

## Hewlett-Packard renews challenge to IBM

*Kevin Allison*

Hewlett-Packard, the world's biggest information technology company, is today expected to close its \$13.9bn acquisition of Electronic Data Systems, a deal that marks a renewed challenge to IBM's dominance of IT services.

Integrating the two companies is likely to test the mettle of Mark Hurd, HP's chief executive, whose aggressive cost-cutting and focus on improved execution have lifted the company's shares since he was appointed chief executive in 2005.

The last time that HP attempted an acquisition of a similar size was 2002, when then-CEO Carly Fiorina led the controversial \$19bn takeover of Compaq, a rival personal computer maker.

Mr Hurd's challenge will be to continue to improve HP's business while avoiding the integration problems and management missteps that plagued Ms Fiorina in the wake of the Compaq deal. "In the end, it's more important for us to execute than anything else," Mr Hurd told the Financial Times. "I think it's a great opportunity for us. I'm confident in our ability to integrate."

HP, which last week reported better than expected sales and profits for the second quarter, could come under renewed pressure if the EDS integration proves more difficult than expected.

HP said a team of 500 full-time EDS and HP employees, together with 500 more part-time workers, had been laying the groundwork for integration since the deal was announced in May.

Ron Rittenmeyer, EDS's chief executive who will operate EDS as a division of HP after the deal closes, said the team had uncovered several big opportunities to cut costs. "HP is more disciplined in their supply chain than we are."

EDS is the world's second-biggest provider of IT services, which range from bulk computing tasks such as payroll processing to the design and maintenance of big computer arrays and the outsourcing of corporate data centres.

When the deal closes, HP will become the second-biggest IT services group behind arch-rival IBM. Services accounted for \$16.6bn of HP's \$104bn in revenues last year, well behind IBM's \$54bn in services sales. EDS's total revenues last year were \$22.1bn, down from the year before.

HP's shares fell 5 per cent in May after news of the deal broke - a reflection of investor concern over HP's move to add a relatively low-margin, low-growth business to its sprawling IT portfolio.

Mr Hurd said HP was convinced EDS was the right partner for its services strategy. "We felt through our due diligence that they were on a good trajectory," he said.

**Fonte: Financial Times, London, August 26 2008. Companies & Markets. p. 16.**