to the forecasts and insights presented in the report, In-Stat/MDR utilizes a variety of data collection methodologies, including in-depth personal interviews and Web-based research to explore topics in each market more fully. The assimilation of these various research projects are reflected in the analysis provided herein, but are not necessarily cited specifically. Also, please note, for questions calling for a numerical or single response (number of lines used, percentage of employees using, etc.), the frequencies shown in this report are re-calculated after removing “don’t know” responses.

Structured Research Sources

This report contains the results of three research studies spanning across size of business: “Business Broadband, 2001-2002,” “Spending & Channels, 2001” and “Telecom, 2001.” In-Stat/MDR used a variety of reportable sample sources, including Reed Business lists and Dun & Bradstreet for the studies cited below. In all these surveys, the research was conducted across size of business, the total number of interviews for each study (across all size of business) is presented below.

Business Broadband (in a Changed Economy), 2002

The research presented in this report was collected during the December 2001 - February 2002 period. The body of this report is based upon 401 structured telephone interviews with key US business decision-makers in small (5-99 employees), mid-sized (100-999 employees) and enterprise (1000+ employees) businesses. Decision-makers were selected based on their knowledge of their firm’s use of broadband services and solutions, as well as their involvement in the purchase of broadband products and services.

Spending and Channels, 2001

This report presents five-year forecasts for US business expenditures on IT products and services for the 2001-2005 timeframe. These forecasts are based on historical research, as well as structured telephone interviews with key US business decision-makers across size of business regarding their expected IT spending for 2001 and 2002. Decision-makers were selected based on purchasing ability, knowledge of their company or division-wide IT spending habits and personal involvement in IT decision-making. In-Stat/MDR conducted a total of 529 interviews with US business decision-makers (across size of business).

Telecom, 2001

The broadband subscriber segmentation presented in this report was based, in part, on “Telecom, 2001” research collected during Q3-Q4 of 2001. Structured telephone interviews with key US business decision-makers across size of business were used to estimate adoption of various broadband services, in tandem with other research sources, including the results of the “Business Broadband, 2001-2002” study. Decision-makers for the Telecom, 2001 research were selected based on purchasing ability, knowledge of their company or division-wide use of telecom equipment and services, including, but not limited to, Internet access; phone systems and services; all other equipment for electronic communication; and personal involvement in decisions regarding the purchase of such equipment and services. In-Stat/MDR conducted a total of 502 interviews with US business decision-makers (across size of business).

Technology Adoption Panel (TAP) Research

Results of a Web-based study with In-Stat/MDR’s TAP are presented in the “Is the Economy Recovering” section. This research was conducted during the October-November period in 2001. The objective of the study was to gain better insight into the perceptions of US business decision-makers as they related to the performance of the economy and their subsequent expenditures on IT services, software and equipment. In-Stat/MDR completed a total of 1189 Web-based surveys across size of business and vertical industry.

Respondents were selected for participation because they have decision-making and/or purchasing authority for a variety of products and services in their companies. In-Stat/MDR’s Technology Adoption Panel is a dynamic online group of over 7000 technology users and decision-makers interested in contributing opinions and insights about technology usage and issues in the workplace.

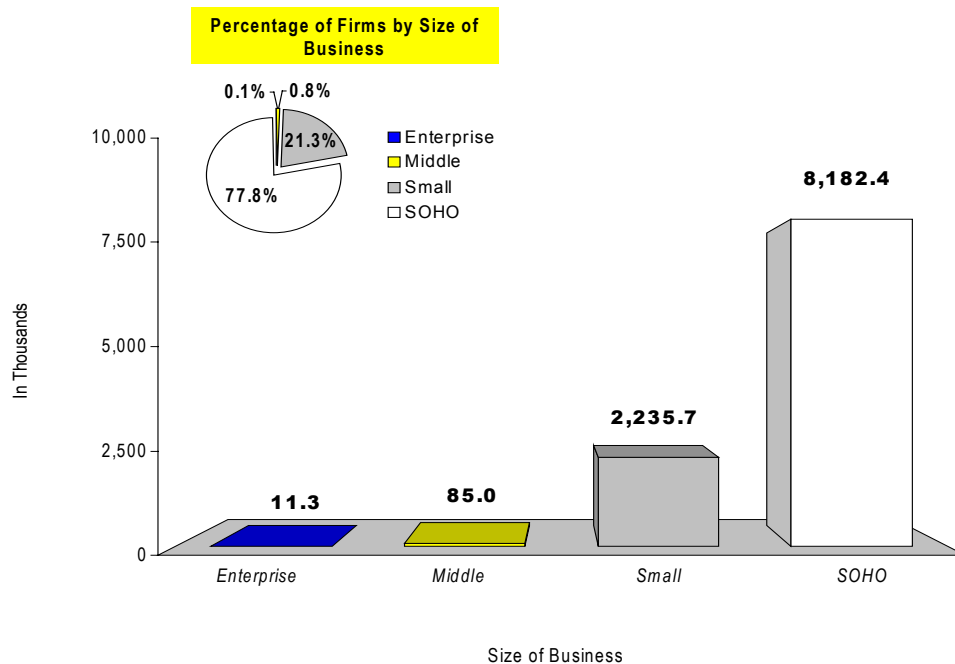
The panel is recruited from many different sources and is comprised of a diverse group representing a wide range of company sizes, industries, and expertise. To learn more about this panel, please go to <http://www.instat.com/panels/>.

Business Market Overview

Number of Firms

In-Stat/MDR estimates that the size of the US business market shrank at the end of 2001, a fall of more than 7% and the first decline in more than a decade. The majority of this fairly dramatic fall is believed to have taken place among the smallest firms. In-Stat/MDR estimates that the SOHO and small business segments declined by 8% and 6%, respectively between 2000 and 2001, a significant drop, particularly in the context of these markets' growth over the last few years. Despite this, 2002 appears to have brought with it renewed growth and possibilities for businesses of all sizes. In-Stat/MDR expects growth in the number of firms, as well as employment, to resume this year and should continue for the next several (barring any major negative world events). However, it should be noted that expected growth henceforward is likely to fall short of the annual increases estimated in previous years, roughly 3%-4% annually, as compared to 5%-6% annually in previous years' forecasts.

Figure 2. Number of Firms by Size of Business - US Businesses, 2001



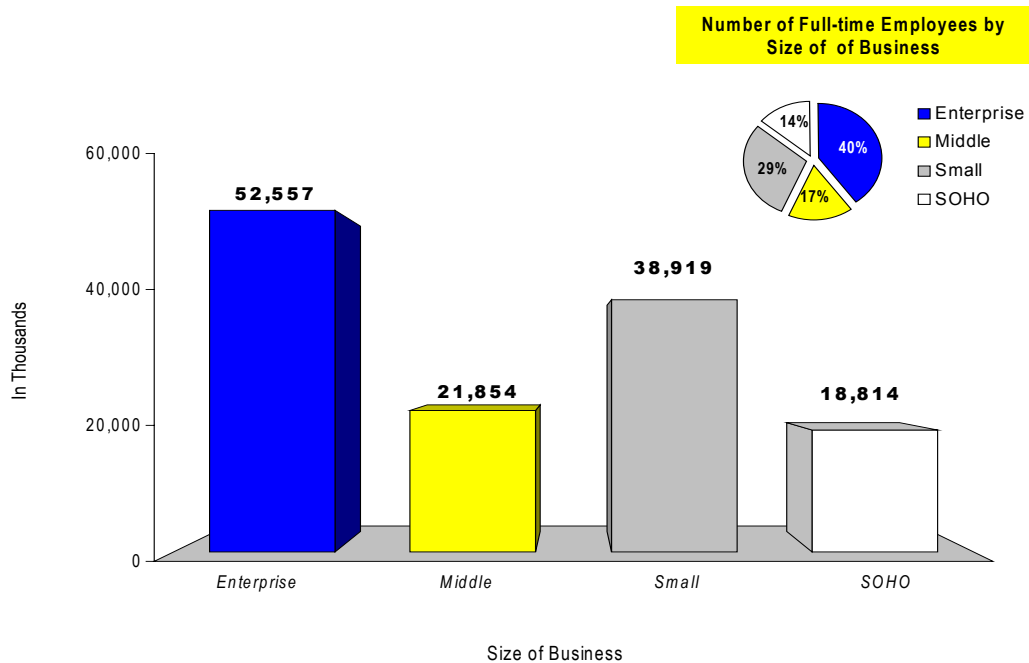
Source: In-Stat/MDR, 4/02

Number of Full-time Employees

Though enterprise businesses account for less than one percent of firms in the US, these massive companies are home to nearly 40% of the US workforce, more than 50 million workers in 2001. Small businesses were the second largest employers last year, employing 29% of the workforce, roughly 39 million workers. The transition from an “industrial” to “digital” economy led to strong growth in investment and economic activity, resulting in higher employment pre-2001. This all came to an end last year.

Employment suffered in the changed economy, falling by roughly 1% (according to Bureau of Labor Statistics (BLS) data¹), the first drop in several years. In-Stat/MDR believes the “slowdown” was really a correction, a re-setting of expectations, so to speak. Firms and individuals invested far too dearly in high-tech stocks, services and solutions that, at the end of the boom, added no value what so ever. In short, the overuse of high-tech inflated the economy (and expectations) in many sectors. Fortunately, the improvements of 2002 suggest that reality has returned and employment will rise, leading to “organic” growth in the future.

Figure 3. # of Full-time Employees by Size of Business – US Businesses, 2001



Source: In-Stat/MDR, 4/02

¹ Please note, In-Stat/MDR uses annual, not-seasonally-adjusted December totals for non-farm employment from the Bureau of Labor Statistics, including government employees: federal, state and local, including education.

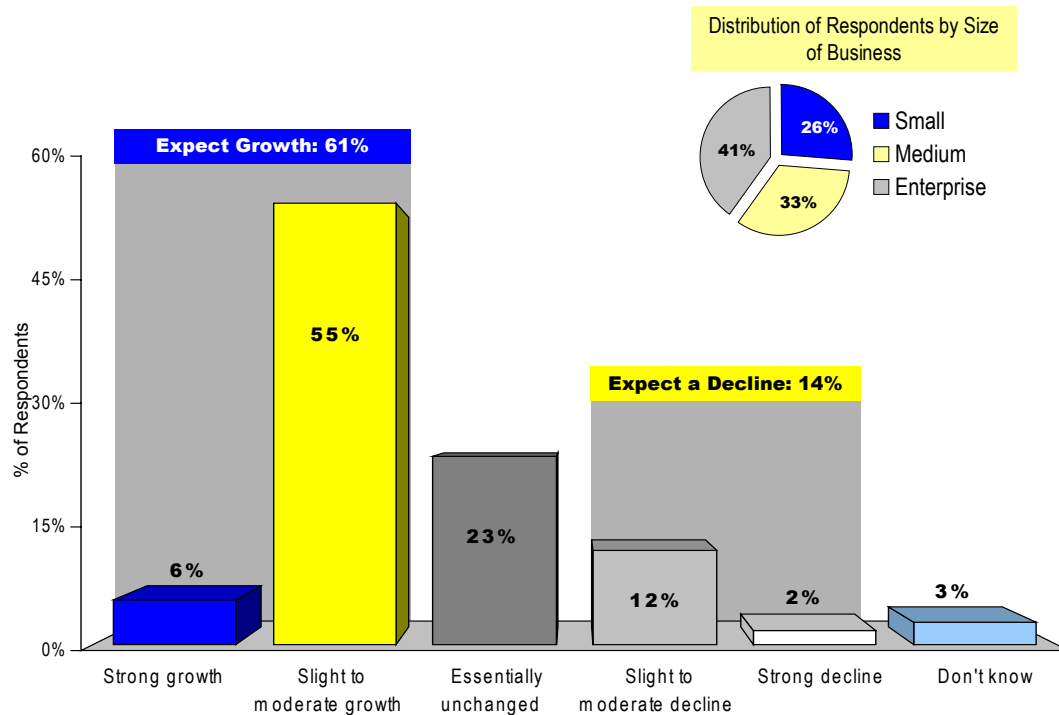
Perceptions...

Is the Economy Recovering?

For the most part, US business decision-makers showed *tempered optimism* in the early stages of this year as it relates to expected economic performance. Roughly 61% of respondents surveyed, as part of “Business Broadband, 2002,” reported that they expect some type of “growth” in the economy in 2002, with the majority of these anticipating “slight to moderate” growth (55% of the total). Only 14% of respondents expect a “decline” in the economy this year, suggesting that as businesses entered 2002, they did so with the hope that this year will be better than the last one.

This is a slight improvement on online panel research conducted in October and November of last year. It seems that a new start, combined with slow, but steady improvements in the economy, have begun to allay the fears of business customers. However, the majority of decision-makers anticipate only slight to moderate growth this year, suggesting they will be cautious, investing only in those things deemed most critical and/or beneficial to their businesses.

Figure 4. Perceptions of the US Economy by Decision-makers - US Businesses, 2002



Source: In-Stat/MDR, 4/02

N = 401

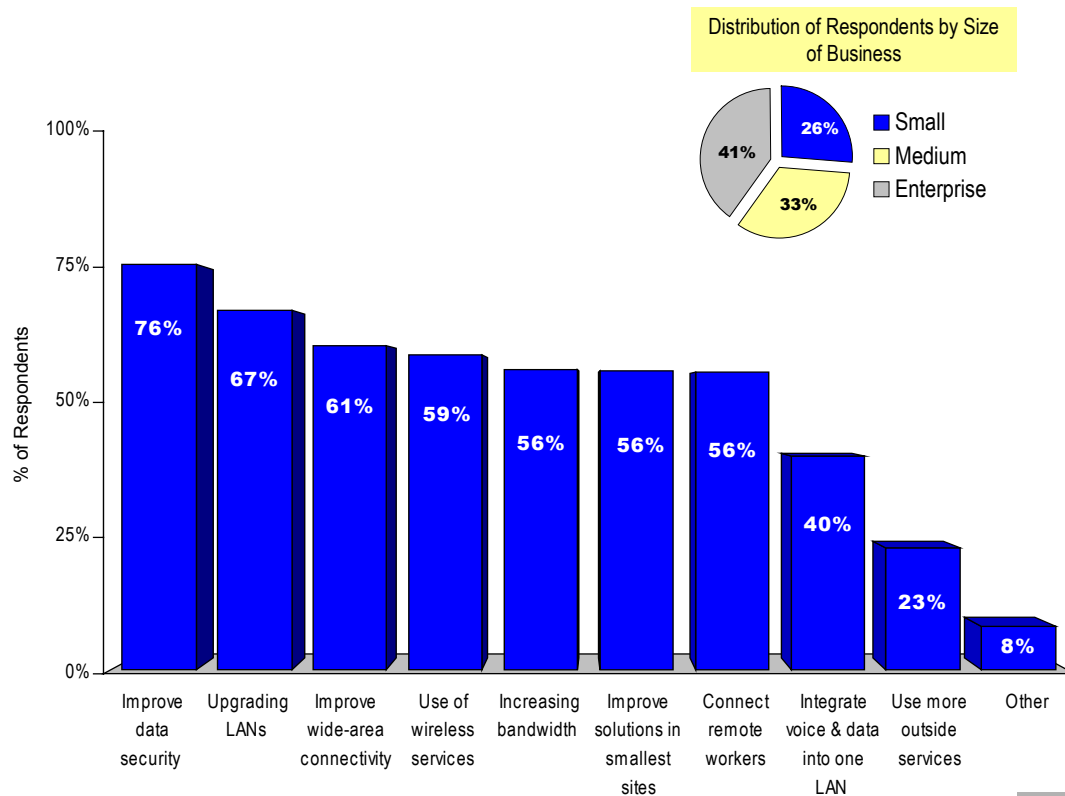
Telecom Investment Plans, 2002

Areas of Focus

It seems the top priorities for business telecom investment this year will likely revolve around connectivity, as mentioned earlier. “Improv(ing) data security (76%),” “upgrading LANs (67%)” and “improv(ing) wide-area connectivity (61%),” proved to be paramount to those surveyed (respondents were given a choice of 9 categories, along with an open response for “other,” multiple responses accepted). “Use of wireless services” also topped the list, with 59% of respondents selecting this choice.

In-Stat/MDR believes these results reflect the growth of the remote and mobile workforce in the US and its impact on US businesses. In reality, the desire of business decision-makers to address the needs of these workers is not surprising, as this segment of the workforce is expected to grow to over 90 million this year. Given the changing dynamics of their workforce, combined with the changing dynamics of the economy, it follows that businesses’ plans for broadband usage would change as well.

Figure 5. Key Areas of Planned Telecom Investment – US Businesses, 2002



Source: In-Stat/MDR, 4/02

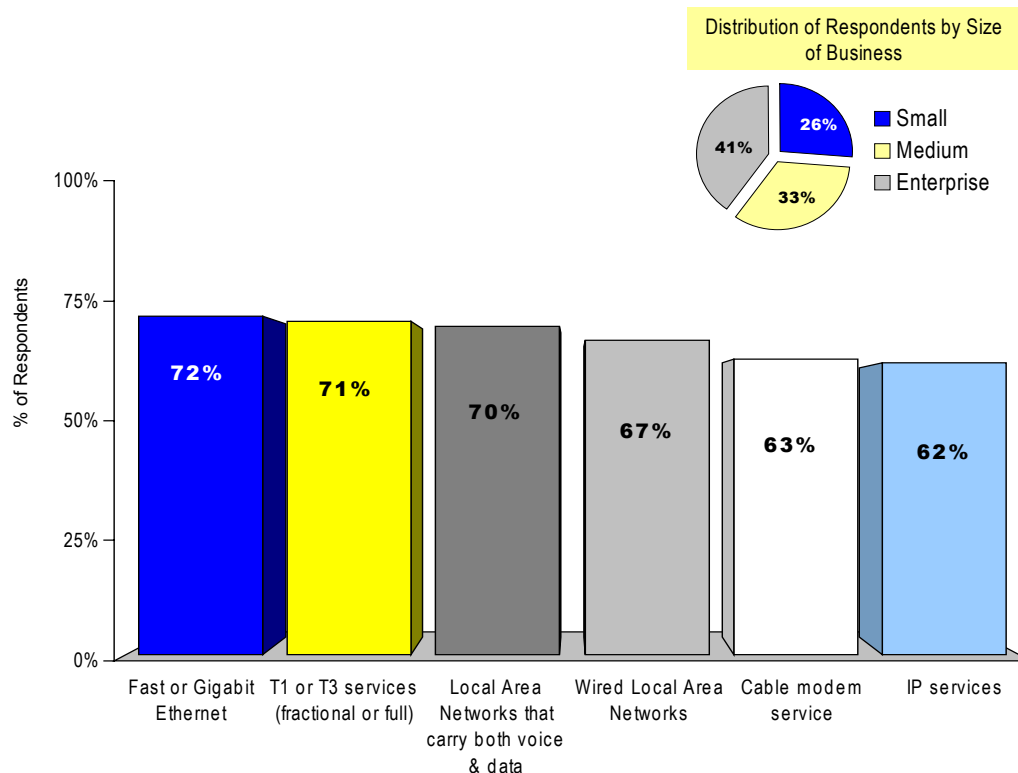
N = 390

Broadband Usage

What's Considered Broadband?

Formally speaking, broadband connectivity is defined as either a wired or wireless connection to the Public Switched Telephone Network (PSTN) providing at least 384 kbps of throughput using packet-based switching². However, US business decision-makers don't seem to agree with this, as shown in the responses below³. The research suggests that business decision-makers see "broadband" as something broader, encompassing high-speed connectivity on all kinds of networks. In line with this, three of the top five responses relate to LAN connectivity, where such results underscore the growing importance of LANs in the delivery of broadband services now and in the future. In-Stat/MDR believes these results also suggest a deeper trend: businesses no longer see a logical separation between local and wide-area connectivity.

Figure 6. Services & Equipment Classified as "Broadband" by Respondents – US Businesses, 2002



² Please see the whitepaper "Moving Towards Broadband Ubiquity in US Business Markets", #BB0101UB, available at www.instat.com for a more detailed definition.

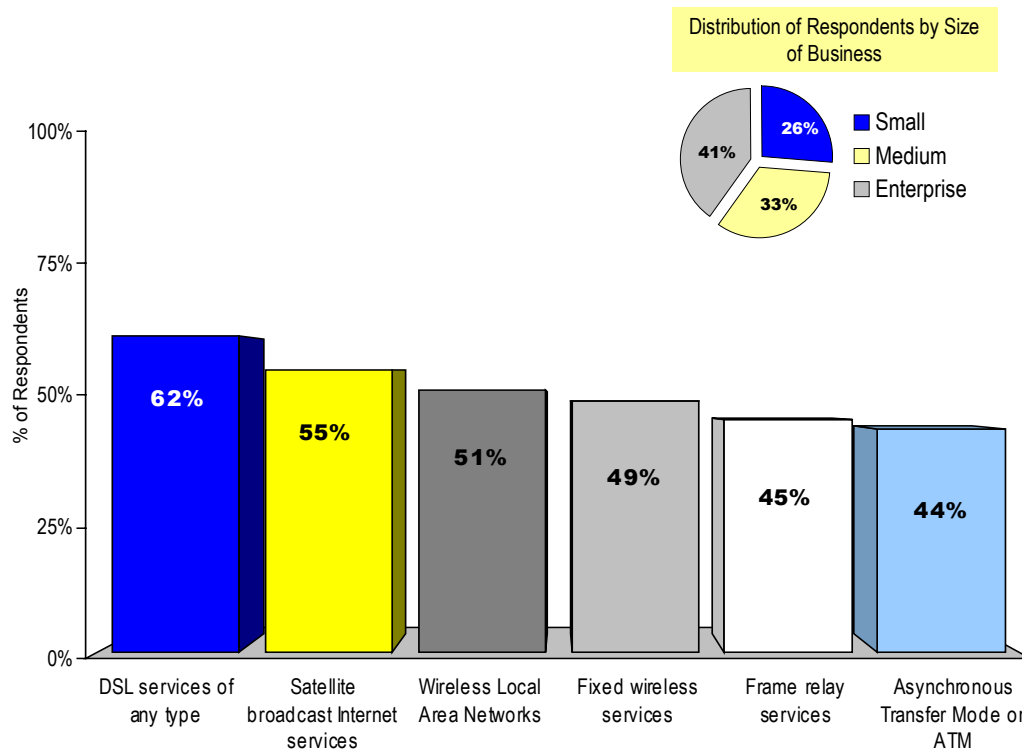
³ . "Yes," "no" and "don't know" responses were recorded (% "yes" shown in figure, multiples accepted).

Assuming the lines between local and wide-area networks are fading, both service and equipment providers will enjoy tremendous opportunities in leveraging the power and functionality of LAN-based solutions, including services in the future.

It should be noted, only one of the services formally defined by In-Stat/MDR as broadband, “cable modem service(s),” ranked in the top five responses to this question. Of the remaining *true* broadband services, DSL, fixed wireless and satellite broadcast Internet, received roughly 50% each, on average. As expected, DSL ranked highest among these, with 62% of responses, though these are disappointing (if not troubling) results. In-Stat/MDR believes these curiously low response rates for the *true* broadband services are a function of ignorance on the part of some of those surveyed (the smallest firms) and possibly larger business decision-makers’ perceptions (or expectations) of what is or should be “broadband” bandwidth capacity.

For example, the most common flavors of DSL are at or less than 1 mbps (downstream). The same is generally true for cable modem services, fixed wireless and satellite broadcast Internet. Possibly this was perceived as too low by some of those surveyed, leading to the results shown below. Regardless, this research highlights the ambiguity of the term “broadband” and suggests that providers will need to work harder at differentiating the value proposition of their suites of services now and in the future.

Figure 7. Services & Equipment Classified as “Broadband” by Respondents Continued – US Businesses, 2002



Source: In-Stat/MDR, 4/02

N = 401

Conclusions

In short, business broadband is making a comeback, with 2002 and 2003 expected to be key years in adoption growth. Not only do business customers of all sizes have need for a variety of broadband services, but they are also showing fairly strong demand for such solutions in this recovery year.

Of more interest, when looking at the underlying implications of the research presented in this report, it becomes more evident that businesses are evolving gradually as it relates to high-tech solutions, telecom in particular. US firms may be starting to embrace the data-centric view that broadband requires, allowing the PSTN to one day extend throughout their local area networks in a variety of voice/data services.

However, as bright as the future is for the broadband industry today, the light at the end of the tunnel is not approaching at warp speed. Availability, reliability and flexibility (as it relates to voice) will continue to inhibit pervasive adoption of most broadband services, even the current favorites: DSL and cable modems, though there is enough latent demand to keep growth rates high for years to come. This isn't a bad thing. It means that by 2006, the market for business broadband will be much fatter (and happier), but still growing quickly.