Research Brief

Accelerate: Cardiopulmonary Resuscitation for Lucent

Abstract: Lucent Technologies has resurfaced with the recently announced Accelerate portfolio.

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Recommendations

- Emphasize the marketing effort of your product portfolio and recognize where the potential "low-hanging fruit" is.

- Regain customer confidence by disposing of preconceived notions from corporate restructuring and workforce reductions.

- Leverage sales channels to guide buying decisions in the carrier community.
Introduction

The Voice over IP (VoIP) and next-generation network (NGN) markets have been growing every year and even more so in 2003. The NGN market in North America was expected to grow 46 percent in 2003 and is projected to grow at a compound annual growth rate (CAGR) of 6.6 percent from 2003 through 2007. The value of the market ($3.3 billion in 2003) is relatively small, mainly because of the presence of the backbone multiservice platform (BMSP) and service provider router (SPR) markets. As a result, vendors have been fighting for market share and positioning to gain recognition for innovative solutions to solve carrier problems and help them generate revenue streams while running a more cost-efficient network. Lucent Technologies, in effect, has re-entered the scene and is back in the hope of again being one of the top two vendors in the switching space. Vendors with comparable portfolios are Siemens’ Surpass, Nortel Network’s Succession, Ericsson’s ENGINE and the recently announced Alcatel OPEN.

From Gartner Dataquest's last view of North America, Lucent ranked No. 2 in the NGN switching picture, but this was because of its strong position in the BMSP segment. On a worldwide level, Lucent ranked fourth in the BMSP segment. At that time, Lucent was not present in the softswitch or SPR markets. For more information, please see, "North America: Switching Equipment Market Size and Forecast, 1998-2007," TCPN-WW-MS-0372.

Accelerate Product Portfolio

Lucent recently announced Accelerate — a VoIP strategy and set of solutions designed to help wireline and mobile service providers deliver IP-based voice, data and multimedia services. Accelerate professes to support the convergence of traditional voice services with multimedia services, including Web-based features. The value proposition to service providers is that they will be able to increase revenue by offering consumers and enterprises voice and data applications such as unified communications, multimedia messaging, location-based services, IP Centrex, and voice and data virtual private networks (VPNs).

The Accelerate portfolio consists of new and established products and services including — but not limited to — Lucent Softswitch (LSS), 5E-XC, AnyMedia access products, gateway products (APX, PSAX and iMerge), Intelligent Media Gateway and Packet IN.

Lucent’s new Intelligent Media Gateway connects standard telephones to either the traditional public switched telephone network (PSTN) or VoIP network. Especially for carriers that are looking for a migration path, this gateway allows them to deploy an interim solution and evolve it to a VoIP network that supports customers that are using standard or IP phones.
Lucent breaks out the umbrella portfolio in the following market areas:

- Enterprise solutions — Next-generation solutions for small, midsize and large enterprises that unify voice and data (for example, IP Centrex)
- Mobility solutions — Third-generation (3G) mobile solutions for cdma2000 and Universal Mobile Telecommunications System (UMTS)/wideband code division multiple access (W-CDMA) that enable mobile operators to offer combined voice and data services using multiple devices (for example, mobile phones and PDAs)
- Voice/data/video over broadband solutions (for residential and business use) — Next-generation voice and data services over any IP connection (for example, Voice over DSL and "triple play" communications and entertainment services delivering voice, data and video to subscribers)
- Local network solutions — Supports calls on traditional wired or mobile phones and IP-based devices, such as computers, based on a next-generation platform that provides traditional Class 5 services via VoIP by working with 5E-XC and the new media gateway
- Service provider trunking solutions — VoIP connectivity on network switches, such as on 5E-XC, mobile switching centers and next-generation media gateways
- Next-generation application solutions — Lucent- or partner-developed applications that enable service providers to offer revenue-producing voice, data and multimedia convergence services, such as "find me follow me," over devices such as PDAs and PCs.

The Road to "NGNowhere" Leads to the Road "NGNow-Here"

The vendor that is most widely known for traditional technology during the past two years has lived through several false starts in rolling out a compelling NGN story.

2000

Lucent announced the 7 R/E Portfolio for multimedia, multiservice networks to allow customers to transform their 5ESS switches and begin a sound migration path. The 7 R/E was primarily asynchronous transfer mode (ATM)-based, thus showing that Lucent was on top of the upcoming technology changes; interestingly enough, for undisclosed reasons, the company, with a large installed base of ATM-based products, hit a dead end and discontinued the product.

The iMerge NCS, a network-based call signaling gateway, was announced as part of 7 R/E and was primarily directed at cable operators. This enabled cable operators to deploy a converged IP solution in their access network while still leveraging their switches for connection to the PSTN. Recognizing that the cable market in 2002 was still in its infancy with respect to deploying VoIP, Lucent announced the iMerge CFG, primarily directed at the incumbent operator market as an IP Centrex gateway to address the enterprise.
2001
In a continued effort to address the IP market, SpringTide 5000 (a product line brought in via the SpringTide acquisition) was announced to enable carriers to offer IP services to their customers. Later, SpringTide 7000 for wireless IP services made its debut. Despite some deployment of SpringTide 7000, the products were discontinued in the fourth quarter of 2002. Lucent perceived this product as not being a good market opportunity.

2002
In 2002, after the discontinuation of 7 R/E, Lucent placed greater focus on the packaging of the core asset and defined the 5ESS’s ability to add value to the next-generation environment as 5E-XC. The 5E-XC became the path for circuit-to-packet conversion as well as high-capacity and multiservice capability. The 5E-XC is part of the Accelerate portfolio.

Lucent still finds itself defending the ongoing rumor that it got out of the softswitch business. Contrary to popular belief, Lucent had a few softswitch platforms and intelligently reduced this number to one and named it LSS, which supports wireline and wireless applications, next-generation and traditional subscriber services, media control for trunking to the PSTN, and data offload applications.

At a crossroads, an exhausted Lucent abandoned parts of the VoIP business in 2002. It reduced R&D in wireline softswitch, focusing instead on wireless applications for unified softswitches.

LSS trials have been announced with China Unicom and AT&T Wireless.

2003
In June 2003, Lucent announced the birth of the iGen compact switch, a stand-alone compact switch that was targeted for smaller markets. iGen is a next-generation small Class 5 switch that provides Class 5 services, such as caller ID, for up to 10,000 subscribers on a single 23-inch-wide shelf. Since the announcement in November that the product was generally available, a few trial announcements have been made to small independent operators in North America.

In October 2003, Lucent announced the results from a partnership agreement with Juniper Networks to offer unified solutions for deploying core, metropolitan, data, broadband and metro-optical networks that were initially launched in May 2003. The partnership, which developed a multiprotocol label switching (MPLS) multiservice core solution (ATM over MPLS) that should be commercially available in the first quarter of 2004, would be a great opportunity for Lucent to leverage its large installed base of ATM equipment in the carrier networks.

Although the portfolio is not fully complete, the effort to bring the company back to being a credible NGN technology vendor is sending it in the right direction. A large untouched installed base remains, which Lucent can leverage with the Accelerate portfolio.
Fresh Pavement With Carrier Deployment

In a subsequent announcement to Accelerate, Lucent disclosed Qwest's plans to deploy some elements of the Accelerate portfolio. Qwest will deploy 5E-XC in rural areas where more capacity is needed and replace switches that are ready to retire. As the three-year deal progresses, Qwest will begin adding Lucent’s Intelligent Media Gateway as well as services such as consulting and integration, engineering, and installation from Lucent Worldwide Services (LWS), Lucent’s program that assists customers with the planning, designing and management of their networks.

While this seems like a significant announcement, Qwest reportedly services 16,354,000 lines, of which 37 percent (6.1 million) are business access lines. Qwest will be able to leverage the Accelerate deployments to address business and residential customers.

However, Lucent is two years behind its once-biggest competitor, Nortel, which has had several worldwide deployments. Entrants Telica, Sonus and Taqua have made a notable impact in North America (where Lucent has a large installed base). Lucent claimed in its recent analyst teleconference, which announced the launch of Accelerate, that it has the most up-to-date software in its NGN portfolio. It claimed that this would grant the company a competitive advantage over its competitors. Those competitors have not been sitting idle during the past three years, as version upgrades to their NGN products are on target with customer demand.

With Lucent having a solution that can address its customer needs and perhaps additional customers, it will be a challenge for it to distinguish itself from market challengers. The distinction starts with LWS. But that may not be enough. Time will tell whether satisfied, highly referenceable customers result.

Gartner Dataquest Perspective

Lucent’s re-emergence may be too little, too late, and the company could find itself in a more challenging competitive environment. Gartner Dataquest has stated that Lucent’s key customers’ confidence is rattled, and it will face challenges in R&D. It must turn ideas to useful products quickly. Those issues should still be Lucent’s main priority. For more information, please see “Lucent’s New CEO Must Rise to the Occasion,” FT-15-2361.

Lucent unquestionably has the expertise, experience and knowledge in technology, but the question of what this company, with such a large installed base of circuit switches, will do for its customers is a cause for concern. Even so, its reputation will carry enough weight to allow it to come back.
Lucent should do the following:

- Recognize the potential of IP Centrex and strongly market the iMerge product and IP Centrex solution.

- Accelerate marketing efforts in Accelerate and stick with it to regain customer confidence (particularly with established customers).

- Reinforce Lucent's position as a strong, competitive and lean vendor that is dedicated to NGN carrier needs to overcome the preconceived notion that Lucent cannot execute customer requirements based on the effects of corporate restructuring.

- Build on Lucent's initial public network outsourcing ability and develop a differentiated strategy to address service provider needs for different tiers of carriers. As outsourcing becomes a critical issue not only for Tier 2 but incumbent operators, strict execution of outsourcing plans and service provider satisfaction are key requirements to succeed. For more information, please see "Telecom Vendors Eye Public Network Outsourcing," ITSV-WW-DP-0544.

- Leverage Lucent's sales channels more efficiently to penetrate buying decisions for NGN solutions by incumbent operators, alternative carriers, independent operators and NGN service providers, highlighting not only technology advantages but 24x7 customer support and vendor/customer relationships.

- Provide a true end-to-end solution that will enable service providers to understand the demands of their business customers more quickly and allow them to deliver services more efficiently. This will involve a closer work relationship with Lucent's previous enterprise product group, Avaya, which has become its own company.

- Enforce the messaging of Accelerate to migrate wireline and wireless network architecture with different voice, data and multimedia services not only as part of the technology capability but as part of long-term, strategic and consultative partnerships between Lucent and its customers.

- Capitalize on the past experience of dealing with different service providers and apply that knowledge to capture some of the activities of international operators that are determined to roll out VoIP and NGN architecture.

**Key Issue**

What are the business models that justify and accelerate next-generation technology deployment?
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