



HP-EDS merger melds software and hardware

Combination lets the company expand offerings to its customers

By [Matthew Weigelt](#)

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EDS faced a daunting challenge in the past year: merging with Hewlett-Packard Co. while staying focused on customers' needs.

The \$13.9 billion deal brought together a hardware giant and services provider that helped create the data center outsourcing business.

HP's purchase of EDS last year further broadened what EDS could offer its federal customers in services, software and hardware while strengthening HP's services business.

In retrospect, the acquisition was probably a wise move, said Dennis Stolkey, senior vice president of U.S. Public Sector at EDS. "I just thought it was a good thing [at the time] because I thought we could help government succeed in other places that we hadn't looked at previously."

EDS and HP together can offer hardware and software products and services, which can help federal agencies do what President Barack Obama wants them to do, such as be transparent to the public, go green with information technology products, and become more efficient.

"I think that I do see EDS and HP gaining market share during this economic time because we can help the government get to its goals," Stolkey said.

During the economic downturn, companies are shedding costs, which puts EDS in a good spot, said Gretchen Guandolo, a director at investment bank KippsDeSanto and Co.

Agencies and companies are scouting for ways to trim their budgets. Managers recognize that outsourcing information technology work, from operating their own data center to leasing one, is a way to cut back. "Cost is the biggest driver," she said, adding that EDS' services made and defined the IT outsourcing market, and the company's challenge now is to

hold its rates steady.

In spite of the greater reach, the coming together of EDS and HP — their cultures, customers and everything else — is like a pile driver. Company habits and perspectives on the market often don't easily meld into one. But Guandolo said the joining of the two massive companies has worked fairly well.

"They've achieved synergy," she said.

Stolkey said the merger's initial strategies were based on an economy that hadn't yet plunged into recession. So the economic realities offered special challenges. For instance, the sudden slump forced the two companies to accelerate some plans.

Now the customer bases of the merged IT hardware and services companies don't overlap, and they've been able to eliminate jobs faster than foreseen in mid-2008, when the economy started its downturn, she said.

Guandolo said HP and EDS have cut 9,000 jobs deemed unnecessary or redundant ahead of schedule.

"They've done a good job of controlling costs and achieving their goals," she said.

EDS hasn't had any problems from its state, local or federal clients. Stolkey attributed that to the company keeping the clients in the loop throughout the integration to curtail any blowback.

"We made sure we spent a lot of time in our planning to make sure that clients wouldn't be feeling funny about it," Stolkey said.

For EDS, 2008 was a challenging but successful year that included several contract wins. In March 2008, EDS was awarded a \$179 million contract for IT support services at the Defense Manpower Data Center.

In May, EDS was one of 25 winners of the Defense Information Systems Agency's \$12.2 billion DISA Encore II indefinite-delivery, indefinite-quantity contract to provide the defense agency with network-centric services.

In July, EDS subsidiary, NHIC Corp., received a one-year, \$148 million contract from the Centers for Medicare and Medicaid Services to provide Medicare administrative services to northwestern states.

Also, the Navy signed an agreement with EDS to continue using its services as it transitions into the next generation of the Navy Marine Corps Intranet contract. The Navy and EDS are still negotiating the details of that agreement.

EDS entered other professional services, which generated some new revenue and clients. For instance, EDS signed up 11 new federal clients in 2008.

“We thought it was a good year. Not a great year, but a good year,” Stolkey said. “We saw that our strategy was taking hold.”

About the Author

Matthew Weigelt is acquisition editor for Federal Computer Week.