

# Hp compaq merger



Leading the charge for the Merger of Compaq to Hewlett Packard was the then Chief Executive Officer, Carly Fiorina. In a speech delivered September 26, 2001 - Fiorina stated, " In dark and serious times like this, we must affirm our commitment to building societies and institutions that aspire to this kind of greatness. More than ever, we must focus on the importance of leadership- bold acts of leadership and decidedly personal acts of leadership.

" (Fiorina, Speech of Carly Fiorina (CEO Hewlett Packard): Islam: " WHAT DOES OUR FUTURE DEMAND OF LEADERS TODAY? ", 2001) It was this bold leadership that led Carly Fiorina to the back of the unemployment line.

Sometimes the best leadership is not the boldest. Henry Ford understood the importance of knowing one's self, to include abilities and limitations. When Henry Ford was asked a question he did not know the answer to, he would simply state, " I do not know the answer, but I have 20 people on my staff that do.

" In taking homage in the fact that he was not the most intelligent person in the room, he catapulted himself to being the smartest. Carly Fiorina learned this lesson as she was relieved of her duties on February 9, 2005 just under 5 years from when the merger was first announced on September 4, 2001. Fiorina could have read and used the notes section of the merger announcement as her departure statement and reason for failure.

It states, " This news release and the attached fact sheet contain forward-looking statements that involve risks, uncertainties and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. For example, statements of

expected synergies, accretion, and timing of closing, industry ranking, and execution of integration plans and management and organizational structure are all forward-looking statements.

Risks, uncertainties and assumptions include the possibility that the market for the sale of certain products and services may not develop as expected; that development of these products and services may not proceed as planned; that the transaction does not close or that the companies may be required to modify aspects of the transaction to achieve regulatory approval; or that prior to the closing of the proposed merger, the businesses of the companies suffer due to uncertainty; that the parties are unable to transition customers, successfully execute their integration strategies, or achieve planned synergies.

" (Fiorina, HP Press Release: Compaq. com - Hewlett-Packard and Compaq Agree to Merge, Creating \$87 Billion GlobalTechnologyLeader, 2001) Fiorina failed to gain an understanding of the various types of market structures and did not recognize that the evolution of market structure in the computer industry had reached perfect competition with price being the only differentiator. The text states, " By early 2000, many components of PCs had become " commodities" that were bought and sold in markets resembling those with perfect competition.

As a consequence, there were few dimensions other than price for PC makers to use in differentiating their products. This heightened price competition in the 2000s significantly reduced the profits of computer manufacturers, including key players such as Dell and Gateway. As of 2007,

this strain on profits has begun to translate into exit and consolidation within the industry. Further changes in industry structure are almost certain over the next decade. " (Baye, 2009, p. 257) Although the text only mentions Dell and Gateway, Compaq and HP were almost assuredly also victims of market structure fluctuation.

The press release stated that the merger was still subject to regulatory approval. Given the market structure fluctuation, as evidenced by the IT industry's fall or " dot Bomb" of 2000, and the unknowing tragedy that ensued on September 11, 2001, the market timing could not have been worse. Faced with these tough realities, the regulators performed their Herfindahl-Hirshman Index (HHI) and decided that even though the HHI was above 1800, yet the economy was suffering, and the fact that one or more of these companies was in financial dire straits then they were granted the request for merger.

Although, numerous large HP shareholders, including William Hewlett, publicly opposed the deal, the two companies merged. The merger was approved only after the narrowest of margins, and allegations of vote buying (primarily involving an alleged last-second back-room deal with Deutsche Bank) haunted the newly formed company. It was subsequently disclosed that HP had retained Deutsche Bank's investment banking division in January 2002 to assist in the merger. HP had agreed to pay Deutsche Bank \$1 million guaranteed, and another \$1 million contingent upon approval of the merger.

On August 19, 2003, the United States Securities and Exchange Commission charged Deutsche Bank with failing to disclose a material conflict of interest

in its voting of client proxies for the merger and imposed a civil penalty of \$750, 000. Deutsche Bank consented without admitting or denying the findings. (Wikipedia, Compaq - Wikipedia, the free encyclopedia, 2001) The biggest industry benefit that HP gained from the merger was that it now was definitely a household name, ousting long seated rivals. Its largest competitors, EMC and IBM, in the commercial and enterprise quadrant are not household names per say.

IBM has been around longer than the dinosaurs, but very few households actually have an IBM laptop that was purchased by an individual consumer for personal use. Since the merger, IBM's PC division was purchased by Chinese manufacturer Lenovo in 2005. So, when people go to work, and they have three competitors standing in front of them, they choose the one they bought for home use because they feel comfortable with their products which leads us back to individual behavior and emotional versus rational purchasing.

## 2 Supply, Demand and Other Nefarious Economic Principles

The first economic principle that Fiorina failed to understand was the difference between total revenue and total cost opportunity. She simply did not recognize the nature and importance of profit. Fiorina either was misinformed, or did not use the sources within the company, including the firm's finance, marketing, and/or legal department to obtain data about the implicit costs of her decision to merge with Compaq. The second economic principle that was overlooked was the amount that would have to be invested today at the prevailing interest rate to generate the given future value.

The third principle that was not considered was the present value of the income stream generated by Compaq minus the current cost to acquire Compaq. (Baye, 2009, pp. 5-15) Although Carly Fiorina had built herself into a fierce leader, as evidenced in 1998, she was soon to find out that leadership and management are quite different indeed. She was named the most powerful woman in American business, the then group president of Lucent Technologies' global service provider business, Fortune magazine proclaims in its Sept. 24 online edition.

Talk-show producer Oprah Winfrey followed at number two. (AllBusiness, 1998) The text states, " Many companies fail because their managers get bogged down in the day-to-day decisions of the business without having a clear picture of market trends and changes that are on the horizon. " (Baye, 2009, p. 36) Supply and demand is a qualitative tool which allows managers to see the big picture. Some attributes that become apparent through this type of analysis are the ability to predict trends in the market to include price fluctuations of your products as well as your major competitors.