Eyes on Huawei-Nortel broadband deal

February 2 2006

Nortel's decision to tie up with China's Huawei Technologies to develop broadband access is seen as a good deal for the Canadian telecommunications group. Yet some industry analysts are questioning whether the same could be said for Huawei's decision to go ahead with the collaborative efforts.

On Wednesday the two companies announced they would establish a joint venture to develop ultra broadband access solutions for the global market. In addition, they agreed that Nortel will be able to start dealing with Huawei's broadband access clients.

In a joint statement, Nortel and Huawei said that the effort will combine Huawei's broadband access solutions with Nortel's voice and broadband networking technologies to create a new product portfolio, namely to converge voice, video, data and wireless services to customers on a common Internet Protocol platform that supports copper, fiber and fixed wireless networks.

"We believe the cooperation with Nortel, a leader in the telecommunications industry, will enable us to create greater value for our customers." said Yafang Sun, chairwoman of Huawei. "The joint venture will combine Huawei and Nortel's advanced technologies and products, to create leading broadband access solutions to meet customers' needs. It will bring better value to our existing and potential customers."

Certainly, the deal "is significant," according to analysts Ken Twist and

Kamalini Ganguly at Ovum, a London-based information-technology research group. "It demonstrates that the access network, once thought of as a low-value, low-margin, commoditized market segment for equipment vendors, is now a more strategic component of their networks as they look to deploy IPTV and content services, driving IP and network intelligence to the customer's home. Many operators are looking for vendors that can provide complete solutions rather than point products. Nortel needed an access solution to complement its other strengths, such as its packet voice and next-generation networks capabilities, and the joint-venture gives it that," they argued.

Meanwhile, the two analysts pointed out in particular the advantage Nortel would have in getting immediate access to Huawei's client list, even though the joint venture itself is not expected to come to fruition until the third quarter of this year.

For Nortel, the deal marks a comeback into the access market that it left five years ago, as it failed to take advantage of the competitive edge it had as a well-established company and instead found that newcomers were more aggressive in pursuing the sector. Indeed, Huawei is now the world's second-largest broadband access provider, while established companies such as Lucent and Nortel have dwindled in the market.

Granted, Huawei has been less successful in North America than elsewhere, so a tie-up with Nortel may well reap in benefits.

Nevertheless, Ovum's Twist and Ganguly warned that "while the numbers around broadband equipment sales look attractive, it still remains a very low-margin, cut-throat business."

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