Analysis: Return of the Bell epoque?

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As Lucent Technologies considers merging with French telecom equipment manufacturer Alcatel on the one hand, and AT&T continues to display its seemingly insatiable appetite to gobble up the competition on the other, it seems as if the former Bell companies are out to dominate the telecommunications industry once again.

But while the prospect of the majority of Baby Bells reuniting once again under one roof, having been forced to break up by the government in 1984 in accordance to anti-monopoly regulations, might be alarming to some, many expect that such moves will only strengthen the telecom networking sector as a whole. Similarly, a deal between the former Bell equipment maker and the Paris-based company could spur a rapid change in the business landscape of telecom product manufacturers as well.

Of course, the prospect of Alcatel joining forces with Lucent is nothing new, as the two companies entered similar talks in 2001, even though the deal ultimately fell through as they were unable to agree on how much control each company would have over the new entity. Some analysts, however, expect that this time around, the outcome will be different.

"The industry has been in a consolidation phase since Ericsson's acquisition of (Italian giant) Marconi," said Jean-Charles Doineau, service infrastructure practice leader at London-based research group Ovum. "The situation for Alcatel and Lucent has changed compared to 2001, when the companies were facing financial difficulties and were engaged in deep restructuring programs. Alcatel has sold all its lossmaking activities (such as fiber optics and mobile phones) and succeeded in becoming a leading vendor in the fixed market (including becoming a major player in broadband.) while partly enhancing its mobile infrastructure business thanks to its success in emerging markets," Doineau said, pointing out that five years ago Lucent had the upper hand, but the situation now has changed.

"Lucent also sold several activities to focus on telecoms, but did not succeed in gaining enough momentum in the fixed industry in its domestic market, while its mobile business is 90 percent CDMA, with key accounts such as Sprint and Verizon," he added.

Still, while it might now make financial sense for telecom equipment manufacturers to merge than it did in 2001, there is some concern that a leading U.S. telecom maker coming together with a European counterpart may lead to considerable political opposition that might break the deal yet again.

The merger between Lucent and Alcatel "will make sense ... if people feel comfortable with foreign ownership," said Jeff Kagan, an independent telecom analyst based in Marietta, Ga. "But it's a new idea in a dangerous time," he added.

Kagan argued that shareholders and customers alike as well as legislators would likely question "whether or not (the deal) is a security risk," and pointed out that merger talks would be easier to realize if it were between two U.S. companies.

Keeping politics aside, though, assuming that the merger goes forward, it may well ignite a buyout and merger frenzy among other telecom equipment manufacturers.

"The consolidation of the U.S. service provider market is certainly accelerating with the Sprint-Nextel and SBC-AT&T-Bellsouth mergers. Vendors are going to be confronted with significant (capital expenditure) rationalization in the already highly competitive U.S. market," Ovum's Doineau said.

In addition, the analyst pointed out that "Lucent is very dependant on these operators, and is probably more exposed than Alcatel, though the resurgence of an AT&T-led Bell system could favour the company."