# Xerox, Dell mergers reveal the draw of IT services

September 28 2009, By Benjamin Pimentel

Back-to-back merger deals involving Xerox Corp. and Dell Inc. highlight a major trend in the corporate tech market where the ability to offer services has increasingly become key to being competitive, some analysts say.

The acquisition wave is making other IT services players attractive to investors, and, possibly, to potential suitors.

Shares of Affiliated Computer Services soared 14 percent Monday after Xerox announced a deal to buy the IT services company for $6.4 billion. Just last week, Dell said it would buy Perot Systems for $3.9 billion.

Shares of other major IT services companies also gained Monday, as merger mania appeared to draw more attention to the $806 billion IT services industry.

Shares of Accenture were up 4.9 percent, while Computer Sciences Corp. was up 4.75 percent. Another IT services player, Unisys Corp., traded up 14.6 percent.

"On the heels of last week's bid by Dell for Perot Systems, the Xerox-ACS deal raises the ante regarding the recent trend of IT hardware companies acquiring sizeable services companies," UBS analyst Jason Kupferberg said in a research note.

He added: "Remaining independent IT services companies such as

Computer Sciences Corp., Unisys Corp. could react positively as investors consider the possibility of other nontraditional buyers."

Analyst Crawford Del Prete of International Data Corp. said the economic downturn is apparently giving some tech giants an opportunity to go shopping for companies that could give them expanded services capabilities, including different areas of business consulting.

"What you're seeing is companies are making bold moves in the downturn to attach themselves to long-term revenue streams," he said.

Accenture and CSC were among the top five IT services providers based on revenue in 2008, according Gartner Inc. The space is dominated by two tech behemoths that also offer a broad range of hardware and software products, IBM Corp. and Hewlett-Packard.

Last year, Hewlett-Packard expanded its own IT services reach by buying EDS for $13.9 billion.

"The big bang acquisitions seem to be happening right now," said IDC analyst Alexander Motsenigos. "And it's happening from folks that you wouldn't think of as service companies," he added, referring to Dell and Xerox's traditional reputations as product companies.

That's because businesses struggling with tighter IT budgets are demanding more from vendors.

"Clients are wanting more," Gartner analyst Dane Anderson said in an interview. "They need to do more with less. IBM saw this almost two decades ago."

He was referring to IBM's dramatic transformation in the 1990s into essentially a one-stop shop for all IT needs of the corporate world, from computers to software to business consulting.

Del Prete said that trend has spread, adding, "What you're seeing is that the days when the customer was the integrator of technology is quickly waning. It used to be that the customer would bring together all kinds of disparate technology."

But more businesses want to deal with companies that can provide not only the hardware and software they need, but also the mind power to integrate and even maintain their networks.

"They have to go in and say, 'We will solve a problem for you around risk management or around compliance,'" Del Prete said. "This is a real shift that's been going on for some time. IBM was the first to make bold moves in this area."

Other bold moves are likely to follow, he added.

"I think that capturing customer value from services will be a top driver of consolidation going forward," he said.

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