TELEPHONY ONLINE
A PRIMEDIA Publication

NFOEC SHOW OVERSHADOWED BY CAPITAL SPENDING REALITIES

Liane H. LaBarba

Telephony, Sep 23, 2002

Unlike previous years in which the National Fiber Optic Engineers Conference was a virtual superstore for new technologies and a coming out party for dozens of small vendors, this year's sparsely attended event in Dallas was focused more on outlining company survival tactics.

For service providers, that means leveraging existing network infrastructure. For equipment vendors, it translates into offering equipment that works with legacy infrastructure.

Providers roaming the show floor — a rare species at the Dallas Convention Center — did show some interest in new technologies that can extract greater value from current networks. SBC Communications inked a multimillion-dollar, three-year deal with Alcatel for its 1680 OGX optical cross-connect. That deployment will span at least 10 states in SBC's territory and is intended to boost efficiency within central offices, according to Thomas Fuerst, director of global solutions for Alcatel's terrestrial networks division.

Indeed, SBC appears to be one of the few active carriers aggressively deploying fiber in the current environment.

"We are looking beyond copper to fiber," said Greg Beck, vice president of network engineering for SBC. Because of the lowering economics associated with passive optical networking, SBC is considering deploying the technology in conjunction with WDM. So far, though, SBC has only one pet fiber-to-the-user project, in the Mission Bay area near San Francisco. SBC is also using Alcatel equipment for that build.

Other carriers at NFOEC at least acknowledged plans to spend in the future, a major turnaround from earlier this year when capital budgets were slashed.

"We'll have to come back down to the ground and start buying again," said Chuck Norman, director of network design for Sprint, adding that lower equipment costs are a top priority. "One of the easiest things for us to do is to beat up vendors to get cheaper [equipment prices]."

With grow
DSL deplo
them, will

Editorial Guidelines
For Our Advertisers
04 Editorial Calendar
For Search Partners
About Us
Primedia

Telecom World

WIRELESS REVIEW
04 Editorial Calendar

Unfortunately for equipment vendors, this year's financial results and next year's capex budgets will be closely linked.

"The 2003 budgets [will be] set on 2002 circumstances and will be set much more by CFO thinking rather than input from CTOs as in the past," said Adam Quinton, managing director at Merrill Lynch.

As a result, vendors won't see a return to the free-spending days of 2000 anytime soon. U.S. service provider spending will be down 39% this year and 5% in 2004, according to Nikos Theodosopoulous, managing partner at UBS Warburg.

"There should be more consolidation, but it hasn't happened yet because small companies have cash on hand," he said. "And big companies raised public money, giving them another 12 to 18 months."

Until the industry right-sizes itself, and service providers see enough growth and revenue potential to spend again, the current malaise will continue. Such conditions may cause larger vendors to exit much of the equipment business, according to Theodosopoulous.

Indeed, Krish Prabhu, partner at Morgenthaler Ventures and former chief operating officer at Alcatel, said he believes many vendors with cash and liquidity issues may restructure as services companies.

Even so, Prabhu didn't paint a bleak picture of the industry. "In 2000, when [prosperity] seemed to go on forever, all the analysts said it would," he said. Since then, a lot of private equity has been raised and not invested, but that will change, Prabhu said. "When times are bad, it's the time to invest," he said. "We expect the investment dollars to go further. We scrub their business plans much more now."