

Ciena's Bid For Nortel MEN/Optical Unit Is a Calculated Risk

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Ciena aims to gain specific technologies from Nortel and deepen its North American carrier relationships. But merging similar Metro Ethernet and optical portfolios will create unavoidable integration challenges.

NEWS ANALYSIS

Event

On 7 October 2009, Ciena announced its intention to buy "substantially all" of Nortel's Metro Ethernet (MEN) and optical division through a competitive auction. As part of the deal, Ciena has committed to hire 2,000 employees from Nortel.

Analysis

With this deal, Ciena would gain:

- Synchronous optical networking (SONET) and synchronous digital hierarchy (SDH) technology, filling a gap in its portfolio. Although Gartner has rated Nortel's MEN and optical portfolios as "caution," it does have strong elements, such as its 100 Gbps technologies.
- Scale and access to Nortel's market share, particularly in North America. Ciena will nearly double its workforce, and if the acquisition goes through, Ciena will emerge as No. 1 in the North American optical transport market (by 2008 revenue).
- Important Nortel trials of 100 Gbps transport with tier 1 CSPs like Verizon and Comcast. Ciena will work to convert these into real deals, to deepen its presence in North America.

The companies have many commonalities in their MEN and optical product ranges: both have committed to the Provider Backbone Transport (PBT) standard, which is likely to be augmented to support Multi-Protocol Layer Switching Transport Protocol (MPLS-TP); and they have strong support for wavelength-division multiplexing (WDM) and 40/100 Gbps transport.

While the overlap in the two companies' portfolios suggests a good corporate fit, it also poses an integration challenge on top of the usual challenges associated with mergers. Ciena will have to make tough decisions to rationalize the portfolio while ensuring all its products are compatible. Also, Nortel and Ciena have customers in common, such as Sprint. This may actually hurt sales in some instances, such as where customers used Nortel and Ciena as part of a dual-vendor strategy.

The deal focuses firmly on products for communications service providers (CSPs). Ciena appears to have made a conscious decision to deepen its expertise rather than expand into new areas, such as service provider routers, access edge routers or mobile data switching. Indeed, Ciena has chosen to leave some elements of Nortel's portfolio out of the deal, such as customer premises equipment.

RECOMMENDATIONS

- **Companies considering Nortel's MEN/Optical products:** For greenfield accounts requiring MPLS-TP support, wait for Ciena/Nortel to announce a road map for support of MPLS-TP.
- **Companies considering Nortel's remaining products, including Passport switches, GSM solutions, and carrier VoIP and application servers:** Base your decisions about buying Nortel products on a shorter depreciation cycle, to account for the risk of these product ranges being sold off in a later auction.

RECOMMENDED READING

- "Is Ubiquitous Ethernet the Future of Carrier Networks?" — Metro Ethernet is becoming a more strategic investment for CSP customers as traffic volumes increase, and network equipment vendors are focusing on this area in response. **By Juan Fernandez and Peter Kjeldsen**
- "Nortel's Planned Divestiture Calls for Caution Not Panic" — CSPs and enterprises should continue to assess Nortel products but must proceed with caution, following Nortel's decision to sell its Metro Ethernet Networks division. **By Akshay Sharma and Bob Hafner**

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