

Dell's Perot Systems Buy Continues IT Service Consolidation

Dane S. Anderson, William Maurer, Adrian O'Connell

With its planned purchase of Perot Systems, Dell makes its long-anticipated move to become a full IT service provider. Further consolidation in the IT service industry is likely.

NEWS ANALYSIS

Event

On 21 September 2009, Dell announced its intention to acquire Perot Systems for \$3.9 billion in cash.

Analysis

Dell needs to shift its business portfolio to growth markets and higher-margin offerings with recurring revenue streams. Perot Systems' service business will make Dell's hardware business more competitive and support this shift. Thus, this acquisition isn't surprising, since Dell's service portfolio was a priority for expansion, and the company's existing alliance with Perot Systems has already resulted in a healthcare service offering using Dell hardware. If it goes forward, this acquisition should position an expanded Dell for growth, allowing for potential product "pull-through" from service relationships. In particular, this move will improve Dell's ability to market cloud-based offerings with a hardware component, such as hosted virtual desktops, and also lend it a strong healthcare presence.

Perot Systems' service business is concentrated in North America, and in addition to its strong government presence, it is the No. 1 service provider by revenue in the U.S. healthcare provider market. It has entered many new markets in the last 12 months, including Dubai, China and India. Perot Systems' healthcare strength provides a good opportunity for Dell to establish a beachhead in more geographies.

As the deal is finalized, Dell will need to be specific about where it intends to compete. Dell claims it wants to commoditize the service business, but it will need to articulate how it intends to exploit Perot Systems' assets to retain and expand Perot Systems' customer base with lower operational costs. It will need to immediately focus on leveraging Perot Systems' brand and ensure that Perot Systems' traditional strengths remain strong. For example, Dell will need to consolidate its offering for the U.S. physician market with Perot Systems' by mid-2010 or risk being shut out of new spending initiated by the U.S. stimulus package.

Although the acquisition will move Dell's service offerings up in scale and provide a solid foundation for greater geographic growth, it does not yet position Dell to take on global outsourcing service contracts in all industries.

RECOMMENDATIONS

- **Dell IT services clients:** Take no immediate action, but wait to see what the Perot Systems acquisition brings to the table. As the integration of the two companies moves forward, evaluate how your enterprise may want to leverage new offerings into your IT service portfolio. Dell and Perot Systems have distinct cultures, and merging these cultures will be a challenge.
- **Perot Systems clients:** Meet with Perot Systems account representatives and senior management from Perot Systems as soon as possible to ensure that you understand the acquisition's impact on service-level agreements. Know what change-of-control provisions are available to you in the current contract. You will need to know in which areas Dell may seek to standardize services on Dell's platform.

Additional research contribution and review: John Lovelock, Richard Matlus, Sandra Notardonato, Vi Shaffer, Ron Silliman, Rishi Sood and Allie Young

RECOMMENDED READING

- "Vendor Rating: Dell" — Dell continues a slow evolution to becoming a more-innovative and service-friendly company as the computing market moves away from highly standardized hardware purchasing. **By John Enck and others**
- "SWOT: Dell, Servers, Worldwide" — This research analyzes the strengths, weaknesses, opportunities and threats of Dell's server business on a worldwide level. Dell is the worldwide second-place vendor in server shipments globally. **By Heeral Kota, Adrian O'Connell and Errol Rasit**

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REGIONAL HEADQUARTERS

Corporate Headquarters

56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters

Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters

Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters

Gartner do Brazil
Av. das Nações Unidas, 12551
9º andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509