

HP to cut 24,600 jobs in EDS integration

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Article Launched: 09/15/2008 01:53:13 PM PDT Most Layoffs To Come From Eds, About Half In U.S.

Hewlett-Packard said Monday that it will lay off 24,600 people over the next three years as it seeks to cut costs and refocus operations at Electronic Data Systems, the giant tech-services company that HP bought over the summer.

Most of the cuts will involve employees from Plano, Texas-based EDS, although a smaller number of HP workers will be affected. HP said the layoffs represent 7.7 percent of the companies' combined global workforce of 320,000. Nearly half the cuts will occur in the United States.

As it eliminates those positions, HP said it will create about half as many new jobs that will help the company increase sales and serve new markets.

Chief Executive Mark Hurd said reducing costs and improving profit margins will be a priority as Palo Alto-based HP, the world's largest computer maker, uses the \$13.9 billion EDS acquisition to expand its technology services business in the coming years.

"I'm a big believer that having the most effective cost structure is directly related to your ability to scale and grow," Hurd said during a conference with Wall Street analysts.

Hurd, who previously cut nearly 15,000 HP jobs during a restructuring that was announced after he became CEO in 2005, had been expected to announce significant cuts as a result of the EDS deal.

While the new layoffs will undoubtedly eliminate duplicate functions, such as personnel and administration, analyst Christine Ferrusi Ross of Forrester

Research said many tech services companies — which do everything from consulting to operating data centers for their clients — have been shifting jobs from the United States to overseas, where costs are lower.

"So it's not illogical to do that," she added, "and it wouldn't have surprised me if either company had done it" even without the merger.

HP said the cuts will produce an annual cost savings of \$1.8 billion, even after reinvesting some savings in areas such as sales and emerging markets. The company said it will record a charge of \$1.7 billion in its fourth quarter as a result of the restructuring, with \$1.4 billion of that amount attributed to severance payments and other restructuring costs at EDS and the rest tied to restructuring at HP.

HP already employed more than 178,000 people worldwide and added 142,000 more with the EDS acquisition.

The two companies combined had more than \$38 billion in revenue from technology services last year. HP executives told analysts that the new operation is well-positioned to expand that business by building on the broad EDS customer base and HP's extensive portfolio of business software and hardware.

Technology services is a growth industry, as many large companies and government agencies are shifting to Internet-based services and also upgrading their data centers with a new generation of energy-efficient hardware, HP Executive Vice President Ann Livermore told analysts.

But longtime rival IBM, currently the industry leader in technology services and consulting, indicated it won't give ground easily. IBM anticipated HP's news Monday by announcing it had won several new contracts in recent days and is launching a new package of incentives for customers that move to IBM.

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LAYOFF PLAN

- HP said it plans to eliminate 24,600 jobs, or 7.7 percent of a combined HP/EDS workforce of 320,000.
 - But HP said it plans to replace about half those jobs with new positions performing other functions.
 - Nearly half the layoffs will occur in the United States, with the rest overseas.
 - HP did not say how many of the layoffs would be EDS workers but estimated the costs for severance and other restructuring costs would be \$1.4 billion for EDS employees, and \$300 million for HP workers, indicating the majority of cuts will come from EDS ranks.
 - HP employed 178,000 people before the acquisition, which brought in 142,000 from EDS.
- Source: Hewlett-Packard