

Bid for Nortel Enterprise Assets Will Fortify Avaya's Position

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If Avaya's bid for Nortel's enterprise division succeeds, Avaya will have leading market share in enterprise voice, re-enter the data market and grow its channels. But other potential buyers still have a chance to bid.

NEWS ANALYSIS

Event

On 20 July 2009, Avaya bid \$475 million cash for Nortel's enterprise voice, data and government systems businesses. The transaction is subject to a competitive bidding process. Courts in Canada and the U.S. will need to approve the winning bid.

Analysis

This announcement ends months of speculation in the technology media, and it should provide a measure of certainty for Nortel enterprise customers. But the deal is not guaranteed. Widespread rumors suggest that counter-bids for the whole Nortel company or for the enterprise unit could materialize before the courts make their ruling, which Gartner believes is likely to happen in the next 45 to 60 days.

Avaya's bid values this division at 0.2x of trailing 12-month revenue. This compares to the 0.3x revenue valuation of Nokia Siemens Networks' bid for Nortel's CDMA and LTE assets, which is driven by the current tough market conditions.

If Avaya should be the successful bidder, it will gain a very strong position in the enterprise communications market. It will gain:

- The No. 1 worldwide market share position for voice. The combined Avaya and Nortel portfolios will have about 23% of the worldwide and over 40% of the North American installed base, spanning the enterprise and small-to-midsize business (SMB) markets.
- A broad data portfolio to supplement its focus on voice solutions.
- A much larger channel program — especially in North America — to support its strategy of moving away from direct sales. Avaya has already announced a program to pursue Nortel enterprise channel partners, which Gartner expects to continue until this deal closes.

Plans to merge product road maps are far from complete, and Nortel and Avaya have clear overlaps in their voice, unified communications and call-center product groups. But we expect that Nortel clients will not be quickly forced off their existing platforms — Avaya has shown that it will let clients evolve at their own pace. For example, Avaya purchased Germany's Tenovis in late 2004, and many clients remain on Tenovis platforms.

RECOMMENDATIONS

Enterprise buyers investigating Nortel for the first time:

- Evaluate Nortel enterprise communications solutions, but delay investment until the fate of the division is decided.

Nortel enterprise customers:

- Remain cautious about any technology decision involving Nortel, until the deal is finalized. But if Nortel is providing a unique solution or is the low-cost alternative in your environment, give it due consideration.

Avaya customers and prospects:

- Continue to retain Avaya on your shortlists.

Additional analysis provided by Megan Marek Fernandez

RECOMMENDED READING

- "SWOT: Avaya, Enterprise Communications Applications, Worldwide" — Gartner identified Nortel as a key competitor and channel transformation as a major strategy for Avaya in this market. **By Megan Marek Fernandez and Jay Lassman**
- "Create a Backup Plan for Continued Support of Nortel Environments" — As Nortel's sale of businesses continues, it's even more important for customers to make a backup plan. **By Christine Tenneson**

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