WEEKLY INSIGHT

HP declares victory in Compaq merger

Hewlett-Packard claimed victory on Tuesday in its hotly contested battle to merge with Compaq Computer. In the case the operation succeeds it will be the biggest tech-merger ever, valued at $21 billion. The results are not official, but HP CEO Carly Fiorina described the approval margin as "slim but decisive". The close vote followed fierce campaigning by both sides unprecedented in the industry. Over the last six months, opponents to the deal, led by Walter Hewlett, the founder's son and a company director, and the defendants, represented by Fiorina's team, have exchanged fierce attacks and even personal disqualifications. [Full Story]

Highlights
- On September 10th 2002, Carly Fiorina, HP CEO, agrees to buy Compaq for $25 billion in stock. A month later, Walter B. Hewlett, a HP director and son of one of Hewlett-Packard's co-founders, announces his opposition to the merger. In December, Michael D. Capellas, chief executive of Compaq, reiterates his support for the merger. Early in February 2002, European Commission gives thumbs-up to the transaction and, on March, the Federal Trade Commission votes to end its antitrust investigation of the proposed deal.
- During the last quarter of 2001, Hewlett-Packard registered profits of 408 million dollars. Compaq closed 2001 with net losses of 785 million dollars, although it held second place in the PC market, with an 11% share, behind Dell. The future company will account for 82 billion dollars and its CEO will be Carly Fiorina, with Capellas as Deputy CEO.
- After the victory declaration at midday on Tuesday, HP shares fell from about $20 to a closing price of $18.80. Compaq shares closed up 78 cents, at $11.14. When the merger plan was announced last September, HP shares were trading around $23.25, and Compaq's were at $12.35. The share-price erosion has reduced the value of the deal to about $20 billion from $25 billion in September.
- In contrast to the slim margin of approval by HP on Tuesday -a difference of 1%, according to the media-, Compaq shareholders swiftly approved the deal by a 9-1 ratio. Carly Fiorina recognises that the HP result is not official.

Press Review

From Los Angeles Times

"But even the largest technology merger in history may offer little cover from the inexorable cycle of change that is pushing the PC to the sidelines, technology historians say. If the merger proceeds, as HP declared it will Tuesday, it may relegate the company's greatest glories to the past. As the largest PC company, it would tie itself firmly to a fading market, analysts say. (...) Yet victory in the hard-fought merger battle could turn the technology giant into a victim of the latest wave of 'creative destruction' that has shaped and reshaped commercial technology development for decades. That term, coined by economist Joseph Schumpeter in the
The decline of the PC industry follows a long-standing pattern. Each new generation of technology destroys complacent firms and replaces them with dynamic upstarts or deft innovators - much as a forest fire clears the way for new growth. (...) HP navigated these major transitions better than many others. But in the process it became increasingly PC-centric, and it now faces a critical choice: to ride the next wave of change or to be swept away as the industry remakes itself.

From Financial Times
"But the strategic challenges in the technology industry that have been raised by the HP/ Compaq merger are now more pressing than ever. The fight has exposed just how difficult it will be for the young technology world to come to terms with a new reality: that large parts of the industry are now mature and face the same sort of challenges over low growth that other industries have had to deal with. The prospective merger has also raised some profound questions about the future of companies that have long been tied to proprietary technologies they developed themselves at a time when industry-wide standards are gaining an ever-stronger foothold. (...) The divisiveness over the deal has also revealed a far more profound difference of views in the technology industry. On one side are those who believe the tech world is no different from any other mature industry. The glory days are over and slower growth demands a different management style. (...) That view, though, collides with a rival belief that the tech industry is fundamentally different, that the disruptive nature of technological change means young upstarts will continue to emerge on new technological waves to threaten established companies."

From Washington Post
"The merger would blend the Silicon Valley giant founded in a garage with the young and feisty Texas-based personal computer powerhouse. Fiorina campaigned on the idea that HP needed Compaq to take on the likes of tech giant International Business Machines Corp. The new company would jump to the No. 1 spot in a number of markets, including printing, imaging and personal computers. (...) Jeffrey Sonnenfeld, professor at the Yale University School of Management, said it is possible that Fiorina will eventually be forced to leave HP as a result of the bitter shareholder fight despite a victory on the merger. 'She'll have a hugely demoralised workforce, and a CEO's legitimacy is grounded in the support and respect of her people,' he said. When Fiorina took over HP in 1999, during the height of the dot-com era, analysts saw her as just what the old-fashioned company needed to shake up things. But when she tried to do that, she was criticised for it."

Commentary by...
Paddy Miller, IESE professor
Mergers and acquisitions: caution
They say fools of venture where angels fear to tread. Up until now, there's been no precedent for a successful technology merger of the size of the HP and Compaq merger. The most quoted failure is the merger of computer vendors Burroughs and Sperry. In 1986 these two merged their dissimilar operations and very different corporate cultures. Unisys, the resulting company, briefly held second place in the industry rankings but now it maintains a distant way behind the giants of the industry.
Similarly, Compaq's acquisition four years ago of Digital Equipment Corporation and Tandem's cant be said to have been successful or even fully completed. It's even harder to assess if those acquisitions have been advantageous for the Texas company. Compaq's enormous sales force and DEC's powerful 64-bit technology haven't been of much use against the superior agility of Dell. Dell's business model involves
selling directly to the end user and it gets much better prices thanks to its amazingly efficient supply chain. So the HP/Compaq merger has history working against it even if we redefined this, as some people are, an HP acquisition of Compaq. The first thing that the new company faces is the traumatic process of dismissing 15,000 employees. This has already created uncertainty within both companies and within the sector. Moreover, in this case there’s an evident inequality: Carly Fiorina’s company is risking much more than Compaq in the operation. While the HP model seems viable in the eyes of the industry, Compaq’s model is suspect. Granted, the HP CEO has had a team of hundreds of people working on the merger process, while the company remains on stand-by waiting for important decisions to be taken.

However not only is the global strategy of the company at stake but also the future of Fiorina herself and all her board of directors, who had promised to resign en bloc if the merger vote failed. Fiorina has invested millions of dollars in selling the merger strategy and in defending it against opponents. In the process she has built herself a high media profile which is totally contrary to the egalitarian culture of HP. That has created her many opponents both within and outside the organisation. Going to press, while waiting for official results, the merger is going forward with a slim victory margin. When the count is officially in, finally, a difficult process starts with three key aims. First, preserving the client base, which, faced with this kind of uncertainty, may opt for more stable suppliers. Second, blending two opposite business cultures: the democratic HP, founded in a garage of Silicon Valley, with the hierarchic Compaq organisation. Third and hardest, consists of finding a model capable of taking on the likes of Dell. In the PC market which is quickly commodizing, the battle has shifted from technology to price. The challenge is colossal, the opportunity historic and the results uncertain.

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**EBCENTER ARTICLE**

*Software patents, a double-edged sword for companies*

By Joaquim Barberà, EBCenter research assistant

Allowing software corporations to register patents in relation to their developments can be a way to unfair competition. [Full Story]

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**REPORTS**

*Silicon Valley Wants Students Interested in High-Tech Careers*

**Title:** 2002 Workforce Study

**Source:** Joint Venture: Silicon Valley

**Date:** March, 2002

**Abstract:** By October 2000, the Silicon Valley high-tech workforce gap (the total number of unfilled positions, workers actively recruited from outside the Bay Area and workers who must commute from areas outside the Valley) had grown to 39% of the high-tech labour demand. More recently, the economic slowdown at the end of 2000 and in 2001 has caused the workforce gap to shrink dramatically; by July 2001, the workforce gap was 25% of the high-tech labour demand. However, the gap still accounted for $2 - 3 billion in annual incremental costs for Silicon Valley high-tech businesses.

Despite the recent economic slowdown, projections for long-term job growth in Silicon Valley remain quite strong. The future economic vitality of Silicon Valley, therefore, will depend, in part, on the region's ability to increase the local pool of well prepared, tech-savvy professionals.

However, there is a considerable drop-off between student awareness of high-tech careers and student interest in these careers, with 32% of students planning to pursue technology related careers. Students offered various reasons for not wishing to pursue high-tech careers, such as they found those careers uninteresting (39%), intimidating (25%), lacking appeal (18%) or they had other interests (18%). In spite of...
the fact that 99% of students have computer access, student awareness of high-tech careers lags behind their awareness of more traditional professions. [Full Story]

Increasing the Use of Online Banking among Britons
Tittle: Embracing Technology
Source: Egg and Market & Opinion Research International (MORI)
Date: March, 2002
Abstract: Egg, an e-commerce company, and MORI, a market research company, have released their latest Embracing Technology Report revealing Britons continue to demonstrate a voracious appetite for technologies such as the Internet, email and instant messaging. According to the survey, 59% of the British adult population, some 27 million people, now use interactive technologies (Internet, digital TV or WAP mobile phone) for personal use, compared to 54% in October 2001. Continuing to grow in harmony with the growth of the Internet universe is the number of people banking online. The report has seen a growth of around 1.1 million people doing this in the four months since October 2001 alone and 31% of all adults say they would be interested in the ability to make payments to individuals or pay bills to businesses using email in the next two years. The most popular future financial tool to be surveyed amongst our representative sample of British adults is account aggregation. Over a third of all adults (37%) -some 17 million people- say they would be interested in being able to view and access all the financial products they hold with all their providers, using a single internet site and one log-in, in the next 2 years. Among Internet users this figure rises to an even higher proportion - 61%, and to three-quarters (75%) among those who currently use online banking. [Full Story]

252,000 NET and ORG domains deleted
Tittle: State of the domain
Source: SnapNames
Date: February, 2002
Abstract: The most significant news in the report on the state of domains published quarterly by SnapNames is the addition of two new domains BIZ and INFO. Also interesting to note is that-so far-the addition of BIZ and INFO to the list of registered domains does not make any significant changes to the world ranking of registered domains made up of CNO (COM,NET, ORG). Verisign Registrar leads this ranking in spite of registering 18,8% fewer names, compared to August 2001. Second ranked Register.com also had of 16,5% compared to August 2001. Third ranked opensrs.net increased its registration by 7.91%. These three are followed by bulkregister.com (-4.86%), inwww.com (14.54%), corenic.net (19.40%), registrars.com (-7.58%), enom.com (11.02%), dotster.com (13.90%) and schlund.de (33.18%). Losses belong to NET domains that declined by 1%, and ORG domains that fell by 2%. However, COM domains actually grew by 1.4 million names in 2001. SnapNames working theory is that NET and ORG took the brunt of the promotional names deletions, since so many of these were free names given away to registrants who held the corresponding COM name and for which NET and ORG were still available (and unlikely to be purchased, hence the registrars’ decision to give them away). The CNO zone file dropped by only 252,000 names in January, as compared to roughly one million names in December, thus relief should be around the corner in another two or three months. [Full Story]

Corporations have sound business reasons to close the digital divide
Tittle: Options on the Future: The role of business in closing the digital divide
Source: The Boston Consulting Group
Date: January, 2002
Abstract: Half of the world's people live on less than $2 a day. One adult in two has never made a phone
Fewer than one in ten have access to the Internet. Societies without communications systems are the poorest communities and, certainly, both factors are linked and information is a key driver of the global economy.

Closing the digital divide requires solutions that are sustainable - economically, socially and environmentally. Philanthropy has its place, but market-based business initiatives are the only sustainable way to narrow the digital divide.

According to the study, corporations have sound business reasons for getting involved. Tangible benefits include cost reductions, through access to new or more skilled labour markets, shorter product-development cycle times, lower cost to reach and serve customers, reduced cost of purchasing and improved asset utilisation. Other tangible advantages foment market development through identification of underserved communities with aggregated spending potential, test bed for innovative products and services and new distribution channel. There are intangible benefits also: increased brand equity and early-stage brand recognition, employee goodwill and local relationships and know-how.

**COMPANIES**

**Profits Fall 13% at Oracle**
Oracle Corporation reported that its sales were continuing to slide. Overall revenue for the third quarter ended Feb. 28 was $2.23 billion, down from $2.67 billion a year ago. Earnings fell 13%, to $508 million, or 9% a share. The company’s explanation that macroeconomic forces are largely to blame for the continued weakness was met with scepticism from some Oracle analysts and investors. The critics said that Oracle was suffering more from competitive pressures than it admits, and is feeling the impact of several management departures. From New York Times [Full Story]

**First I-mode service is working in Germany**
Japanese service I-mode was launched in Germany on Saturday. E-Plus, a telecom unit of KPN Telecom, is the company in charge of introducing I-mode to the German market and also in other European countries, such as Holland where the service is set for launch next month. E-Plus kicks off with about the same number of sites that DoCoMo offered in the Japanese debut in 1999. As in Japan, success in Europe will depend on enough companies and software developers deciding it is worth the effort to develop services and content for I-mode phones. From Reuters [Full Story]

**WE RECOMMEND**

**The Future of Television**
Despite the laments heard over the 11 years, the end of analogical television is far away. It was going to be nibbled to death by digital TV, but the seven English-language broadcast networks -NBC, CBS, ABC, Fox, UPN, the WB, and Pax- together still attract a 58% share of TV viewing.

Cable networks have damaged the traditional broadcasters because there are so many of them - and they enjoy a superior business model, with revenues from both ads and subscriber fees. And last spring, when the big networks sold ad time for the current TV season, they brought in a total of $6.5 billion, $1.3 billion less than the year before. So broadcasters are finding that there are some things they can no longer afford, such as sport contents. However, there are things that are unchanged. Broadcasting is still a hit-driven business. Moreover, unlike cable, broadcasting is both a national and a local business and can offer local news, weather, and traffic. There are other strategies, but risks exist to all of them. If the networks can no longer afford sports, if they run fewer original episodes of their series, if they load up their schedules with...
low-cost reality programs, and if they share their hits with cable -and we haven't even talked about the way they are cramming more commercials into every half-hour- they could lose their standing as the first choice for most viewers and accelerate their decline. From *Fortune* [Full Story]

### Is Innovation taking a break?

Until 18 months ago, tech innovation -much of it related to the dot-com boom- was the engine that powered the rapid expansion of both the technology business and the U.S. economy, plus a surging stock market. What happened to the innovation that's supposed to sustain them through good times and bad -and when will it return?

Venture Capitals (VC) say despite the difficult funding environment the pace of true innovation is increasing. Just because huge numbers of entrepreneurs got money during the dot-com craze, they argue, doesn't mean it added up to real innovation -advances that cut costs, improve productivity, or appeal mightily to consumers. After all, said VCs, though venture-capital investment in 2001 dropped 65% from the year before, it still came to $32.1 billion, the third-highest yearly total in history.

Funding now may be stabilising at levels well above those that preceded the Internet boom. The new hot sectors include MEMs companies, plus companies in nanotechnology and biotechnology. Products that increase the Internet's efficiency also continue to attract money. For *Business Week*, the simplest answer for why innovation has taken a break comes in cycles. Cycles of pauses in innovation followed by renewed momentum have plenty of precedents. It surges when risk-taking is in vogue, as it was during the late 1990s. It slows when caution is in the wind, as has been the case since mid-2000 -both in corporate research-and-development labs and among venture capitalists. So perhaps the current lapse is really a new beginning- of an era in which innovation will again deliver the growth tech watchers have come to expect. From *Business Week*. [Full Story]

### Technologies that bring about business success

Every successful company has something that gives it an edge over its competitors. But more often than not, that edge comes from a technology or service that any business could use-if they knew it existed. *Smart Business* uncovered ten technologies that lots of companies use to get a jump on the competition, though few like to discuss them. The magazine reviews secret weapons that help business to manage customer data or business information, to control employees or to know web site user behaviour. The author analyses advantages that next applications offer to companies: business intelligence, competitive intelligence, employee surveillance, online auctions, data mining, free software, web tracking, network security, viral marketing and boxed software. From *Smart Business*. [Full Story]

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