

## Ten Key Consequences of the HP/Compaq Deal

Paul McGuckin

Whether shareholders approve or reject Hewlett-Packard's (HP's) proposed acquisition of Compaq, the deal will profoundly affect enterprises and vendors. Gartner describes its pick of the 10 most important implications.

## NEWS ANALYSIS

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### Event

On 19 March 2002, HP shareholders voted on the proposed acquisition of Compaq Computer for about \$22 billion in stock. The final decision of HP shareholders may not become known for days or weeks due to the complicated process of counting and verifying proxies. Compaq's shareholders will vote on the deal on 20 March.

### Analysis

Whether shareholders approve or veto the proposed merger, Gartner believes that it will have profound consequences for HP and Compaq customers and for the industry. Customers can expect the following:

- Tru64, OpenVMS, Netaction and many storage platforms are likely at risk. Whether merged or separate, HP and Compaq will likely use the decision to justify radical housecleaning of products.
- Customers have a unique opportunity to migrate off of risky platforms. For many customers, the risk will finally outweigh the technological inertia and loyalty to vendors and products that have kept them tied to marginal products.
- Enterprises will have a chance to lock in steep, multiyear discounts as HP and Compaq — whether merged or separate — try to win business at all costs to demonstrate their market power and stability.
- Field service and sales will likely undergo substantial turmoil as merger-driven reassignments or cost-cutting layoffs cause some of the best employees to leave and some geographic territories to have rougher transitions than others.
- Customer skepticism of vendor promises will likely increase as the vendors reveal product road maps and modify premerger promises. Rejection of the merger would create a different kind of skepticism as the separate companies try to brighten the dark pictures they painted of their futures as separate entities and to convince customers that they have viable alternative strategies.

The implications for the computer industry as a whole include:

- Dell Computer, IBM and Sun Microsystems will likely gain market share from HP and Compaq through at least 3Q02 and perhaps until 1Q03, largely because of the short-term instability associated with merging or implementing alternative plans.
- The industry as a whole will experience a new round of price cuts in higher-end servers and storage as vendors, led by HP and Compaq, try to hold onto market share.
- Linux and IBM AIX will increase their support among independent software vendors, likely at the expense of HP/UX and Compaq Tru64.
- Dell and Sun will likely partner with, or acquire, service firms to prepare for a greater focus on selling solutions.
- Transformation in the PC, server and output markets will accelerate as all vendors scrutinize their manufacturing processes, business models and research investments.

**Analytical Source:** Paul McGuckin, Unix & Midrange Strategies

**Need to Know: Reference Material and Recommended Reading**

- “ISS and FTC Give Momentum to HP/Compaq Merger” (FT-15-7696). HP and Compaq also demonstrated that the merger plans reflect the lessons learned from previous mergers. **By Andrew Butler and Paul McGuckin**
- “HP/Compaq Acquisition in the Americas: More Size and Uncertainty” (HARD-WW-DP-0113). Dell will pursue its business model into the heart of the advanced server business, and neither Compaq, HP nor the combined company has demonstrated the skills to deal with this threat. **By Martin Reynolds, Jeffrey Hewitt and Luis Anavitarte**

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