

OVUM COMMENT

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Avaya enters agreement to purchase Nortel's Enterprise Solutions business

Avaya has announced that it has entered into a 'stalking horse' asset and share sale agreement to purchase Nortel's enterprise business for \$475 million. The combined entity would account for over 30% of the global contact center market and cement Avaya's market share lead in North America while fortifying its position in other global regions for the next several years. However, the combined company would face a confused product portfolio with a good deal of overlap and a channel that has been beaten, bruised and battered during Nortel's long sunset.

Avaya's acquisition of Nortel is not yet a done deal

While Avaya intends to purchase Nortel's Enterprise Solutions business, it is not a done deal as other qualified bidders may submit higher offers in the auction period slated to begin in August. There's also the possibility that Nortel's enterprise unit will be broken up by regions and sold to the highest bidders. If Avaya is the victor in the upcoming bidding war and acquires all of Nortel's enterprise unit, it stands to increase its already large market share, inherit Nortel's large reseller network and leverage new upsell opportunities among Nortel's customer base.

Nortel's channel would be Avaya's real prize

Over the past year or so, Avaya has been working on two main priorities: product portfolio simplification and channel expansion. It would be nigh on impossible to successfully argue that Avaya's acquisition of Nortel would aid it in its efforts to have an easy-to-understand product list; clearly, Nortel's broad base of products would create the need for another round or two of portfolio rationalization. Therefore we see the primary driver behind Avaya's interest in Nortel to be channel expansion and a renewed play for mid-market customers.

Nortel, however, presents something of a mixed bag for Avaya in this regard. Nortel once had a vibrant and active channel, and its dealers were some of the most loyal in the tech industry. However, the long downward spiral Nortel has suffered left the channel dispirited and depleted in number. Many of Nortel's competitors have spent the last six months wooing channel partners. Admittedly, Avaya was one of those vendors attempting to poach the Nortel channel as a means to both hurt a flailing competitor and bolster its own indirect sales efforts. Clearly those efforts were not enough to obviate the need for a full buyout of Nortel Enterprise.

Because Avaya will likely eventually replace much of the Nortel technology with its own in the product lineup, it will also have to win over most of those channel partners one by one. This will take some doing since the resellers have stocks of inventory, existing processes and lots of Nortel-specific training. This is not to say that Avaya won't ultimately succeed in converting at least most of Nortel's channel to its cause; if the acquisition goes through, Avaya will eventually have bought its way into being a channel-friendly company and that will likely be worth the purchase price for Nortel.

Industry consolidation points to market maturation and market shifts

Whether Avaya or another incumbent switch vendor (Aspect and Siemens were the other two vendors rumored to have been in the running for Nortel) acquires Nortel's enterprise business, it is clear that the contact center market is maturing. Incumbent switch vendors (Aspect, Avaya, Mitel, NEC, Nortel and Siemens) are facing stiffer competition from vendors that have different approaches to contact center routing and platform technology, such as Cisco, CosmoCom, Genesys and Interactive Intelligence. In addition, the entry of Microsoft (unified communications), hosted contact center service providers and potentially Google (in the cloud) is expected to further challenge incumbent switch vendors in the greater communications space.

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