VENDOR PROFILE

WatchGuard: Changing of the Guard

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IDC OPINION

WatchGuard is a resilient company. It has provided a fascinating Silicon Valley water cooler discussion with its public offering, sales sluggishness, layoffs, buyout, management changes, and renewed business focus. Even more significant have been the developments in recent months as the company turned the corner and charted its growth plan. In the end, WatchGuard has weathered the storm and remains a strong player in the network security market. WatchGuard has built a robust UTM offering as its primary focus but has rounded out its portfolio with other security solutions:

- Francisco Partners and Vector Capital acquired WatchGuard in 2006, which has fortified the support of its innovative products with an injection of strong capital.
- WatchGuard enjoyed 38% growth in the UTM space to reach $84 million in total revenue during 2007.
- WatchGuard has successfully refocused its product lineup to concentrate on UTM appliances while maintaining a full range of complementary products in its portfolio.
- Following the recent refinements, customers are reporting that WatchGuard’s support services have shown great improvement.

IN THIS VENDOR PROFILE

This IDC Vendor Profile features WatchGuard, a leading player in the UTM appliance market. The company has survived a phase of turbulent progress and knuckled down to serious business, weathering some uncertainties: internal and external, strategic, and marketing. This study examines WatchGuard’s full security portfolio, including its unified threat management appliances and subscription services. It discusses WatchGuard’s strategy, the challenges it will face in the future, and the company’s opportunity to further develop its UTM and subscription offerings to maintain its position in an increasingly competitive market.
SITUATION OVERVIEW

Businesses in the modern, connected economy recognize that new technologies and services available via the Internet offer an efficient way to reach more customers and facilitate remote workers, consequently increasing profits and reducing capital expenditures. However, securing resources is becoming more difficult as the definition of the network perimeter has expanded to include wireless networking, mobile users, and an increasing variety of access devices. Many fear that the layered defenses that are necessary will translate into more appliances, higher cost, constant maintenance, and troublesome integration. Point products or single-function appliances add to the costs and complexity of corporate networks and are insufficient to deter future, innovative threats. Therefore network administrators show growing interest in all-inclusive security appliances that are designed to respond to the evolving nature of threats, but they refuse to compromise on network performance and user experience.

Security appliance vendors have responded to these needs with unified threat management (UTM) solutions, which provide a basic core of critical security applications, such as firewall, antivirus, antispyware, intrusion prevention, and VPN, but are designed to quickly and easily integrate new applications and features as the threat landscape necessitates. Several major security players have jumped into the UTM market, and as the competition grows, the core features mentioned above are being complemented with standout applications. The result is the evolution of the UTM to the next stage: extensible threat management (XTM), which is creating an entirely new sector of competing security solutions.

XTM platforms will take security appliances beyond traditional boundaries by incorporating systems management, networking features, and advanced security capabilities for complex environments. XTM solutions will build upon UTM’s core selection of security features with built-in networking capabilities to improve performance, such as dynamic routing, networkwide configuration adjustments, signature upgrades, bandwidth control, load balancing, failover, and policy execution. Instead of security being a feature or application on a networking platform, XTM appliances provide essential networking features and a centralized management console as a part of a security solution that can support networking needs for SMBs and distributed enterprises.

Furthermore, XTM platforms will accommodate the integration of new security features as needed by customer environments. Likely candidates would be VoIP security, Web security, identity and access management, NAC, and automated threat management programming. Unlike earlier versions of UTM that had all the features "baked in" the box, XTM platforms will incorporate partner and subscription services as well as modular software components.
Company Overview

Founded in 1996, WatchGuard is privately held and provides security solutions designed to protect enterprises that use the Internet for ecommerce and secure communications. With more than 400 employees, it is headquartered in Seattle, Washington, and has offices throughout North America, Europe, Asia/Pacific, and Latin America.


In 1999, the company had its initial public offering on the Nasdaq and closed the year with $47 million in annual revenue. The same year, WatchGuard acquired Beadlenet, introduced a line of SOHO products, and finished the year with a market capitalization of about $558 million. A secondary public offering followed in 2000, and the company’s market capitalization exceeded $1 billion by the close of the year. After several years of management turnover and declining revenue, WatchGuard was purchased for $151 million by Francisco Partners and Vector Capital. The company turned private again in October of 2006.

WatchGuard remains a player in this competitive market, strengthened by a host of strategic, management, and executive-level changes (including new CEO Joe Wang, formerly of LANDesk) and an aggressive engineering, sales, and marketing talent recruitment strategy. The company saw 15% growth in the second half of 2007, with a revenue increase of 17% for the fourth quarter, which was the highest quarterly revenue in the company’s history. In 2007, the revenue for each quarter exceeded the previous quarter. The company also saw increased global sales of WatchGuard Firebox X network security appliances, with high-end appliance sales growing double that of sales a year ago.

Currently, about 50% of the company’s growth is from North America, 15% is from the Asia/Pacific region, and 30% is from Western Europe. WatchGuard is well represented in five key Asia/Pacific countries: Australia, China, Japan, South Korea, and India.

WatchGuard serves customers in over 150 countries through distributors and resellers as well as number of service providers that implement the managed security solution. Historically, two-thirds of company revenue has been generated by product and one-third has been generated through security subscriptions and support services.

Company Strategy

The purchase of WatchGuard by Francisco Partners and Vector Capital has fortified the company’s financial backing, allowing it to concentrate on developing innovative security products that are at the vanguard of the network security market.
CEO Joe Wang has outlined the intentions of the company to focus on a true UTM offer versus limiting the company to the firewall/VPN market. This move coincides with a push to educate customers on the full benefits of UTM security appliances.

One of WatchGuard’s unique approaches at the product level is to build features into the units that can be unlocked with a license fee when a customer wishes to use them. This makes it easier for customers to add networking, performance, and security features without requiring new hardware or complicated software upgrades. With their e-Series Firebox products, customers have considerable flexibility and investment protection. On the services side, LiveSecurity provides important security services to customers while providing the company with additional revenue.

A renewed channel strategy draws from Wang’s experience at LANDesk and Symantec. WatchGuard has expanded its partner base across more markets, created ties with bigger VARs, and targeted new relationships for future development. Currently, WatchGuard has strategic partnerships with companies such as Dell, NTT West, SiS Distribution, DNS Arrow, CDW, PC Connection, T-Systems, Insight, and Wick Hill Group for product and solution development and marketing and sales initiatives.

Along with the other changes, WatchGuard implemented a major corporate rebranding effort to coincide with the release of several important upgrades to its Firebox X family of network security solutions. This effort included a new intuitive logo and a more streamlined Web site to go with its affirmation to go public again when it achieves its 20–25% growth target for the next year.

**Product Architecture**

WatchGuard’s security solutions are centered on the Firebox X e-Series UTM appliances but also include a range of security and management software with the capability to add additional subscription-based services when needed. WatchGuard was a pioneer among the early technology companies when it deployed security in an appliance form factor in 1996 and has maintained its position as a strong competitor since. In more detail:

- **Security appliances.** WatchGuard’s Firebox X e-Series appliances are designed to provide basic security, networking, and management features that can be complemented by integrated subscription services. The Firebox X appliances are offered in three performance levels to accommodate enterprise needs: Core, Peak, and Edge. Although some features differ between the three lines, all Firebox X appliances provide Firewall, protocol anomaly detection, pattern matching, fragmented packet reassembly protection, malformed packet protection, blocked source lists, VPN, user authentication, IP address assignment, networking features, and logging and reporting capabilities. Performance level features are as follows:

  - Firebox X Core is intended for managing multiple-point solutions, while the Firebox X Peak is WatchGuard’s highest performance UTM line with multi-gigabit-per-second throughput. The Core and Peak lines are intended for larger network deployments such as enterprise headquarters. Both lines offer features beyond those listed above, including spyware blocking, DoS
and DDoS prevention, behavioral analysis, IM and P2P security, WAN failover, traffic shaping, routing, and network address translation.

- **Firebox X Edge security appliances** offer both wired and wireless unified threat management solutions for branch offices and small businesses. The Edge appliance offers traffic management and prioritization capabilities. Single appliances can be managed via a Web-based graphic user interface, but multiple Edge appliances can be deployed as endpoints on a Core or Peak network and can be centrally managed by the WatchGuard System Manager.

- **SSL-VPN appliances.** WatchGuard SSL is available in two models: the WatchGuard SSL 500, which accommodates up to 500 concurrent users, and the WatchGuard SSL 1000, which accommodates up to 1,000 concurrent users. Both models can be clustered for high availability and scalability.

- **LiveSecurity Service.** A LiveSecurity subscription is included with every WatchGuard appliance to provide support services. LiveSecurity Service Gold Support is a premium option available to extend the hours and response times of the basic services levels. LiveSecurity Service includes the following features:
  - Advanced Replacement Hardware Warranty extends the included one-year warranty and promises to ship the replacement hardware before receiving the returned appliance in the event of hardware failure.
  - Software updates and functional enhancements are included.
  - Technical support is available 12 hours per day with 4-hour response times. The Gold Support service provides 24-hour support with response times less than 1 hour.
  - Security alerts provided by WatchGuard’s Rapid Response Team notify customers of emerging threats and how to address them. The Rapid Response Team monitors the Internet for malware outbreaks, botnets, and vulnerabilities in common applications, operating systems, and platforms, among other critical issues. LiveSecurity Alerts can be customized to filter alerts based on administrator preferences.
  - LiveSecurity offers access to interactive self-help resources, such as online training courses and instructional videos to help install, configure, and maintain WatchGuard products.

- **Subscription services.** WatchGuard’s subscriptions services allow customers the ability to tailor the UTM solution to their unique security needs and are fully managed by the WatchGuard System Manager:
  - WebBlocker provides URL filtering.
  - SpamBlocker with viral outbreak protection stops almost all spam and viral payloads from reaching the network.
- Gateway AV/IPS with antispyware uses signature-based protection to stop known spyware, trojans, viruses, and Web exploits.

- **Industry solutions:**
  - WatchGuard educational solutions offer security technologies for proactive defense against new threats on school networks.
  - WatchGuard financial service solutions, aimed at the financial sector, help maintain customer confidence and trust by ensuring the security and privacy of financial transactions besides helping companies comply with regulatory demands.
  - WatchGuard security solutions for the healthcare sector help in keeping network and patient data safe while ensuring regulatory compliance standards.

- **Management software:**
  - WatchGuard System Manager 9.1 provides configuration and monitoring support for Fireware and Fireware Pro features, such as VLAN, policy-based routing, multi-WAN load balancing, and security subscriptions, including spamBlocker, Gateway AntiVirus/Intrusion Prevention Service (AV/IPS) with antispyware, and WebBlocker.
  - WatchGuard for Managed Security Services (MSS) is designed to meet the demands of customers that desire security without the administrative tasks associated with it.

**Market Position**

In 2007, the worldwide UTM market grew by 35% year over year to reach $1,216.4 million. According to the IDC Quarterly Security Appliance Tracker, WatchGuard’s UTM revenue was $62 million in 2007, representing 38% growth from 2006. The company’s total revenue for 2007 was $84.3 million, up from $79.4 million in 2006.

Figure 1 shows WatchGuard’s total and UTM revenue for 2005–2007.
WatchGuard showed extraordinary growth in UTM unit shipments. Worldwide, WatchGuard saw a 190% increase in unit shipments in 2007. The next closest vendor was Check Point, with 152% growth.

Figure 2 illustrates the growth rate of unit shipments for the top 5 vendors in 2007.
The UTM market has historically been concentrated in the North American market, but it is quickly expanding to other regional markets worldwide. WatchGuard is aligning its UTM solutions to this trend and has seen strong growth in many markets, especially Western Europe, where the growth of its UTM unit shipments surpassed the worldwide figures with 196.4% growth in 2007.

Figure 3 shows the growth rates in Western Europe for the top 5 vendors.
**FUTURE OUTLOOK**

The future of the security markets seems bright. IDC estimates that all security product markets will grow at a combined annual growth rate (CAGR) of 12.5% between 2007 and 2011. One of the strongest areas of growth remains the UTM market. Although the numbers suggest that UTM growth has slowed in recent years, the market passed the $1 billion mark last year and is continuing to expand. In 2008, IDC expects total revenue in the worldwide UTM market to surpass that of the Firewall/VPN market. At the same time, UTMs are replacing network routers in the SOHO market ($0–1,499 price band). Customers are opting for appliances that put security first with networking built on, as opposed to the other way around.

The same environment that has taken UTM solutions beyond just firewall and antivirus products is continuing to drive the development of more comprehensive and easier-to-use single-box platforms. The evolution of UTM to XTM solutions will perforate new areas of the corporate networks. Vendors that want to compete must be on the cutting edge by incorporating innovative features into their UTM appliances. WatchGuard has recognized the need to round out its security portfolio with complementary options, such as industry solutions, updates and alerts, and management platforms.
Market acceptance of UTM/XTM solutions will by no means be an immediate occurrence. Many customers and vendors are hesitant to accept what some call a "god box." Nonetheless, the UTM market is an exceptionally competitive landscape where single vendors cannot hoard even 20% of the overall market revenue and new vendors are constantly entering the fray with new solutions. To meet the needs of the enterprise and reduce inertia, XTM vendors must do the following:

- Offer a centralized, comprehensive management console, including the ability to manage remotely.
- Increase security.
- Offer cost reduction via integration (i.e., the sum must be less than the parts).
- Provide improved resource utilization for non-security items, such as power consumption, rack space, and uptime.
- Integrate response that consolidates support and threat response.
- Be able to grow with the business as situations change.

ESSENTIAL GUIDANCE

Advice for WatchGuard

Despite some corporate adjustments, WatchGuard has managed to remain a strong player in the UTM market. The UTM market is evolving rapidly and vendors, especially market leaders such as WatchGuard, will need to develop quickly to maintain their competitive position in the market. With new executive leadership, reinvigorated financial support, and strong growth in 2007, WatchGuard has positioned itself well as it focuses on the UTM space. WatchGuard's customers have recognized vast improvements in support services linked to the company's appliances in the past year, which can be attributed to WatchGuard's changes in leadership and improved focus on UTM appliances.

XTM solutions are a reality and demand services beyond the UTM box. UTM appliances have proven their worth in the SMB and distributed enterprise space, but the move to larger enterprises will mean new features and expanded capabilities. UTM vendors must not only build more into the box but also attach services, whether homegrown or through partners, that expand networking and management capabilities for larger deployments.

While WatchGuard's strategy of selling hardware that can be upgraded by purchasing license keys is working, the company must now move forward and provide system enhancements to its products. One challenging aspect for the vendor would be to streamline its indirect sales strategy and gain better synchronization with channel partners. Partner alignment is potentially a critical opportunity for WatchGuard to complement its security products portfolio with value-add features and services.
At the same time, WatchGuard's internal support service, LiveSecurity, has proven to be a successful and consistently cost-effective revenue stream for WatchGuard. The company must continue to aggressively promote this service. The threat landscape faced by enterprises is developing at an accelerated rate as more businesses processes and capabilities are available on the Web. Consequently, network administrators are faced with the growing task of ensuring the company's security architecture is updated regularly to protect it against the most recent threat signatures and malicious behavior. LiveSecurity updates, alerts, and support are invaluable tools to enable IT departments to do just that.

IDC recognizes that WatchGuard has been traveling over a bumpy road over the past few years, but from the work WatchGuard has done to improve its products and channels, it is on a much smoother surface. IDC believes that WatchGuard, one of the first security appliance vendors, will remain a leader in this market going forward.

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Related Research

- IDC's Software Taxonomy, 2008 (IDC #210828, February 2008)

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