

Avaya Faces Hard Work After Winning Bid for Nortel Enterprise

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Avaya offered the winning bid in the auction for Nortel Enterprise Solutions. But the deal still faces regulatory approval, and Avaya must take on the daunting challenge of merging two large communications players.

Event

On 14 September 2009, Avaya won an auction for Nortel's Enterprise Solutions business with a bid of \$900 million, with an additional \$15 million set aside to retain key Nortel employees until the transaction closes. The sale includes all the assets of the Nortel Enterprise Solutions business, as well as the shares of Nortel Government Solutions and Diamondware. Avaya has also committed to retain a minimum of 75% of remaining Nortel employees at close of the transaction. The auction occurred over Sept 11-14, with Siemens also bidding. The sale remains subject to court approvals in the U.S., Canada, France and Israel, as well as regulatory approvals.

Analysis

The unified communications and collaboration (UCC) market and the voice segment of that market have both been consolidating into the hands of larger players. With this acquisition, Avaya seeks to ensure that it will be one of the key players in this space. Combining the two companies' portfolios will make Avaya No. 1 in global market share for voice, at about 23% of the market worldwide, and over 40% of the North American voice installed base, ranging from the large enterprises to the small business markets. In addition, Avaya will gain:

- An installed base of 55% worldwide and 50% in North America of the contact center market.
- A much larger channel program — especially in North America — which supports Avaya's strategy of moving away from direct sales.
- Nortel's data portfolio, which Avaya has already committed to continue as its own, following the Nortel data road map.

Although Nortel has been under protection for nine months, it is in better shape than some had anticipated. Avaya will continue shipping Nortel products for at least 12 to 18 months after the close of the deal. It will also continue supporting Nortel products through their three-to-five-year life cycle. Within 30 days of the close of the sale, Avaya says it will provide a road map for Nortel's entire product portfolio which will enable customers to understand whether Avaya can preserve Nortel's reputation for providing "evergreen" solutions.

However, to create the "new Avaya," the company must confront the inevitable battles inherent in a merger of this scale. Melding the two entities' resources is likely to turn the focus of Avaya's management inward for a time. While the Nortel portfolio offers Avaya a new start with data products — with which Avaya has had a poor history — the portfolio requires updating and rationalization. Avaya may not be able to spare resources for this task while it focuses on integrating and supporting the combined voice portfolios. We believe the "new" Avaya will have as much difficulty as Nortel had in growing its data market share.

The drawn-out sale of Nortel's assets isn't over yet. The court's approval is likely a formality, but regulatory approval, which we believe will occur, will be slow in coming. Avaya will have to address antitrust issues while its competitors promote fear, uncertainty and doubt in the market, delaying resolution of the transaction until as late as 2Q10.

RECOMMENDATIONS

Nortel voice customers:

- This deal should eliminate uncertainty about the ownership of Nortel Enterprise Solutions' assets and should provide reassurance regarding support and maintenance of the installed Nortel products. If you have made a substantial investment in Nortel solutions or are migrating from time division multiplexing (TDM) products, continue to assess Nortel products. Expect Avaya to offer an evolutionary path for these products.
- If you use several vendors' solutions, assess the combined Nortel/Avaya solution, but also evaluate offerings from your other incumbents.

Enterprises without an existing relationship with Nortel:

- Consider evaluating solutions other than Nortel's, including Avaya's and other viable vendors'.

Prospective TDM customers:

- While we do not recommend TDM solutions in general, if you are looking for a stopgap, tactical TDM system, consider vendors other than Nortel.

Prospective data customers

- If you are evaluating data solutions, consider Nortel and its competitors.

RECOMMENDED READING

- "Bid for Nortel Enterprise Assets Will Fortify Avaya's Position" — A successful bid for Nortel Enterprise assets would give Avaya leading market share in enterprise voice and would enable it to re-enter the data market and grow its channels. **By Bob Hafner, Akshay Sharma and Jay Lassman**
- "Create a Backup Plan for Continued Support of Nortel Environments" — In March 2009, Gartner advised Nortel customers on making contingency plans in the event the company was split up and sold to different companies. **By Christine Tenneson**

(You may need to sign in or be a Gartner client to access the documents referenced in this First Take.)

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