Post Alcatel’s takeover of Lucent Technologies, the telecom equipment and networking major, Alcatel-Lucent, has been on shaky ground despite multiple rounds of internal restructuring. The company is in the red with its losses more than doubling to Euro 885 million in the quarter ended June 2013 as against Euro 396 million during the same period in 2012.

After making several attempts at a turnaround, the company’s chief executive officer, Ben Verwaayen, resigned in early 2013. He was succeeded by Michel Combes, who took over in April 2013, armed with a strategic restructuring blueprint for the company, which has been dubbed “The Shift”. Alcatel-Lucent is planning to reduce its fixed cost structure by Euro 1 billion by focusing on reducing sales, general and administrative expenses, and improving operational efficiencies. Sale of selective assets is also on the company’s agenda, the objective being to generate close to Euro 1 billion over the period outlined in the plan. The company, which once sought a return to profit by 2011, has not set a public target date for the same this time.

In India, however, Alcatel-Lucent continues to post steady growth. As per company officials, 2012-13 was a productive year, as the equipment major expanded its business in areas that were unaffected by the turbulence in the telecom space.

Core focus areas

Providing managed services remained a key focus area for the telecom major. To this end, the company tied up with Reliance Communications (RCOM) in January 2013 for providing the latter end-to-end network managed services. The contract spans eight years and is worth $1 billion. As per the terms of the contract, the company will manage RCOM’s telecommunication networks in eastern and southern India. Alcatel-Lucent is expected to enhance RCOM’s operations and synergise its independent wireless and wireline teams to form a single network management organisation. It would also establish and manage next-generation operations support systems for RCOM, and introduce advanced real-time optimisation tools.

Close on the heels of signing this contract, the company was selected by Uninor to manage three of its largest circles – Gujarat, Maharashtra and Andhra Pradesh. Alcatel-Lucent will deploy established standards-based network performance tools to enhance the operator’s existing networks.

In another significant development this year, though not quite in favour of Alcatel-Lucent, Bharti Airtel, the company's long-time associate, acquired its stake in their joint venture (JV), Network Services India. The JV managed Airtel's fixed line and broadband networks, which it now plans to manage on its own.

Non-core areas

Meanwhile, Alcatel-Lucent witnessed significant activity in the broadband, gigabit-capable passive optical networks, IP and optics, and long haul (terrestrial and subsea) segments. It expanded its transmission footprint as well as its presence in the submarine cable space and also signed a turnkey contract with the Bay of Bengal Gateway consortium to deploy a 100 Gbps submarine cable system to connect Oman, India, Sri Lanka, Malaysia and the UAE.

Besides, the company secured a few lucrative projects, both domestic and overseas, in the enterprise segment. It signed contracts with various entities, including the Centre for Interactive Systems Research and the Indian Institute of Science Education and Research.

In March 2013, Alcatel-Lucent secured a three-year contract from Tata Communications to replace the latter's legacy equipment across 51 countries. The deal is aimed at reducing the company's opex.

R&D

Research and development (R&D) continues to be a key focus area for the company. Alcatel-Lucent plans to leverage its R&D facility, Bell Labs, to help growth in the areas of IP, cloud and ultra-broadband. It plans to pump in more funds into R&D between 2013 and 2015, and focus on in-house start-ups, partnerships and co-developments (such as those as in cyber security).

Meanwhile, the government is set to acquire Alcatel-Lucent's stake in the Chennai-based R&D centre, which had been set up in 2005 to develop solutions for Wi-Max technology. Alcatel-Lucent has 51 per cent stake in the centre and the government-owned Centre for the Development of Telematics holds the rest. The Department of Telecommunications has set up a committee to work out the modalities of the stake acquisition.

The road ahead

Going forward, the company is working on implementing "The Shift" strategy in India as well. As per the plan, Alcatel-Lucent is focusing on innovations in R&D, with an emphasis on the IP networking and ultra-broadband access business segments. The strategy is also aimed at reprofiling the

company's Euro 2 billion debt and enhancing revenues from the network business by over 15 per cent, from Euro 6.1 billion in 2012 to over Euro 7 billion in 2015.

The plan also includes focusing on cash management in the wireless, fixed access and other businesses. This will include investments in 4G long term evolution and vectoring and fibre-based access systems. This is expected to result in positive segment operating cash flows of over Euro 250 million in 2015. Further, Alcatel-Lucent's management structure will be reorganised into four main business divisions – IP routing and transport, IP platforms, wireless, and fixed networks.

Overall, as per analysts, the company is on the right track, though a financial turnaround will take some time.