

## ***Point of View:*** **Hewlett Packard Acquires EDS**

*Accelerating Performance by Calculating Results™*

**Expanding into Higher Margin Managed IT Services and Consulting:** allows HP, (*NYSE, Nasdaq: HPQ*) a global technology company with over \$104 billion in revenues to grow more rapidly via a history of investments in IT network connectivity and data center automation solutions combined with managed IT services firms. As a result of this acquisition, business services now comprise 36.5% of HP's revenues generated from eighty countries. Betting its future growth on technology services and IT network infrastructure such as mobile connectivity rather than on commodity products such as personal printing and computing products makes sense for HP...if they succeed in delivering value to customers sooner rather than later.

### **Perhaps Carly Was Right?**

Back in 2000, then CEO Carly Fiorina was roundly criticized by Wall Street and numerous senior executives for beginning acquisition discussions in regards to management consulting firm PriceWaterhouseCooper. IBM, then a software and product company, evaluated the synergistic growth opportunity presented by moving into management consulting services and snatched up PwC for \$3.5 billion two years later. HP decided to grow within the personal computing market instead and invested \$25 billion in acquiring Compaq Computers.

Six years and 10+ acquisitions later, HP moves into management consulting to the tune of \$13.9 billion for EDS, with 2007 revenues of approximately \$27 billion. Our assessment is that HP saw IBM successfully move from a product-centric company to a more profitable technology company, and began laying the groundwork by acquiring numerous companies that would complement core document, content and information products and services. Companies acquired include: Colubris Networks, Inc. [announced last month], Tower Software, Exstream Software, LLC, AOME [Systems Integrator for SAP solutions], Neoware, Inc., Opsware, Inc., Mercury Interactive Corp., [IT management software and services], Silverwire Holding AG, [digital photography software], and PipeBeach AB, [XML-based interactive voice solutions]. Accenture, [currently an HP partner along with BearingPoint, Capgemini, and Deloitte] and IBM are currently acknowledged as industry leaders at present, but HP seems positioned to carve out a niche for itself as a provider in the ever-changing and highly lucrative network infrastructure solutions market.

### **Challenges Ahead:**

Restructuring a company as large as HP, with over 200,000 employees worldwide is no small task and the company has announced it expects to complete full integration of EDS within three years. While recent layoff announcements for 24,500 current employees seem high, it actually amounts to approximately 7.5% of the company's current workforce and is estimated to reduce costs by ~\$1.8 billion per year.

EDS had a history of subcontracting projects to outsourced suppliers of contract workers while retaining full-time employees with specific domain expertise to oversee client projects, business processes and to maintain key relationships. Obvious resource cost savings in employee benefits as well as increased flexibility in staffing were realized through this practice which contributed significantly to bottom-line results for EDS. This is a striking contrast to the current culture, industry focus and technology expertise at HP. In short, integration of these two companies is sure to be "a bumpy ride."

## POV: EDS Acquires EDS

### Where's the Synergy?

HP is a product-centric company at its core, with deliberate plans to expand its markets and reach beyond consumer and business products. In fact, only the TSG Group, which includes hardware such as storage and server products, offered managed business services and software solutions. All outsourcing services operations will be transition to EDS, an HP company.

It is interesting to note, that aside from some software product lifecycle and supply chain management, document management and network infrastructure services, the two companies have very little current overlap in either offerings or customers. Historically, EDS is organized in matrix structure aligned by service offerings and industry—which could be a positive influence for HP if their go-to-market strategy adapts this approach. HP currently focuses on product lines, customer segments, or company size.



HP SOLUTIONS:						
Large Enterprise:	Desktop	Handheld	Tablet PC	Notebook/Laptops	Printing & Imaging	Workstation
SME & Mid-Market:	Desktop	Handheld	Tablet PC	Notebook/Laptops	Printing & Imaging	Workstation
Government, Health & Ed.	Desktop	Handheld	Tablet PC	Notebook/Laptops	Printing & Imaging	Workstation
Home Office & Consumer:	Desktop	Handheld	Tablet PC	Notebook/Laptops	Printing & Imaging	Workstation
EDS: INDUSTRY SOLUTIONS	Consumer & Retail	Energy	Government	Telco, Media Entertainment	Healthcare	Manufacturing & Transportation

Hypatia delivers high impact market intelligence, industry benchmarking, best practices, technology vendor selection, ROI assessment, and consulting services that reduce cycle-time and influence customer management, product strategy and channel development goals. Since 2001, clients have relied on our industry insight, expertise and independent research for guidance in assessing various technology, solution and service options. Like our namesake, Hypatia, we are committed to *Calculating Results™* for our clients.

**Hypatia of Alexandria** (c.370-415 AD), invented several scientific devices--the astrolabe, plane sphere, and hydroscope (hydrometer). These instruments were used to calculate the distance between planets, the position of visible stars at any time of the year, and the gravity of liquids respectively. Hypatia was the first woman to make substantial contributions to the development of mathematics, astronomy & philosophy.

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### Implications for Current and Future Customers:

If your organization is currently satisfied with EDS, TSG or other offerings from HP, there is no reason to evaluate other vendors in preparation for jumping ship. However, in assessing new software, infrastructure, integration or business outsourcing services offered by the post-merger HP, one should carefully consider:

- ✓ Which division or unit is ultimately responsible for delivery?
- ✓ What is this unit's track record of success in your specific industry?
- ✓ What is the maturity stage of the service contemplated? [number of similar implementations or outsourcing projects completed]
- ✓ Will the service seamlessly integrate with current IT architecture and delivery models—should your organization later decide to in-source?
- ✓ Whether the delivery team will be located onsite or work at a remote location?

Long-term, HP's single-source, multiple solutions and services portfolio strategy will deliver the benefits of one-stop shopping to companies that seek to focus on core competencies such as providing healthcare services or creating innovative products—rather than investing in internal resources to gain operational efficiencies.

### Is Bigger Really Better?

Revenues for the combined TSG outsourced services and EDS totaled ~\$38 billion in 2007. HP gains new markets, additional technology and business service expertise and the goods to deliver growth via three defined high investment technology areas:

- ✓ Next Generation Data Centers
- ✓ 24X7 Mobile Computing and Connectivity
- ✓ Ubiquitous Printing & Imaging

Our assessment is that the groundwork has been laid, and the strategy seems sound from the portfolio and balance sheet perspective. As always, the proof isn't in the pudding, it is in the value realized from consuming when cooked to perfection.

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