



**UNIFIED
COMMUNICATIONS
STRATEGIES**



NETWORK EQUIPMENT TECHNOLOGIES' HALF-TIME ADJUSTMENT

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Fans of the National Football League are very familiar with the concept of the 'game plan adjustment' in the locker room at half-time. A team that appears to be not performing at their best in the first half, comes out of the locker room after half-time and seems like a completely different team. All that actually happened was that the assistant coaches had been viewing the game critically and gave the head coach some suggestions for a change to the game plan to accommodate what they were seeing on the field. This concept extends equally well to business; or if you read the book "Moneyball" by Michael Lewis, it is more likely that sports teams borrow such strategies from business.

Network Equipment Technologies (NET), the vendor of innovative security and interoperability devices for unified communications (UC) has just undergone a half-time adjustment. Last week they announced the retirement of their CEO, Nick Keating, and a workforce reduction. Having had a strong relationship with NET for a number of years, I spoke to Matt Krueger, VP of Marketing and Business Development, and Kevin Isacks, Chief Development Officer, to catch up on what had happened and where NET was headed.

NET entered the enterprise communications space about 5 years ago, having had great success selling highly reliable, highly secure IP communications equipment in the government space for many years (for example, there is an NET VX gateway on every US Navy ship). With the emergence of UC, they saw the opportunity to broaden their market to the commercial sector and to bring new value to the nascent UC market. It was this insight from Nick Keating and his executive team that gave NET a new lease of life in the latter half of the last decade. At first

they repositioned their VX series of products into the UC space; however early experience demonstrated that what was good for big government agencies, such as the military, wasn't a perfect fit for the enterprise or for UC.

A few years ago they embarked on an ambitious project to design a new appliance architecture on a blank sheet of paper. This resulted in the UX series, which is highly modular and scalable and ideally suited for the wide range of communications and networking needs of enterprises as they transition to the UC era. However, that exercise cost more than a few R&D dollars. Nick was also keen to maintain a position in the Government space to provide a revenue base on which to build out into the enterprise UC space.

What happened next will be no surprise, because it happened to all of us. The fall-out from the 2008 financial crisis certainly impacted all those who were doing business with government, but it also considerably slowed the adoption and deployment of UC. Every UC vendor, from the big platform players to the 2nd tier vendors and systems integrators, saw a 2+ year period where customers were sitting on their existing communications infrastructure rather than investing in new capabilities. All of this impacted the NET share price and consequently restricted their access to new capital; a story of woe that will be familiar to homeowners. However, NET believed that their new UX series was a winner and the sales figures were supporting that belief: this seemed like a good time for a game plan adjustment.

Having seen the government market erode to almost nothing, part of the new game plan required that they eliminate the considerable cost of marketing and selling to a sector that will not see a recovery for quite a while, in order to focus on the UC market, which is now rebounding nicely. That required some painful cuts in the company's historic base and the departure of some long-time employees. As eventually happens to every quarterback, Nick Keating decided to take a seat on the bench and allow a 'fresh pair of legs' to lead the team in the second half. With these adjustments and some financial write downs, NET has transformed itself from being a money loser to a solid business overnight.

The next few months will see NET capitalize on its growing base of reseller partners in the UC channel. The UX is selling strongly into the UC market and may even be emerging as the market leader in its space. Current market data puts UC deployment at around 3% across the board, so NET is ideally positioned to ride the UC wave for a long time to come. NET didn't go into the locker room at half time believing that they were beaten; they used the time to reset and regroup. Now that the marching bands are clearing the field, we will see who has the best game plan in the second half.

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This paper was sponsored by Network Equipment Technologies, Inc.