

IT Analysis – HP and EDS: What does the deal mean for Xerox?

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Although HP's recent announcement to acquire EDS for \$13.9 billion (£7.1 billion) may have sparked talk of consolidation in the IT services industry, spare a thought for the impact of this deal on Xerox, a long-standing EDS partner. With HP aggressively looking to widen its footprint in the corporate printing space as part of its Print 2.0 strategy, the acquisition of EDS will help it make further inroads to compete with Xerox Global Services (XGS), currently a \$3.4 billion (£1.7 billion) organisation and a key growth engine for Xerox.

EDS' relationship with Xerox as an outsourced IT provider is long established and was recently extended with a deal in April 2008 where Xerox signed a \$263 million agreement for EDS to manage and support its end-user, service desk and mainframe operations. But it is Xerox's position as an EDS Agility Alliance partner which is where the HP/EDS deal is going to hurt most.

Xerox has been an EDS Agility Alliance partner since 2004. EDS acts both as a systems integrator for Xerox products, software and solutions, as well as working with Xerox to deliver joint managed print services (MPS) such as through EDS Managed Output Services offering, which combines Xerox's office services and systems with EDS' desktop services support. Although Xerox also works with other consulting companies such as IBM Global Services, Deloitte and Accenture, it is its global partnership with EDS that elevated it to being Xerox's key strategic partner. Its most notable deal is with the UK's Department for Work and Pensions (DWP), which is a £400 million, seven-year printing contract that helped to more than triple the total contract value of Xerox/EDS services from 2006 to 2007.

Xerox has for some time now been squarely focused on growing its business by leading with services in large enterprise relationships. XGS has been the growth engine in this strategy and in 2007 demonstrated a services annuity growth

rate of 8%. XGS is organised along three business areas – Office Services, Business Process Services, and Document Outsourcing and Communication Services, and as such offers competencies across the complete document lifecycle. Xerox Office Services (XOS) is the largest of these three groups, offering MPS to large enterprises and has seen double-digit growth in contracts from 2006 to 2007.

HP is Xerox's most notable competitor in the MPS market, offering assessment, optimisation and management of the document output environment. Although HP has been ramping up its MPS portfolio, it currently lacks the document lifecycle and workflow and document outsourcing capabilities that Xerox is able to offer through its other XGS offerings. Another key differentiator is multivendor support capabilities – Xerox claims to have approximately one million competitive devices under XOS management, made possible by its multivendor trained support staff. Also, Xerox's higher penetration in the high volume production and copy centres gives it the ability to better manage and optimise environments using these devices.

But with HP looking to increase its penetration in the enterprise printing market, it is actively expanding its MPS capabilities and already benefits from its heritage in managing the enterprise IT infrastructure. Meanwhile, its recent acquisition of Exstream software, a provider of document automation software for high volume transactional printing and customised communications, is an example of its intention to play in the wider space of production printing, which is a space where Xerox is firmly entrenched. Its acquisition of EDS is potentially giving it broader access to IT services engagements where HP equipment and solutions can be sold.

EDS's main selling point is that it is the largest services firm that is independent of any hardware or software vendor and like many

mega IT vendors has to work by co-opetition. Existing EDS/Xerox contracts will have at least need to run their course and where there is a major end user commitment involved may well be renewed. However, whilst HP have stated that it will continue to advise clients to buy systems from all vendors, it will clearly be positioning its managed print services as a viable alternative to other vendors' offerings.

In the light of the EDS deal Xerox may well now consider deepening its ties with its current global IT partners to exploit the potential opportunities to be gained from engaging with potential IT outsourcing clients. Although IBM Global Services is already a global partner for Xerox, its relationship with InfoPrint Solutions Company (a joint venture between IBM and Ricoh) may mean that Xerox will also need to focus on its other partners such as Deloitte, Atos Origin and Accenture. Dell is another key supplier that could potentially be hurt by the EDS deal, and could be a company that Xerox chooses to strengthen its

alliance with. Whether Xerox would look to make an acquisition of its own in this space is doubtful – CSC is the smallest, yet still worth around \$7 billion (£3.6 billion) – a lot for Xerox a \$17 billion (£8.7 billion) company to swallow.

For now, XGS has plenty of growth opportunities from its already successful office services, document and business processing services and has developed a strong portfolio to maintain its leadership as a document services provider. HP's acquisition of EDS will certainly impact XGS' momentum, but it should be well positioned to maximise the value of its other established partnerships. What remains to be seen is if HP makes any further acquisitions which threaten Xerox's stronghold in its established markets. In the meantime, the combined power of HP and EDS will certainly enable HP to extend the reach of its Print 2.0 strategy into new markets and support its strategy of gaining more inroads into the coveted enterprise printing space.

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