

**Nortel's Woes Are Competition's Opportunity****Date Published:** 21 Jan 2009*By Vanessa Alvarez*

**Nortel, a one-time industry giant, this past week, filed for chapter 11, bankruptcy protection.**

Although this has been rumored for many months now, the announcement on Wednesday surprised the industry. Nortel has been one of the traditional vendors that have survived the longest and to see it in this situation is quite unfortunate. Although filing for bankruptcy protection means the company still has a chance of making it through, the fact of the matter is that Nortel has not been able to recover from its accounting scandals dating back to 2003. This scandal compounded the company's misfortune around its product and execution strategy, and its customers as well as channel partners started to question the integrity and viability of the company.

Move forward to 2006, and Microsoft enters the unified communications arena. Out of all the UC vendors in the industry, Microsoft chooses Nortel as its partner to create the Innovation Communication Alliance (ICA). This was the opportunity for Nortel to put them back on track and go to market with an industry giant that was looking to be a game changer. Many questions arose from this: what are really Microsoft's intentions? Will they buy Nortel? Will Nortel ultimately become the services arm for Microsoft? Will they be cannibalized in this partnership? Although Microsoft vehemently denied this allegation, this is certainly what it looked like from an analyst's point of view. From the start, Microsoft did not take Nortel into account for their go-to-market strategies. They did take them into account for go-to-customer strategies, however. Microsoft managed to infiltrate the Nortel customer base, and led sales initiatives, leaving Nortel out of many follow-up conversations. What should have been a win-win situation suddenly became much ado about nothing.

Another partnership that should have been a saving grace for Nortel was the one with IBM, where Nortel's Agile Communications Environment ACE was born. ACE is a software-based environment that helps enable communications capabilities (i.e. location, presence, etc) to be presented as services in a web-based environment so that they can be integrated into business processes and applications, delivered through IBM's Websphere server. It seemed like a step in the right direction, as application integration and business processes have played a big role in the evolution of UC. To have both feathers in its hat should have been a winning strategy for Nortel. But unfortunately, it wasn't enough. Ineffective management, combined with intense competition and poor macroeconomic situations have led Nortel to where it is today.

**Competitors Have An Opportunity to Gain Market share**

For competitors, it's an opportunity to continue to approach the Nortel installed base, albeit at a more aggressive pace. For vendors, several factors will be important to consider, including:

- **Pricing:** In this economic downtime, it's not prudent for vendors to want to selfishly capitalize on this opportunity, at the expense of the customer. Vendors must offer a migration path for customers, not ask them to "rip and replace". Vendors will also need to offer "creative" financing, given that the lending industry is suffering, and line of credits are becoming much more difficult to obtain.
- **Maintenance service:** Nortel has had a strong services business for some time, and providing customers with the same level of service (or better) will be critical. This ties in with providing customers with a migration path, and strategically moving them to another platform.
- **Software focus:** This is the time to begin educating customers about the alternatives to traditional monolithic telephony platforms. It is the vendors' responsibility to help the unified communications and collaboration evolution move forward. Providing customers with the education and solutions to help them through the UC migration will be key. In

this environment, making the ROI business case will be critical. Customer case studies and partnerships (MS, IBM) will be an important component of value proposition.

- **Nurturing the channel:** Reaching out to those channels where there is overlap is important. Channel partners (VARs, systems integrators, etc) will be feeling the pain from their customers and will look to existing vendors that can offer a comparable alternative and support. In both enterprises and small-medium businesses, channel partners are key players.

### **Next Steps for Enterprises**

Although Nortel is technically still in business (chapter 11 allows for a court-approved reorganization plan), customers can't help but think that Nortel is facing a bigger challenge than it can handle. Nortel has not discussed its strategy going forward regarding what products will stay and what will go, but customers must have plan B in place. For enterprises, it's a difficult time. In the midst of IT budgets cuts, an economic crisis, and a communications technology revolution, now enterprises must begin to evaluate where to go from here. Particularly for existing Nortel customers, it means making a bigger decision, although not right away. It's not time to panic; while Nortel hasn't presented a reorganization plan yet, it is not going out of business tomorrow. There is also the distinct possibility (although very slim) that they will recover from the bankruptcy protection. Unfortunately, the economic climate may hinder Nortel's success. Enterprises must work with their channel partners to evaluate vendors who will be able to provide a migration path, which has some financial viability, and a strong services organization.

Now is also a good time for enterprises to evaluate a long term communications strategy. The ROI case for IP telephony is strong; not moving towards it is detrimental to the success of organizations. Begin to research the different solutions that vendors offer for unified communications; ensure that they offer a solid migration path from IPT. Also evaluate how certain communications tools are utilized within an organization. If possible, now is the time for IT to conduct employee surveys on how communications and collaboration tools are used for business purposes (i.e. Citrix's GoTo products is a good example). Taking inventory of employees as well as products is critical to determining what is needed within an organization. This is a critical time for enterprises to make decisions. Vendors are looking to cater to enterprises and will work diligently to find the best solutions. With a new president in place, who has a big focus on IT initiatives, it would behoove enterprises to investigate and leverage any and all opportunities the government is looking to offer (i.e. tax breaks on green IT, etc). In the midst of gloom, for enterprises, both big and small, there is light at the end of the tunnel.