

Sale of BearingPoint Units Could Disrupt Projects Short Term

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BearingPoint plans to sell major business units to Deloitte and PricewaterhouseCoopers. Clients should get more stability in the long run, but the distraction caused by these sales could result in disruptions.

NEWS ANALYSIS

Event

On 23 March 2009, BearingPoint announced:

- An agreement for Deloitte to buy BearingPoint's North American Public Services unit for \$350 million in cash
- A nonbinding letter of intent to sell part of its North American Commercial Services business, including the financial service segment, to PricewaterhouseCoopers (PwC) for \$25 million
- An agreement in principle for PwC to buy BearingPoint's Japanese consulting practice
- Negotiations to sell its practices in Europe, Latin America and various parts of Asia/Pacific to local managers and other parties

The U.S. Bankruptcy Court must approve the Deloitte deal as BearingPoint filed for Chapter 11 reorganization in February 2009. Other deals involving BearingPoint's U.S. operations may require similar approvals.

Analysis

These deals could cause short-term disruption for many BearingPoint clients but may lead to a more stable business environment in the long run. BearingPoint clients will likely benefit from the more solid platforms of Deloitte and PwC, two of the most stable external service providers with good records of execution, for which the acquired units will be strategically important. And the three providers have similar cultures. However, BearingPoint has not finalized these deals, nor do they account for all of BearingPoint's businesses. This uncertainty may drive some BearingPoint employees to seek jobs elsewhere — and the transition will bring an inevitable loss of focus.

The deals will benefit Deloitte and PwC. BearingPoint's Public Sector personnel will bring significant skills to Deloitte. Deloitte already has a substantial public-sector practice, and the deal may launch Deloitte into the top 10 service providers in this sector. BearingPoint's Public Sector unit brings in more than \$1 billion in revenue annually — more than three times what Deloitte will pay for it. PwC should also benefit from the industry-specific, service-oriented architecture and implementation capabilities it will acquire with its parts of the Commercial Service division. BearingPoint's Japanese unit will significantly augment PwC efforts in the region but not change the competitive dynamics of Japan's IT professional service market. The prospects for BearingPoint's units in Europe, Latin America and Asia/Pacific outside Japan remain less certain until buyers come forward.

RECOMMENDATIONS

BearingPoint customers: To mitigate short-term disruptions:

- Find out in detail what is happening to your BearingPoint project team.
- Extend the project timeline, and plan for rework.
- Meet any new owner to build a relationship and to ensure it understands its contractual obligations.

- Follow the advice we gave when BearingPoint filed for Chapter 11 (see link below).

BearingPoint prospects: Consider alternatives, or wait until BearingPoint has closed a deal in your area and then assess the new provider.

Deloitte and PwC customers: These deals will have no immediate impact. If BearingPoint brings assets in your areas, get to know these new capabilities.

RECOMMENDED READING

- "BearingPoint Should Maintain Service Despite Chapter 11 Filing" — BearingPoint could not overcome a significant reduction in its financial service business, pressure from global competitors, and the economic downturn and credit crisis. **By Matthew Goldman and Sandra Notardonato**
- "SWOT: Deloitte, Application Services, Worldwide" — Deloitte's offerings span the application services life cycle, although the firm has limited offerings today in application outsourcing. **By Christine Adams and others**

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