Alcatel-Lucent

Goodbye and adieu

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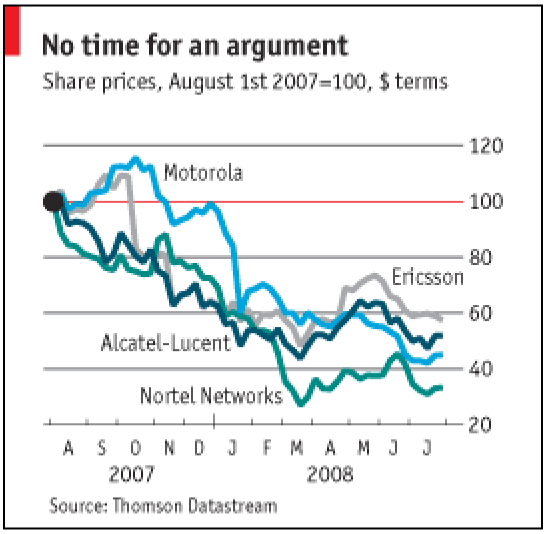
The architects of a big telecoms-equipment merger decide to hang up

WHEN Alcatel, a French maker of telecoms equipment, announced its plan in 2006 to merge with Lucent, an American rival, reactions were mixed. There was general agreement that bigger was better and that the combined firm would benefit from greater geographical reach. But there was also scepticism that its French and American managers would be able to get along. With good reason, it seems: on July 29th Alcatel-Lucent announced its sixth consecutive quarterly loss and the resignations of Serge Tchuruk, its French chairman, and Patricia Russo, its American chief executive. Their firm's troubles stem in large part from its internal clash of cultures.



This clash was an unhelpful distraction, given that the entire telecoms-equipment industry is suffering. The bonanza of 2000-05, when European operators upgraded their mobile-phone networks to new "third-generation" (3G) technology, is winding down. Sales growth is slowing, and even Ericsson, the industry leader, has seen its share price fall by 50% in the past year. Margins have also been squeezed by the rise of Huawei and ZTE, two Chinese firms. Their prices are sometimes 40-50% lower than those of Western vendors.

The merger was supposed to make Alcatel-Lucent more competitive, but cost savings have been hard to realise, despite 16,500 job losses from a workforce of 88,000. The combined company was also weak in W-CDMA, the dominant 3G technology, and relied too much on CDMA, a rival standard that is less popular. This made Alcatel-Lucent unusually dependent on a few key customers, such as Sprint, an ailing American operator. Alcatel-Lucent should have focused its research spending in a handful of carefully chosen areas, says Sylvain Fabre of Gartner, a consultancy, instead of maintaining a sprawling product portfolio.

And then there were the cultural problems. Key positions were divided between French and American executives, as was the board. When deciding which factories to close and which projects to fund, national allegiances quickly came to the fore. Both Mr Tchuruk and Ms Russo alluded to this when announcing their resignations this week. “It is now time that the company acquires a personality of its own, independent from its two predecessors,” said Mr Tchuruk. Ms Russo said the company would “benefit from new leadership aligned with a newly composed board.” Alcatel-Lucent plans to reduce the number of seats on its board and appoint some new faces.

Things might run more smoothly with a few new directors who are neither American nor French. The same goes for the new chief executive. One name being touted is Ben Verwaayen, the former boss of BT. He is respected in the industry, used to work at Lucent—and is Dutch.