Ubiquiti's U.S. Sales Model Not Enterprise-Competitive

Companies: ARUN, CSCO, EXTR, FTNT, HIVE, HPQ, RKUS, UBNT

April 29, 2015

"Heard, tracked, understood, witnessed, confirmed, and you should really think about paying attention to this stuff."

Research Question:

As it tries to target the enterprise market, will Ubiquiti Networks' down-line style distribution sales method offer it any advantage over other Wi-Fi network vendors in sales to U.S. enterprise and education clients?

Highlights

- U.S. organizations, especially K–12 school districts, receiving federal E-Rate funding are heavily opting to select vendors with extensive support contracts available and cloud-based network management tools that allow for fast configuration and ease of operations for wireless LAN (WLAN) network, according to 10 executives in the WLAN networking IT segment.

- Blueshift Research's sources also said U.S. WLAN trends represent a negative for Ubiquiti Networks Inc. (UBNT), which has not developed a support platform that is competitive at the enterprise and large organization level in the United States. This leaves it to individual down-line sellers to deal with client service issues.

- Ubiquiti also lacks an online platform for the control of its equipment. Cloud-controlled WLAN deals are flowing to Cisco Systems Inc.'s (CSCO) Meraki, Aerohive Networks Inc. (HIVE) and Ruckus Wireless Inc. (RKUS), which all have cloud-based systems for setting up and running wireless access networks. They also now offer pricing that is similar to or better than low-priced gear from Ubiquiti Networks, which sources said does not have cloud-based functions.

- Two repeat WLAN sources recently have added Aerohive to their portfolios via a new partner program, and said the company's 802.11 ac products and HiveManager NG software management cloud platform are on track to land an increasing share of the $3.9 billion annual E-Rate funding directed at getting 99% of all U.S. schools being digitally upgraded by 2017. "The price is right to win deals, and the program is solid," said one executive at an East Coast reseller that has added Aerohive to his company's line of WLAN gear. "It's solid. It works as advertised."

- E-Rate school district grant applicants are required to accept the lowest bids on projects, which has prompted Cisco, Aruba Networks Inc. (ARUN, which is being acquired by Hewlett-Packard Co./HPQ) and Ruckus to offer pricing on par with low-cost companies. Once deals are landed, ongoing support contracts and/or cloud licensing deals can make up for the price cutting on access points and controllers. "This locks Ubiquiti out of this race as far as we are concerned," said the CEO of a large, Southern WLAN provisioning firm.

- "You can rank Cisco and Cisco/Meraki No. 1 overall in enterprise and education deployments without doubt, with Aruba second and Ruckus third. We actually have put in some Aerohive recently, and they are coming on, definitely," said the CEO of a firm that sells WLAN nationally. The top three rankings are in line with Blueshift's Feb. 24 Tech Trends report but now are joined by Aerohive, which was mentioned as an up-and-comer.

- The field is getting increasingly crowded, with companies like Extreme Networks Inc. (EXTR) and security firm Fortinet Inc. (FTNT) also trying to create market share with their WLAN product lines. "This [WLAN] and security are two very hot areas and will continue to be for us," said the vice president of sales for a West Coast firm.

- The WLAN category has become very active because enterprises that are upgrading their overall networks do not want to wire cable when the most employees are using wireless devices like tablets and smartphones to accomplish tasks.

- The trend is especially true for healthcare and education, where mobility has become a must. The CEO of a major wireless provisioning firm said, "In order to have a shot at these deals, the vendor you're bidding for a job has to have a premium level of support, like a Cisco, at the enterprise level. Aruba would also be the upper-tier choice. For the schools, the [Cisco] Meraki solution is perfect both on price and support. Ruckus Wireless is also strong in that area, and they have a cloud system that is attracting attention. What you don't see in any of this is Ubiquiti. … Their way of doing things has left them behind. If you want an access point for a pub, you can go on Amazon[.com Inc./AMZN] and buy their gear, but you won't do it for a big project."

- Sources also highlighted the glut of Ubiquiti gear on the market, including older 802.11n and 802.11g equipment that offers far lower throughput than the 802.11ac standard. The products are available via Amazon.com, eBay Inc. (EBAY) and other online listings. "If you are looking at [Ubiquiti], you have to ask where all that is going to go," said a source who is familiar with Ubiquiti's down-line sales program. "If you're a guy who wants to put an access point out in the garage, the old gear works, but no large business is buying it. It creates a perception problem with people who are just looking to buy cheap access because they think that is all there is to it. [Ubiquiti is] not sending a crew to your company looking to tie a large deployment back into your data center so you can run wireless voice over IP or unified communications."

- All sources enterprise-grade WLAN sales likely will set all-time sales records moving into 2016 because of the explosion of mobility computing and the BYOD-(bring your own device)-to-work movement.

Background

Blueshift Research's Tech Trends has been monitoring the "un-wiring" trend in IT networking as end users have turned to mobility as the No. 1 way to connect to the Internet and work networks. As the vertical becomes much more active, we have asked sources to track which vendors have emerged in bids and landed deals among U.S.-based clients in business enterprise and organizational settings like hospitals, schools and higher-education institutions. Our Feb. 24 Tech Trends report looked at the impending release of federal E-Rate finds for K–12 school districts throughout the United States. (E-Rate funding just started to flow this month.) Sources said vendors offering broad support and tools like cloud-based network management held the edge in winning deals.

Blueshift Research has been monitoring Ubiquiti Networks' nontraditional distribution and sales model in the U.S. enterprise market. The United States accounts for some 95% of Ubiquiti's North American sales, while North America accounts for approximately 35% of the company's overall sales, according to the SEC. The company does not employ a VAR channel of network implementation firms, but instead moves product into the marketplace via a platform of sales outlets similar to, but not organized as, a multilevel marketing model.

Current Research

Blueshift Research interviewed 10 executives in the U.S. wireless LAN networking IT segment (including eight repeat sources) to determine if they believe Ubiquiti's approach and its equipment/support product set are an advantage in landing U.S. enterprise-grade business that Ubiquiti management stated it is now targeting.

Ubiquiti Sells on Price But Large Customers Seek Stability, Security, Support

- "We have 32 E-Rate bids out there right now, and we are not running against Ubiquiti on any single one of them," said the CEO of a national WLAN firm that provisions Cisco, Cisco/Meraki, Aruba, Ruckus and Aerohive equipment. "I think the way they have set up sales via these small outlets leaves them out of the loop. … The people selling their products don't have the expertise or backing from [Ubiquiti] corporate to sell against the Ciscos and Arubas of the world."

- The chief network designer for a firm that sells large WLAN deployments said, "Basing your network control in the cloud is the new, hot appealing thing to offer on some of these [WLAN] deployments. It does make it easy to set up and run a network. To be able to hit all the different types of customers out there, you need to have the cloud as part of your package. It's not all though. There are security issues [with the cloud], and if you don't pay your cloud license, your network can't run. If you lose your connection to the cloud, you can't run even your local applications. What we see are instances where you might use both cloud and local control backed by a support contract like Cisco SMARTnet in a varied network, such as a university. Ubiquiti has none of that. They are appealing to a completely different customer set regardless of what they say

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>
> *Chief Network Designer*
> *Large WLAN Deployments Seller*

they're doing. A low-cost motel chain, restaurants looking for cheap access equipment. Third-world countries where any cheap access beats no access. Those are different markets than secure enterprises."

- "If someone tells us they can buy wireless access gear off Amazon, we tell them to go ahead and do it, because our value add is installation and support," said CEO of an East Coast firm selling WLAN to Fortune 1500 companies. "As far as price, Meraki and Aerohive are both competitive to Ubiquiti. I think that is the difference in what you're asking about what a Ubiquiti and Aerohive do, for example. Ubiquiti has a line of gear that we have dealt with in the past, and we think the comparison to Aerohive or Meraki in quality and support—there is none."

- "Just selling WAPs [wireless access points] and cheap controllers doesn't do anything for an organization that needs a planned wireless network that can serve hundreds or even thousands of users. RF [radio frequency] is a very tricky issue. You can put a WAP in one place, and it will work fine. Move it over 10 feet and it barely works at all. You can't run the risk in a large operation that what you're buying will not be designed to work properly. Our people have years of experience. This is what we tell customers every time a question about Ubiquiti comes up. As for training, Ubiquiti resellers offer classes on how to deploy their equipment that take a few hours. Anyone can sign up. When you complete the training, you get a T-shirt saying you're a qualified tech. *A T-shirt*," said the CEO of a national WLAN design and deployment firm. "If I'm building a network for my company, I'm not sure I'm going to feel so good about that level of expertise coming in."

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>
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- "We don't sell against [Ubiquiti]. You might see them at a condo complex, a golf course or places like that. They are not in the area of business we pursue," said the executive vice president of a company that provisions Wi-Fi in large venues like stadiums and in very large enterprise indoor/outdoor campus settings in the South.

- The CEO of a large wireless firm selling to large enterprises, cable Wi-Fi deployments, municipal Wi-Fi and wireless Internet service providers nationally said, "What we're always asking is, how come there is so much of [Ubiquiti's] equipment listed online [such as on Amazon or eBay], particularly if there is a lot of the 'g' and 'n' versions, which are fundamentally obsolete for any organization of any size? You can't stock this type of equipment because it goes obsolete or end-of-life so fast. You order it only after you land a deal, and then UPS or FedEx sends it over in a few days from the Cisco or Aruba distributor. If some people are successful selling [Ubiquiti] on Amazon, good for them, but that means you have to stock it yourself and run the risk you will have to eat it if you can't sell it."

- "I would suspect that since we never see [Ubiquiti] in any of the U.S.-based deals we bid, that a fair amount of their sales are in the developing world, where their distribution system may work at the local level better than it does here on enterprise deals. None of our customers are going to look for single access points online, but that might be the only way to get things safely shipped into parts of Africa or other areas where supply lines can be a problem," said the CEO of an East Coast network integration firm selling to large clients.

About the Author

John Harrington is an award-winning investigative reporter and veteran Wall Street researcher. John previously served as senior editor and senior researcher at OTR Global, and was a three-time Emmy Award-winning TV journalist.

John brings expertise and relationships in Internet networking, network security, fiber optic communications, and data center computing to Blueshift Research. John will contribute regularly, sharing deep insight into tech and communications trends, often before they are recognized by Wall Street.

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