

HP/Compaq Merger: Hard Choices on the Server Side

George J. Weiss

Wedding the server technologies of Hewlett-Packard (HP) and Compaq Computer, two companies with notable individual strengths, might be harder than it looks.

NEWS ANALYSIS

Event

On 3 September 2001, HP announced an agreement to acquire Compaq for stock worth \$25 billion at the time of the announcement.

Analysis

In some respects, HP's planned purchase of Compaq makes sense with regard to consolidating the two companies' server designs and strategies. Both are moving to a single mainstream technology based on the Itanium processor family. Both have large investments in Unix and Linux. Compaq's strengths in telecommunications, high-performance computing and fault tolerance match well with HP's strengths in enterprise resource planning and Oracle and SAP systems. According to Gartner Dataquest, the new HP/Compaq's worldwide server market share (based on total vendor-shipped revenue in 2000) would be about 28 percent vs. IBM's 25 percent and Sun Microsystems' 18 percent.

That's the upside. Unfortunately, Gartner believes that there is also a downside to the potential merger, and it could be considerable. When two former competitors join forces there is bound to be conflict that will increase customer risk and uncertainty. At a variety of levels, HP and Compaq have produced similar products and technologies, ranging from server hardware (HP's Superdome vs. Compaq's AlphaServers) to operating systems (HP-UX vs. Tru64) and system software (HP OpenView vs. Compaq's Insight Manager). Some products and technologies will have to go and turf wars will inevitably erupt. HP CEO Carly Fiorina and Compaq CEO Michael Capellas will be charged with ensuring that the internal migration, consolidation and integration battles don't disrupt service to existing product lines and damage the combined entity's ability to create excellent new products.

Gartner doesn't believe this will be an easy job. We therefore recommend that HP and Compaq customers minimize investment risk by steering toward most-likely-to-succeed cases. If uncertainty persists during the regulatory approval period, customers should focus on tactical buys (i.e., necessary upgrades) or adhere closely to standard industry commodity architecture. Enterprises should carefully assess new-generation systems, such as blades, for upgrade and support continuity, and migrate OpenVMS and other legacy software without awaiting the outcome of the acquisition.

Analytical Source: George Weiss, Unix & Midrange Strategies

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