Bay Networks, Inc.

Introduction

"If any company ever needed a leader, it was Bay Networks."[1] The result of a troubled merger of two ~~~er~~ companies Wellfleet and SynOptics, Bay suffered from having two different company cultures - Wellfleet, based out of Boston, exhibited a formal East Coast culture, while SynOptics boasted a more entrepreneurial West Coast style. Further exacerbating the company's woes were problems with the product development, with products often missing deadlines, having bugs, and making customers dissatisfied in general. In January 1997, Bay realized that a changemaker was needed, and they hired Dave House, the former executive vice president of Intel. As the CEO, chairman and president of Bay Networks, House hired Behnam Tabrizi, a renowned management consultant, to implement the Rapid Transformation model. Educating his employees on the process of decision-making, straight talk, and managing for results, House transformed Bay Networks from laggard to leader under his supervision. Under House, Bay Networks rebounded from its prior setbacks, and when acquired by Nortel Networks in June 1998, its value skyrocketed from under $3 billion to over $40 billion.2

---

[1] Reinhardt, Andy. "Bay Networks' Mr. House Finds his Fixer-Upper." Business Week, May 1998 <http://www.businessweek.com/1998/05/b3563113.htm>.

[2] Tabrizi, Behnam. Rapid Transformation. Boston: Harvard Business School Publishing Corporation, 2007. Page 24-25

Bay Networks, Inc.

Results of Transformation

After 150 days, the rapid transformation of Bay Networks was unofficially over, and Bay had been radically and irrevocably changed. Bay was a dramatically different organization: it had re-defined its values and goals, and set in place new processes that covered everything from product development to sales and marketing. Under House's supervision, Bay had improved the following:

- *Revenues*: increased from $513 million in the third quarter of FY1997, to $645 million in the second quarter of FY1998.

- *Profits*: gross profits increased from $230 million in the second quarter of FY1997, to over $331 million in the second quarter of FY1998.

- *Employee morale*: company turnover dropped from an abysmal 27% when he arrived, to a more reasonable 16%.[82]

For plots showing Bay's financial success throughout the transformation, see Exhibits 16-17.

Market penetration
"We are particularly pleased with the results of the IDC study because it indicates that the company's efforts to deliver best-of-breed products continue to be recognized by our customers," said Tim Riley, director of network management product marketing for Bay Networks. "Bay has reaffirmed its commitment to network management by naming it a cornerstone technology and will continue to develop leading-edge products in this area."

Under House, sales of Bay Networks' Optivity network management applications made it the market leader for revenue in the low-end and high-end element management software, with a market share of greater than 32%. Bay is also the market leader in embedded RMON probes, with 38.5% market share, based on vendor shipments. Bay has also almost doubled its market share in standalone RMON probes.

---

[82] Reinhardt, Andy. "Bay Networks' Mr. House Finds his Fixer-Upper." Business Week, May 1998 <http://www.businessweek.com/1998/05/b3563113.htm>.

Bay Networks, Inc.

"The user survey data shows that a significant number of end-users are using Bay Networks' Optivity product suite to manage their networks," said Elisabeth Rainge, senior analyst at IDC. "This is the second year that Bay has led in network element management software market share."[83]

Acquisition

In June 1998, Bay Networks was acquired by Nortel Networks for $9.1 billion, at a price of $38.21 per share. In the words of House:

"This is another step in the direction in which we have been moving all along. The Web has changed everything. The public network is moving rapidly from voice to data. A new class of company must emerge to meet the demand for IP technology and networking expertise, with the ability to build carrier-class, mission-critical networks. That company is Nortel and Bay Networks. Together, we will create next-generation networks that spark the next wave of innovation and revolutionize the way we work, learn and play."

"People thought this company was on its deathbed a year ago, and just look at what he's done."[84] After the acquisition, House became the President of Nortel Networks, and Bay Networks' market value ballooned to over $40 billion with the prosperity of Nortel—a resounding success when considering the $3 billion value of the company when House entered. The value per original Bay share skyrocketed from as low as $16 to upwards of $100, fulfilling House's goal from the end of the 60-day meeting.   To his accomplishment, House said:

"Everyone take note—Bay Networks is back with a vengeance!"[85]

---

[83] "Bay Networks Names Solidifies Position as Market Leader in Network Management." Business Services Industry. 16 July. 1996. Bnet Business Network. 25 February 2009 <http://findarticles.com/p/articles/mi_m0EIN/is_1997_July_16/ai_19585568>.

[84] Reinhardt, Andy. "Bay Networks' Mr. House Finds his Fixer-Upper." Business Week, May 1998 <http://www.businessweek.com/1998/05/b3563113.htm>.

[85] Presti, Ken. "House ushers in growth, recovery at Bay Networks." 8 August 1998 <https://www.thedacs.com/techs/abstract/108222>.