

# Acquisitions show no sign of slowing

The recent raft of mergers among service providers and the channel are another effect of the services revolution, writes **Keith Humphreys**

» Mergers and acquisitions among service providers have been driving a similar behaviour among the telecommunications equipment vendors. The Alcatel-Lucent merger is directly because of the service provider consolidation and we have seen Alcatel buying the Nortel UMTS business, Nokia and Siemens merging their mobile and fixed-line phone network equipment businesses and Ericsson buying Marconi.

The service provider consolidation kicked off in the US with SBC acquiring AT+T and then bidding for BellSouth. In the UK, NTL has merged with Telewest and plans to morph both into Virgin Mobile. The mounting speculation that NTL could go on to buy ITV to offset its \$3.6bn of losses may drive intervention by the regulators or invite another party in to bid.

The driver for these acquisitions is triple play or quad play. Similarly BSKyB bought a business ISP Easynet and a Virgin versus Sky battle could be on the cards.

We have returned to the heady days of the year 2000, whereby service providers bought channel partners for their services capability. BT is the obvious example, but Kingston Communications also acquired Smart421 last month to add to its Affiniti communications integration business.

Nortel and Cisco released their results on consecutive days at the beginning of November and the contrast in their service providers businesses was remarkable.

Cisco reported a record \$8.2bn in revenue (up 25 per cent from a year earlier) and the vendor's service provider business boasted the highest growth of any of its segments for the first time in six quarters.

Cisco's US service provider business grew by 30 per cent from a year earlier. Worldwide, service provider orders for Cisco's stand-alone business were up 23 per cent from a year earlier, and orders for Scientific-Atlanta products were up 20 per cent. Cisco's core router, the CRS-1, contributed \$110m in revenue during the quarter, up 37 per cent sequentially.

Meanwhile Nortel's service



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*Keith Humphreys,  
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provider business languished with only the metro Ethernet networks business strong with revenue up nine per cent to \$430m.

What does the service providers move into the services business mean to the channel? Consider CapGemini, which signed a contract with BT to take over a 'substantial part' of CapGemini's European networking infrastructure services and supply them to Cap's customers. CapGemini has a long record of using BT as a network provider, even if it hasn't been given the official 'strategic partner' status that BT bestows on Hewlett-Packard, Accenture and CSC and is partnering with them in the Metropolitan Police contract.

BT has made acquisitions of TNS and Cara, which positioned it firmly into systems integration space and now BT's Counterpane acquisition has taken it firmly into CapGemini's space. Some see this move as potentially risky for CapGemini. It was pointed out that it seems system integrators now have the competition problem that vendors have been struggling with for some time.

This fact has never been truer than it is right now. It will be fascinating to see the competition between Nortel, Microsoft and Cisco in Unified Communications over the next five years. **CRN**

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## MAJOR SUPPLIER OUTLOOK FOR MERGERS AND ACQUISITIONS IN 2006

Company	2005 sale	Service provider networks revenue	Strengths	Outlook
Cisco	\$31bn	\$5.1bn	Enterprise routing, switching voice over IP. Carrier Ethernet and metro optical. Video infrastructure via Scientific-Atlanta acquisition.	Most often an acquirer of smaller technology players. No indication of major M&A to come.
Alcatel-Lucent	\$25bn	\$21.5bn	End-to-end architectures for wireline and wireless. Strong IP Multimedia Subsystem (IMS) vision and IPTV. Broad geographic reach and deep R&D.	Culture issues and plenty of product overlap to sort out in this merger, but does create a true telecom powerhouse.
Ericsson	\$25bn	\$20.3bn	IMS, packet telephony, wireless infrastructure, now with stronger wireline and broadband access.	May continue to expand by acquiring routing/switching companies.
Nokia-Siemens	\$19.8bn	\$19.8bn	Strong mix of wireless and wireline gear. Strong packet telephony and IMS stories, and dominant wireless market share.	Creates a real European powerhouse that will not face the integration issues of Alcatel-Lucent. Looks like a top IMS/NGN player.
Nortel	\$11bn	\$8.4bn	Strong position in CDMA wireless infrastructure VoIP, optical networking, carrier Ethernet and ATM switching.	Plagued by financial troubles, poor partnership and joint venture execution. May either acquire or be acquired.
NEC	\$41.3bn	\$5.8bn	Strong in mobile infrastructure, Next Generation Network, broadband and fiber to the home, primarily in Asia/Pacific.	Highly unlikely to see any M&A activity.
Motorola	\$42bn	\$5.8bn	Has diverse strengths in video infrastructure, CDMA gear, some fiber to the home.	Will surely make more acquisitions to round out its IPTV portfolio.
Huawei	\$5.9bn	\$4.5bn	Unrivaled product line, from devices to access, metro and core. Successful expansion outside of China.	Expansion has hurt profitability, but major successes in Western Europe in 2005 keep Huawei on a roll. Not likely active in M&A, though recently acquired prodigal Harbour Networks in China.
ZTE	\$2.6bn	N/A	Successful CDMA wireless product line. Strength in other telecom areas, though not on a par with Huawei.	Will be more likely to acquire outside of China to bolster its international expansion.

Source: Heavy Reading

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