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Author : David Dunphy

Microwave is Hot - and Why Not?

Check out the recent financial performance of Ceragon and Dragonwave - there are much worse businesses to be in than microwave right now. The basic technology has not changed all that much; microwave is still basically point-to-point wireless transmission and transport. And ultimately, transport always gets commoditized, right? Transport may tend toward commoditization over time - but the typical commoditization cycle can get interrupted by the introduction of new technology and by system designs that find ways to add additional value that "de-commoditize" things now and again.

Microwave is facing major changes now in terms of how it is deployed, the competitive alternatives it faces, and what functionality is being integrated with it. Fundamentally, the technology has not changed that much over the years, but how it is being deployed and what functionality is being integrated with it is changing very much. Strong opportunity is being fueled by significant capacity growth in mobile backhaul requirements, initial and planned migrations from TDM to Ethernet in the RAN, and by demand for high speed Ethernet services in office buildings that fall outside of the fiber footprint.

The growth in opportunities has spurred growth in development and a heightening of competition as well. This is also re-leveling the playing field - creating opportunity for emerging players like Dragonwave and startups like Bridgewave, and a chance for more established players like NEC, Ericsson, Harris-Stratex and Ceragon to re-establish their competitive position and try to steal market share from one another.

Microwave is facing more competitive alternatives for access than it once did, but there are equally strong drivers for growth - and as detailed in our Mobile Backhaul analysis, we think greater opportunities for it in North America will go well beyond the Clearwire and Sprint/Nextel activity.

New packet microwave systems, adaptive modulation techniques, integration of digital cross connects and Ethernet switching that increase efficiency, integration of pseudowire technology, smaller antennas, use of new and unlicensed spectrum, dual polarization techniques, options in integrated encryption, and all indoor and all outdoor designs are among the many differentiators being brought to market right now. The migration to packet microwave and requirements of WiMAX and LTE will be significant drivers of growth, and despite an increase in competitive broadband access alternatives, we think microwave has a very strong future ahead. Even if the percentage of applications it is used for decreases slightly as more smaller sites are built on fiber nodes in urban areas, as more operators leverage street cabinets to add micronodes, we think the overall growth in capacity requirements and a strengthening business case around the globe is going to increase opportunity significantly.

Harris-Stratex has had a long presence in microwave in the U.S., as has Ceragon. More recently, Dragonwave has also attracted a lot of attention in part due to its deal with Clearwire and potentially bolstered by Sprint/Nextel initial builds. And startups like Bridgewave are trying to gain market penetration, in Bridgewave's case leveraging unlicensed and lightly licensed spectrum. Among Tier 1 vendors, Ericsson has been selling here for awhile now, as has NEC. Both of these vendors are huge players in microwave worldwide, but remain relatively smaller players in North America to date. More recently, Alcatel-Lucent has emerged on the scene with microwave in North America - gaining a growing footprint. We think Nokia Siemens Networks likely to increase its focus there as well in the coming year as well. ECI's relationship with Ceragon was recently extended into the realm of comarketing and codevelopment, adding to Ceragon's broad distribution. It is likely that a significant number of other partnerships are under consideration now. We express our views on the technologies that will most help operators and provide the strongest differentiation, why we think microwave is going to gain in importance despite the growing number of access alternatives available in a recent report available to our subscribers.

(If you are interested in this topic, you can read the whole analysis in the report "The new face of Microwave: Technologies and Markets")

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Chapel Hill, NC USA: +1 (919) 932-5465 Paris, France +33 (0)6 77 84 38 16 - <http://www.telecomstrategypartners.com>