Tech Customers Question Industry's Takeover Spree

Jordan Robertson, AP Technology Writer

SAN FRANCISCO (AP) -- The world's largest technology companies have been on a buying spree, spending billions to snap up smaller companies. And often the buyers say they're doing it for their customers — businesses, hospitals, schools and government agencies.

As tech companies get bigger and bigger, they say, they can offer a broader variety of products and make it easier for their customers to do one-stop shopping. Yet if you ask the customers, you hear a different story.

Often they get new headaches with multibillion deals by the likes of Oracle, IBM, SAP, Dell and Hewlett-Packard. When you add the challenges that come with any corporate acquisition, it's not hard to envision a reverse trend eventually building: a drive to split up tech companies that have grown too large.

In other words, the tech consolidation of the past few years could turn out to have wasted shareholders' money. "The demand is not coming from the customers," says Gopal Khanna, who oversees a $600 million technology budget as chief information officer for the state of Minnesota. "On the contrary, I'm best served when there's a phenomenal amount of innovation happening. Sometimes creating behemoths slows down that innovation engine."

Technology companies have spent more than $350 billion buying other companies worldwide over the past 3½ years, according to Capital IQ, a division of Standard & Poor's. Hewlett-Packard Co., the world's biggest information-technology company by revenue, has been one of the most active, in a hunt for more profit in markets other than printer ink. So has Oracle Corp., which wants to sell more types of business software and now makes computer servers after its $7 billion pickup of Sun Microsystems Inc. IBM Corp. plans to drop $20 billion over the next five years on acquisitions to strengthen its services and software divisions.

The companies making these deals say they want to give their customers more options, better prices, and smarter service. It's somewhat like buying Internet, cable TV and telephone service from one company instead of three: You'll save money by buying the bundle, and when you need things fixed you have only "one throat to choke," in tech-industry parlance. The flip side is that a customer accustomed to dealing with a specialty maker of software or hardware often gets worse service after that supplier is taken over.

Larry Bonfante, chief information officer of the United States Tennis Association, started battling recently with one of his suppliers, which supports USTA's computer applications and runs its help desk. Bonfante won't name the company but says it was bought a year ago by a large, publicly traded company.

"Our service and our relationship with that company since then has gone absolutely into the tank," Bonfante says. Bonfante used to be able to call the supplier's CEO with problems. After the takeover, Bonfante's contact became a lower-level staffer, and USTA employees had trouble getting their questions answered. Bonfante says he's dumped suppliers three or four times in his nearly 30-year technology career because their service suffered after an acquisition, and he has considered jettisoning this supplier, too. Service improved after he put the company on notice, but he says he's still watching the situation closely.

"When the smaller guys are gobbled up by bigger guys, in theory it's supposed to be better, but in our experience it's been worse," he says. "It's certainly not something that I'm really excited about. It has the potential to be a positive experience, but my experience has told me that more times than not, it's problematic."

Rob Ewing, senior vice president of systems and technology for InterCall, which sells conference-call services, says his company stopped buying new licenses from a provider of database software just six months after it was acquired. The main problem: The support staff was cut.

"Resolutions to issues went from less than a day to more than a week," Ewing says. "It was very frustrating." Tech acquisitions aren't the only ones that often go bad. A seminal study by Harvard Business School professor Michael Porter examined 33 large U.S. corporations over a 36-year period and found that that they sold off many more acquisitions than they kept. Companies with acquisition strategies reduced, instead of created, shareholder value. Porter's findings were first published in 1987, but recent studies have reinforced the conclusion.

Deals in technology can be even riskier than average because of the complexity of the industry's products. Although acquisitions can offer short-term financial boosts for the buyer, technology ages quickly, and acquired companies require substantial investment to keep their edge.

"When technology companies merge, you often have a two plus two equals three equation," says Michael Cusumano, a professor at the Massachusetts Institute of Technology's Sloan School of Management.

Undoing the poor results can be costly. VeriSign Inc. spent more than $20 billion bulking up on acquisitions in a spree started during the dot-com days. The Internet technology company got too unwieldy, and it has spent the last three years selling most of what it bought. VeriSign has gotten less than $1 billion selling off such acquisitions.

It can take years for an acquired tech company to be fully integrated with its buyer, which is one reason history is peppered with examples of acquisition flameouts that repelled customers.

One of the most famous was Compaq Computer's 1998 takeover of computing pioneer Digital Equipment Corp., known as DEC. Like many frustrated DEC customers, Robert Rosen, who at the time was director of information management for the Army Research Laboratory, bailed on DEC because the company's performance deteriorated under Compaq. The lab replaced its DEC servers with machines from IBM and Sun Microsystems.

Rosen, now chief information officer of the National Institute of Arthritis and Musculoskeletal and Skin Diseases of the National Institutes of Health, says he learned to try to pick computing suppliers that aren't likely to be acquired.

"I sit here and I think: What mergers have really benefited everybody, both the companies and the customers? And there aren't a whole lot. There are a lot more that go bad than are successful," says Rosen, a former president of Share Inc., an organization of IBM customers. "I have never seen a merger that saves the customer money."

IBM and several other large, acquiring companies declined to comment or connect The Associated Press with customers who are happy about the industry's consolidation. Hewlett-Packard, which also declined to comment, referred the AP to one customer, Christopher Rence, chief information officer of Fair Isaac Corp. That is the company behind the "FICO" consumer credit scores, and it often relies on tech suppliers for custom software that can help Fair Isaac accomplish specific tasks.

Rence says most acquisitions among his suppliers have worked out for his company. Still, he worries that consolidation leaves him with less negotiating leverage. He also says he and other tech buyers he knows worry about "getting hit out of left field" by an acquiring company eliminating product lines.

"When they consolidate, you're always going to lose something — that's just reality," he says. "But I guess I look at it as: When a big company acquires something, they've got the pockets to go invest in some of those areas and whatever they invest in, it's definitely going to benefit me."

Resigned to the idea that the industry is consolidating, many tech buyers try to plan accordingly. Leo Collins, chief information officer of Lions Gate Entertainment, says smart tech buyers look for suppliers that are the likeliest to stick around over the long haul. If a supplier starts to struggle, he tries to move away from it before it is bought, which reduces the risk of being stuck with outdated or unsupported technologies. Failure to do that, he says, could leave a customer "isolated in technology backwaters."

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