

Ericsson's Bid for Nortel Assets Shakes Up Wireless Market

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By winning parts of Nortel's wireless business, Ericsson puts pressure on Nokia Siemens Networks, Alcatel-Lucent, Motorola and Huawei as they pursue network migration contracts with North American wireless carriers.

Event

On 25 July 2009, Nortel announced that Ericsson had bid \$1.13 billion for its wireless division. Ericsson's bid has received court approval in the U.S. and Canada. If the sale closes, at least 2,500 Nortel workers will join Ericsson, and Nortel's assets in code division multiple access (CDMA) and Long-Term Evolution (LTE) wireless access technologies will transfer to Ericsson. The deal does not include Nortel's Global System for Mobile Communications (GSM) technologies, 3G Universal Mobile Telecommunications System (UMTS) softswitch core or LTE Multiple-Input Multiple-Output (MIMO) patents. Nortel's intellectual property related to the Mobility Management Entity (MME) of LTE will be licensed on a limited basis to Hitachi, which is system integrator on the MME deployment at KDDI.

Analysis

This deal will mostly affect North America and China, and the migration of legacy technology rather than LTE capabilities directly — Ericsson has its own investment in LTE and does not greatly need Nortel's LTE assets.

Ericsson will gain in CDMA, commonly used in North America and in Asia/Pacific countries like China. Although Gartner forecasts show that CDMA equipment revenue will decline 72% by 2014 in North America, CDMA remains a profitable business and the platform that the largest North American communications service providers (CSPs) will need to use to migrate to next-generation mobile technologies like LTE.

With Nortel's assets, Ericsson will be better placed to capture the CDMA opportunity in North America against its competitors:

- Alcatel-Lucent and Motorola, Ericsson's largest rivals in the U.S. and strong vendors in CDMA.
- Nokia Siemens Networks, which had also bid for Nortel assets to strengthen its own network-migration story in North America.
- Huawei, which has won pure-CDMA deals with Cox Communications and CDMA-migration deals with Telus and Bell Mobility.

The Nortel deal forms part of Ericsson's larger movement toward a stronger North American presence. On 9 July 2009 it announced a \$5 billion outsourcing deal with Sprint to provide the underlying network support — site construction, field services, 24/7 monitoring and routine maintenance — for CDMA, iDEN and fixed networks. Nortel is a CDMA supplier to Sprint.

Recommendations

Current and potential Nortel CSP customers:

- Consider Nortel for CDMA equipment purchases, but factor in additional risk until the deal closes. For example, use a shorter depreciation cycle for Nortel solutions than for other vendors you're evaluating.
- Wait to see Ericsson's product road map for Nortel's LTE equipment, and prepare contingency plans for migration to other LTE vendors, such as Alcatel-Lucent or Nokia Siemens Networks. Ericsson's plans may differ from those that Nortel communicated.

- Include Nortel for CDMA equipment RFPs to encourage competitive bids and lower prices. Ericsson may try to keep or increase market share.

RECOMMENDED READING

- "Create a Backup Plan for Continued Support of Nortel Environments" — Contingency planning will minimize disruption for Nortel customers. **By Christine Tenneson**
- "Vendor Rating: Ericsson" — Ericsson's lack of a CDMA portfolio puts it at a disadvantage in CDMA to LTE evolutions. **By Sylvain Fabre and others**

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