



HP Completes 3Com Acquisition, Creates New Networking Powerhouse

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Mark Fabbi

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With the completion of the 3Com acquisition, HP will become a formidable competitor across the entire enterprise networking market. Enterprises will benefit, as HP brings a strong end-to-end networking portfolio with new economics to the market.

Overview

This research looks at how HP will integrate and leverage the 3Com networking technologies into a new HP networking portfolio. The combination results in a clearly differentiated No. 2 player in the market that can challenge the current leader, and strongly shifts the balance of power in enterprise networking back to the enterprise, if enterprises are willing to change their behavior to take advantage of this newfound power.

Key Findings

- HP is able to compete across all major areas of enterprise networking and network security.
- The new competition in the networking market can return the power to the enterprise buyer; however, this will occur only if organizations change their network buying behavior. Enterprises taking advantage of this competition (regardless of the chosen vendor) have an opportunity to reduce their enterprise networking capital spending by a minimum of 30%.

Recommendations

- HP networking should be considered for every network refresh situation in all midsize and large organizations.
- Networking organizations should ensure that the announced road map shows a consistent infrastructure.
- Large enterprise customers of HP's current core chassis switches and wireless LAN (WLAN) products need to assess the support and integration of these products into the new higher-end architecture.

What You Need to Know

The new HP networking division creates a strong No. 2 player in the enterprise networking market. For the first time in more than a decade, there is an increasingly competitive dynamic, and enterprises must take advantage of these new market conditions or they will be at a significant disadvantage

compared to their peers in respective markets.

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Event

Event Facts

On 12 April 2010, HP announced the completion of its acquisition of 3Com. The acquisition combines the second- and third-largest players in the LAN switching market to create a clear No. 2 player, as well as an increasingly strong player in WLAN and WAN routing.

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Analysis

This deal has very broad ramifications for the enterprise networking equipment market. HP ProCurve enjoyed significant success during the past three years (gaining 5% of port market share and 3% of revenue share). However, as the ProCurve division started to integrate into HP's mainstream enterprise and data center business units, it was clear that to continue to increase share and influence in this market a core switch with data center capabilities was mandatory. After a lengthy evaluation of the possible acquisition alternatives, HP announced in November 2009 its intention to acquire 3Com.

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What Will the New HP Network Portfolio Look Like?

The new portfolio covers a broad array of networking technologies. To provide some structure to what is now, by far, the second most comprehensive network solution offering (after Cisco's), HP has grouped the products into four series:

- A Series, which targets large enterprise solutions
- E Series, which is for midsize enterprise solutions
- V Series, which is for small business
- S Series, which concentrates on HP's network security platforms

The A Series is largely the H3C high-end LAN switching and secure routing portfolio with some existing HP products for data center access, while the E Series is primarily the existing HP ProCurve LAN portfolio with some of the products coming from 3Com. The V Series is a combination of products from the two companies that target small businesses and the small office/home office (SOHO) market. We expect that larger enterprise customers will focus on the A Series, possibly supplemented with some of the E Series, where price is a primary factor. As the integration of the two portfolios works through the system, we expect that the technologies in the A and E Series will blur, with the largest distinction being the level of available software features and price points. We also expect that these two series will be built on a common operating platform with an available upgrade path for many of the products to allow a range of entry points into the portfolio. However, HP is already delivering an integrated management solution to provide an integrated management of both portfolios, using either HP's or 3Com's existing management tools.

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A Series Details

The A Series targeted at enterprise customers includes most of the high-end products offered by 3Com's H3C brand running a common Comware operating system (OS) across all products. HP products included in the A Series are the top-of-rack data center offerings. The portfolio includes:

- A range of chassis-based solutions, including the flagship HP A12500 targeting the data center

core.

- Fixed-format switches, most of which include Intelligent Resilient Framework (IRF), an innovative switch clustering technology that can create a flexible clustering solution for multiple switches.
- A portfolio of enterprise-class secure WAN routing platforms supporting small branch offices to the WAN core.
- An integrated WLAN solution that provides seamless wired and wireless management for the network access layer.

While the A Series is positioned as an integrated single OS, single platform portfolio, there is integration work that needs to be done. First, the HP A6600 series top-of-rack switches come from the ProCurve heritage. Beyond that, we expect significant integration work to take place between the A Series offering and Virtual Connect Flex-10 to complete the connectivity components of HP's Converged Infrastructure architecture to align with the Institute of Electrical and Electronics Engineers (IEEE) standards for Edge Virtual Bridging.

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S Series

The acquisition gives HP a foothold in the network security market. The TippingPoint brand and product offering makes HP competitive in the intrusion prevention system (IPS) market. Beyond this, 3Com (via H3C) also brings to the table a portfolio of more-basic firewall and IPS platforms. To date, there has been little integration between these two areas; however, plans are under way to at least take advantage of some common hardware platforms and standardize on the TippingPoint rule sets. HP needs to provide a coherent vision of how the combined security assets come together as a portfolio. Finally, these new products will expand HP's broader security offerings within the Secure Advantage portfolio.

On the down side of this integration, there is still some confusion on the underlying platform for the E Series. Early indications are that this will be based on the ProCurve ProVision OS. Unfortunately, many midsize enterprises have aspirations of becoming larger, and forcing a fundamental platform choice will confuse the market as well as increase HP's R&D requirements. It makes more sense to phase out ProVision in favor of a feature-reduced, entry-level Comware OS. This would provide a more seamless migration for companies that will grow into the A Series. While the commitment to the midmarket and the existing HP ProCurve customers is admirable, a more-seamless foundation would serve both HP and its customers better in the long run.

Finally, the E Series includes the remnants of 3Com's Internet Protocol (IP) telephony business. We believe that this is not an appropriate home for this technology, because it has the potential to disrupt HP's partnerships with Polycom and Microsoft for various aspects of unified communications. HP would be in a much better position to write off this part of the business (as it has lost share and relevance over the years) or establish an organization to exploit any remaining assets outside of what otherwise is a focused enterprise networking organization. A suitable home for these telephony assets would be the same organization that is reincubating the high-end Halo video solutions.

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What Does This Mean for Enterprise Network Buyers?

At a macro level, the new HP networking organization represents a major force in enterprise networking, and completely changes the market landscape and competitive dynamics. When you combine the respective shares of the HP, 3Com and H3C brands from 4Q09, you see a dramatically different market than we have experienced for many years.

Enterprise Ethernet port shipments in 4Q09 were:

- Cisco — 49.5%
- HP — 37.5%
- Avaya — 2.7%
- Alcatel-Lucent — 2.2%
- Juniper — 1.8%

With HP's strong commitment, financial stability and service capabilities in enterprise networking, all

enterprises must have HP on their shortlists and evaluate their options for any network refresh or upgrade.

While HP now represents more than one-third of the ports going into enterprises, it still lags Cisco by a long way in revenue (where Cisco currently has 75% revenue share, compared with HP's 12%). The discrepancy is due not only to Cisco's dominant share in the network core and data center market, where average port prices are much higher, but also to the very large premiums that Cisco has been able to maintain from its loyal customers. We believe that by combining the strong R&D and products coming out of the 3Com acquisition with HP's strength in supply chain and design optimization, HP will offer a long-term sustainable price advantage over Cisco.

3Com customers should look at this deal in a positive light, as HP is clearly increasing the investment across the entire 3Com/H3C portfolio. Combining HP's global reach, supply chain and design expertise and service organization with 3Com's new product offerings and innovation will accelerate the delivery of these technologies to the broader market and shorten time to market for additional capabilities.

HP ProCurve customers will have to make more choices on how to proceed. For those clearly in the midmarket, HP will continue to support and invest in the current ProCurve offerings, though we expect that the underlying OS will shift over time to the 3Com provided by Comware. Already integrated network management tools make any transition seamless. Larger customers would be better served to migrate to the new A Series products, again with a short-term focus on network management to help deal with the transition. Large enterprises that have taken advantage of HP's prices at the access layer can expect to see similar benefits in the larger portfolio. WLAN customers will likely have an option to continue with the current portfolio (which will be in the E Series) or for larger customers to migrate their controller infrastructure to the one in the A Series product. We expect that both controller families will support both lines of access points in the short term to midterm; but as with the switched offering, we expect to see consolidation of the offerings.

HP's biggest challenge will be to offer as seamless a migration as possible for its customer base, while still streamlining ongoing development. In the short term, integration will center around management tools to deal with what, for current HP ProCurve customers, will look like a multivendor environment. However, most of the larger ProCurve customers are already using multiple vendors, and having better tools will help them evolve, if appropriate, toward a more integrated HP portfolio.

HP must also ensure that the innovation coming out of 3Com's China-based R&D labs continues. The H3C organization has accomplished much by focusing on the many opportunities presented by the strong Chinese economy. HP must balance its global requirements to expand and refine the enterprise networking portfolio, while still investing a significant amount in more innovative programs that may not be immediately exportable to its global customers. The best current example of this innovation is the work done on H3C's video surveillance architecture, which has gained significant traction as part of the "safe city" projects in China.

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What Is the Impact on the Market?

Recent developments in the networking market, highlighted by the HP acquisition of 3Com, illustrate that we are entering the third broad phase in the market evolution. The innovation phase comprised the early days of the market, where basic foundational technologies were defined — multiprotocol routing, 10Base-T, LAN switching, etc., and vendors jockeyed for position in various emerging markets. The flight to "safety" phase emerged as the market consolidated post-Internet bubble. The strong growth was stronger as enterprises feared the near daily collapse of smaller IT vendors.

It is increasingly evident that we are now entering a "flight to value" phase, where enterprises are paying more attention to what they are buying. We are seeing a significant increase in competitive bids, clients looking for alternative providers, and a stronger focus on controlling capital and maintenance costs. While the economic downturn created the push to more scrutiny, we expect that once enterprises experience the benefits of this new approach they will be unwilling to abandon these gains. We believe that HP will attempt to accelerate this trend as both HP and 3Com are disruptive in their approach to total cost of ownership (TCO). Combining 3Com's China-based engineering and HP's volume economics model likely will further lower enterprise TCO, and give enterprises the opportunity to drastically reduce capital and ongoing operational costs.

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