Company Profile: PwC Consulting Brings Business Transformation Expertise to IBM Global Services (Executive Summary)

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Introduction

On 30 July 2002, IBM announced plans to acquire PwC Consulting, the management consulting and technology services arm of PwC, for $3.5 billion ($2.7 billion in cash, $400 million in convertible notes and $400 million in stock). On 12 September, PricewaterhouseCoopers announced it had received partner approval of the sale of PwC Consulting to IBM. All closing conditions, including the obtaining of regulatory approvals, are expected to conclude in early October 2002. Operationally, full integration is expected by January 2003.

As a result of the acquisition, IBM Global Services (IGS) will lead in all worldwide IT professional services market segments, except for business process outsourcing (BPO), based on Gartner Dataquest’s analysis of both companies’ 2001 gross revenue. Post-acquisition, approximately 47 percent of IBM’s revenue will come from services, moving IBM closer to becoming a services-led company.

PwC Consulting focuses on five major vertical industry groups across 20 industry sectors: financial services, products, information communication and entertainment (ICE), energy and utilities, and government and services. Government and services includes federal government, state and local government, as well as transportation.

Separation History

PwC announced its intention to separate PwC Consulting from its audit and tax businesses about three years ago and pursued a variety of separation strategies, most notably a failed attempt by HP to acquire the firm for $18 billion. However, the Enron-induced backlash against a combined audit and consulting firm was a factor in its 28 January 2002 announcement that its board had approved the launch of PwC Consulting as a public company. Moving rapidly, PwC filed an S1 registration with the U.S. Securities and Exchange Commission (SEC) on 2 May 2002. During this time, PwC continued to court suitors, hoping to sell PwC Consulting.

Prior to IBM’s acquisition announcement, PwC had planned to launch PwC Consulting as a public company. To form PwC Consulting, PwC had planned to carve out business operations, which represented 95 percent of its professional services revenue in 2001. Professional services include strategy consulting, management consulting, process and technology consulting, systems integration, and BPO in virtually all countries in which PwC Consulting operates. The combination of the consulting and BPO service lines would have produced an entity with offices in 52 countries and 32,000 employees, which represents about $7.5 billion in revenue. IBM’s offer to acquire PwC Consulting applies to these business operations, described in the PwC Consulting S1.

Previously, PwC Consulting planned to rename itself "Monday, Ltd." Post-acquisition, the PwC Consulting and Monday brands will not be used. The majority of PwC Consulting’s capabilities and IBM’s Business Innovation Services (BIS) group will merge, and this new entity will be known as IBM Business Consulting Services (BCS) and will be managed by Virginia Rometty, general manager of IGS. The combined unit will have approximately 55,000 employees and generate $13 billion in revenue. PwC Consulting will contribute
30,000 people (1,200 partners) — if all PwC Consulting staff do, in fact, move across to IBM — and $5 billion of this total. IBM BCS will refer to an organization and will not be a brand. IGS will continue to be the brand for all IBM services.

PwC Consulting’s applications management and BPO services presumably will be housed in IBM’s strategic sourcing and technology services organization. (See "IBM Plans to Acquire PwC Consulting: The Biggest Just Got Bigger" [ITSV-WW-DA-0158] and "IBM Plans to Acquire PwC Consulting to Drive Growth" [FT-17-6816]).

**PwC History**

In 1998, Price Waterhouse merged with Coopers and Lybrand to form PwC. As of June 2002, PwC was one of the world’s largest professional services firms with more than 158,000 employees in 60 countries generating $22.3 billion in revenue in 2001.

The management consulting and systems integration services business within PwC is a $6.6 billion business (2001 gross revenue) consisting of 38,000 consultants. This business provides consulting, systems integration, outsourcing and IT management services across the following vertical markets:

- Financial services
- Products (consumer and industrial products)
- ICE
- Energy and utilities
- Government and services (federal, state and local, and transportation)

PwC also includes a BPO service line, which is a $553 million business with 5,000 employees. The BPO portfolio includes applications process management, finance and accounting, human resources, learning services, procurement, and real estate management.

Based on the Gartner Dataquest vendor market share database, PwC’s consulting and overall BPO services made PwC the 11th largest IT professional services vendor worldwide in 2001 revenue. In terms of 2001 worldwide consulting revenue, PwC Consulting was the sixth-largest services vendor worldwide, and it ranked 12th worldwide in 2001 development and integration services revenue.

**Definitions**

PwC refers to PricewaterhouseCoopers, the limited partnership that consists of audit, tax, consulting, BPO and other professional services.

PwC Consulting refers to the $7.5 billion management consulting, IT consulting and outsourcing services organization within PwC, described in the company’s 8 May 2002 S1 filing.

**Company Highlights and Key Findings**

The following are key findings and highlights with regard to PwC and PwC Consulting and IBM’s proposed acquisition of PwC Consulting:

- PwC filed an S1 with the U.S. SEC, which signaled its intent to separate PwC Consulting via initial public offering (IPO). The IPO was originally targeted for August 2002. IPO plans have been abandoned in light of IBM’s acquisition bid.
PwC Consulting goes to market by industry and develops solutions and skills by solution area or practice.

PwC Consulting principally tracks and manages its business by geography, which PwC Consulting calls "theaters." The four major theaters include: Americas, Europe, the Middle East and Africa (EMEA), Asia/Pacific, and South and Central America (SOACAT) (including Argentina, Brazil, Chile, Colombia and Venezuela).

PwC Consulting offers consulting, systems integration, IT, MAS and BPO services.

PwC Consulting had embarked on a campaign to position itself as the premier provider of business transformation services for companies that intend to lead their industries. PwC Consulting industry points of view represent PwC's vision of the future in those industries and are blueprints that guide the development of vertical industry solution sets. PwC Consulting uses solution sets to accelerate "time to transformation."

PwC Consulting has invested heavily in an integration framework that will serve as the IT backbone for companies that wish to transform their businesses through business process integration based on PwC's industry points of view.

PwC's BPO services have successfully established a presence in the United States, Australia, Latin America and Eastern Europe.

PwC Consulting planned to grow significantly through its outsourcing services capabilities. Managed assurance services and BPO services were key components of PwC Consulting's future growth strategy before IBM's acquisition bid.

Although strong in technology and application skills, IBM lacked business process expertise and deep vertical industry expertise in a wide array of verticals. IBM views PwC Consulting's business process expertise, industry knowledge and business transformation methodologies as valuable additions that will support its goals to become a leader in business transformation services.

IBM also argues that as IT and business process purchasing decisions are increasingly committee based, a more multifunctional selling team is required. IBM believes that PwC Consulting has the multifunctional sales teams and C-level relationships to sell into joint business and IT purchase decisions that are characteristic of today's services engagements.

By acquiring PwC Consulting, IBM will double its SAP and Siebel practices and will produce the market's largest PeopleSoft practice.

IGS will largely adopt PwC Consulting's solution taxonomies and business process transformation framework and tools, which will include: PwC Consulting's offerings in CRM, financial management, human capital management, and supply chain operations. IGS's eIntegration solution will also be part of the solution taxonomy.

Post-merger, IGS will continue to focus on the following vertical industries: finance, distribution, communications, industrial and public sector.
Gartner Dataquest Perspective

Already the market share leader in IT management, support and development and integration services, IBM’s acquisition of PwC Consulting moves it into the No. 1 slot in consulting, ousting Accenture, and moves it into the top 10 market share leaders in BPO. Gartner Dataquest views the acquisition as a positive move for IBM and a pragmatic choice from among the separation scenarios available to PwC Consulting, as well as an aggressive competitive move to counter Accenture’s continued leadership in non-IT C-level executives.

IBM has been increasing its consulting capabilities for years and has been criticized for moving too slowly. The acquisition of PwC Consulting gives IBM the business process and industry vertical knowledge to build a leadership position in both consulting and business transformation services. The opportunity to acquire PwC Consulting’s capabilities at such an attractive price will need to exploit synergies with IBM’s strategy to move aggressively toward an IT utility model.

IBM faces the following important challenges as it absorbs PwC Consulting into its organization:

- As with any acquisition of a services company, IBM will need to retain PwC’s consultants or risk losing the assets it has acquired. Once the technology job market recovers, some of the PwC consultants may defect.
- The IT professional services market is experiencing a downturn. Consulting and systems integration, the largest component of PwC Consulting’s services, has been hit the hardest. Post-acquisition, consulting and SI services will comprise 37 percent of IGS’s services, based on an analysis of both firms’ 2001 revenue.
- IGS is, in part, purchasing PwC Consulting because of its relationship-selling capabilities. As a result of the Enron debacle, a number of PwC Consulting clients deferred engagements with PwC Consulting until it became an independent entity. Consequently, PwC Consulting must re-establish its relationships with these major accounts.
- Much of the $553 million PwC BPO services line was slated to go with PwC Consulting. The business process management services businesses that are not being transferred to PwC Consulting represent about 3 percent of PwC Consulting revenue for fiscal 2001. Presumably, the BPO contracts slated to go to PwC Consulting will be acquired by IBM upon client approval. These contracts are large, asset- and people-intensive and involve different skill sets from the transaction-intensive BPO services previously housed in PwC Consulting’s Managed Applications Services business. Comprehensive BPO services represent a new business model for PwC Consulting and IGS that will need to be successfully integrated and managed.
- IBM’s competitors will attempt to paint IGS as a product-biased vendor that reduces customers’ access to best-in-breed solution components. IGS will need to be careful in balancing the IBM and non-IBM content in its solution sets. IGS has been largely successful in appearing sufficiently product-neutral in terms of market perception. To counter its competitors’ insinuations, IBM must more aggressively promote a customer-first message, services-led image and will need to be armed with convincing points about the degree of non-IBM content that IGS delivers to customers.
Similarly, IBM stands to lose some of PwC Consulting’s major alliance partners, such as Sun, Oracle and BEA, which are understandably wary of the acquisition. These alliance partners are key components of PwC Consulting’s solution taxonomy and services portfolio, which IGS intends to adopt. IBM will need to assuage these vendors’ concerns to keep them on board or face losing much of the intellectual capital it will have acquired from PwC Consulting.

For the full report, see the Gartner Dataquest Focus Report, “Company Profile: PwC Consulting Brings Business Transformation Expertise to IBM Global Services” (SPRP-WW-FR-0029).