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| Advisory Report: | **Getronics Analyst Day Emphasizes End-to-End Integration with KPN** |
| Report Date: | June 26, 2009 |
| Analysts: | Kehoe, Dustin & Ostergaard, Bernt |
| Market: | Managed IT Services, Unified Communications |

## Summary

### Issue

The Getronics slogan is 'Personal Performance, Business Results' and the mission is to 'aggregate and deliver managed ICT services and craft standards-based ICT roadmaps together with our clients to achieve this'. Getronics is now 18 months down the line after becoming 'a KPN company'. From a turbulent and uncertain economic environment, the new management under CEO Erik van der Meijden trimmed the company with lay-offs and sell-offs to attain a credible 2008 economic performance. The 2009 downturn forced another workforce reduction in Q1, so is the company still on track to deliver the envisioned synergies with its parent company KPN?

## Perspective

### Current Perspective

The Getronics analyst day kicked off with executive briefings from the Getronics management team, KPN International and the CEO of CompuCom, and covered the significant organizational and business restructuring that Getronics has gone through over the past 18 months. In many ways Getronics was forced to address its own business crisis in late 2007, a year before the global economic tsunami struck, and so much of the heavy change was already done. This meant that the additional reductions in Q1 2009 involving a 1.1% revenue fall and a further 1,400 layoffs (bringing staff levels to 14,100) did not affect long term corporate goals. The company reorganization in 2007 combined a sales force targeting the top 500 accounts, keeping a strong focus on the Benelux region, whilst retaining a strong global service capability through partners using standard tools and processes. In 2009, the company took the lead for KPN on key enterprise products around data center services, enterprise communications and outsourcing solutions. The results have improved the financial performance of the company, and created a more balanced network-centric IT strategy focusing on delivering the right services packages to customers after selling off other non-core parts of the business.

The analyst briefings primarily focused attention to the Getronics vision of supporting the whole value chain from workplace management to connectivity through data center services. The workplace market is seen as an engine of growth for Getronics both with regard to services offered in the Getronics Future Ready Workspace (FRW) concept, and the claim that Getronics has become the world's first global virtualized workplace manager through its Getronics Workspace Alliance (GWA). The recently formed alliance established common tools, processes and methodologies for how partners in the ecosystem work together with Getronics as the central linchpin holding equity and the partnerships together. It became very apparent that CompuCom is a key partner and that it enjoys a close working relationship, especially as CompuCom has US-based global accounts whilst having no assets itself outside the Americas. Secondary themes were the importance of 'industrializing' services to avoid expensive development work that could not be recuperated and the strategy for evolving cloud services by moving from a 'system integrator' role to acting as 'system aggregator' and 'service broker'.

**Getronics in KPN**

KPN buying Getronics resulted in significant business changes - including 2008 cost savings of EUR 60 million, 1,400 layoffs and the sell-off of its application businesses in the Netherlands, Spain and Australia, and merging its US business with CompuCom. Getronics now acts as KPN's enterprise services arm in the Benelux region, and since January 2009 also as KPN's data center and is responsible for areas such as utility hosting and managed security capabilities. This has brought 3,284 new employees to Getronics. Some 60% of Getronics customers are

MNCs. In this customer base 60% of the IT spend is on the employees' workplaces.

Getronics has set out the goal of becoming an ICT market leader in the Benelux and to achieve a top-three ranking for global workspace management. The Integrated Communications Solutions (ICS) group combines KPN and Getronics Unified Communications and Collaboration activities (including legacy PBX and IP-PBX business) and LAN management. Getronics and KPN took their first step toward delivering against its market strategy by creating an integrated sales organization to focus on the top 500 accounts (e.g., ING, Achmea, DSM and Philips). Getronics will also work with its customers on reducing TCO by having a single contact, single contract, single SLA and single delivery model for all services. Companies below the top-500 have access to much of the same products, but are served by KPN directly.

Getronics sees itself positioned to drive 'Convergence on the Third Wave'. The 'First Wave' supported separate IT and telecom services. The 'Second Wave' converged technologies through IP, whereas the 'Third Wave' converges services and solutions to provide a true end-to-end approach to information and communication.

**Future Ready Workspace (FRW)**

Getronics manages some 2.3 million workspaces around the world today. The Getronics FRW mission is to enable employees with devices and applications to access, create and share information in order to deliver business value. FRW is Windows based and comes in three tiers: a Core tier providing a secure industrialized infrastructure with devices, collaboration apps and customer-portal support services; a Module tier with pre-integrated service components; and a Custom tier for integrating existing customer apps with FRW apps. Getronics also sees FRW as its 'foot in the door' to sell additional services.

**The Getronics Workspace Alliance (GWA)**

Desktop and workspace management is a very competitive market dominated by global operators, notably IBM, HP/EDS, CSC and T-Systems. Getronics US had 3,200 employees in 2007 and was a paltry #44 in the US workspace market. By selling and merging its US operations with CompuCom, Getronics acquired an 11% share in CompuCom plus $200 million in cash. CompuCom acquired an international presence and with a 2008 turnover of USD 2 billion, it became the number two desktop management supplier on the US market (after market leader HP/EDS) with 35 of the Fortune 100 companies as customers. This merger kicked off the GWA, where Getronics (backed by KPN) took shares (varying between 10-30%) in six other workplace management companies around the world: APX Synstar in France, Technocom in Spain, Getronics Middle East, ServiceOne in China and NTT Data in Japan and CompuCom in the US. Together this alliance is present in 70 countries and manages over 6 million workspaces. Additionally, GWA has created an ecosystem with 75 partners in 100 countries for global delivery capabilities with local support. Its over 1,500 service desk agents currently support over 400,000 trouble tickets per month on a global level.

**Connectivity Services**

The next step up from the FRW requires connectivity services that enable companies to exchange information between customers, employees and partners safely and efficiently. Here Getronics relies on KPN to make voice and data FMC services available to support Getronics' Unified Communications services, its on-premise services, contact centers and client applications. KPN operates a 22-country strong EuroRings network and global capabilities using key partners such as Sprint (US), Telefonica (Latin America) and Singtel (APAC). It can also bid through the Infonet organization and has other NNIs with Reliance GlobalCom, Global Crossing, PCCW, Beeline (former Golden Telecom) and others to provide coverage to 85% of the world economy.

**Moving from Service Integrator to Service Aggregator Role**

As end users adopt SaaS and cloud services, Getronics will also act as the broker between internal users, the internal IT department and external service providers. In general, Getronics sees hybrid deployments. Some customers will build solutions themselves, but host with a third party and others take the exact opposite approach. There are also customers that are looking at premise solutions, network-based and hybrid architectures. Getronics sees an important role for itself as an aggregator of service management, asset management and billing. This is where Getronics can credibly play the role of 'integrator' to develop the right service package for its customers encompassing: portal services, lifecycle services, identity management, active directory management, access management, security, application integration and database integration.

**Data Center and Cloud Services**

Getronics has merged and reduced the number of group data centers and will be moving its Amsterdam NOC into its Budapest center. Local support centers have all been relocated to central facilities. Getronics splits its Data Center services into Systems (e.g., assets, servers and physical facilities), Security (e.g., managed security and access) and Availability services (e.g., business, application and information availability). There is also a smaller consulting division. While Getronics provides a full gamut of services, the intention is to provide access to information through management of business critical applications and data. Cloud service applications are focused on market leading communication suites: Microsoft's Business Productivity On-line Suite (BPOS) and Sharepoint OnLine (SOL) as well as Getronics’ own WorkPlace OnLine (WPOL). An important objective for Getronics is to develop more managed services business within the data center, expand upon its virtualization capabilities and develop new areas such as utility computing models with new pay-per-click pricing, thus shifting customer CapEx costs to OpEx, in line with the wishes of many customers. Other developments include enhancing managed security, storage and back-up capabilities.

**Analysis**

It is very clear from the analyst day that Getronics has come a long way in 18 months. The company has had to balance identifying and selling off non-core assets without losing significant revenue, or much needed skills and capabilities. While it believed its focus should be in the Benelux, it also had to create a new model to keep its vibrant workplace management business going to support its international accounts without investing heavily in being everywhere, which would be doomed from the start. It has also needed to find a way to integrate and merge into the KPN organization and finding its place as an ICT player and join the ranks of Belgacom/Telindus, T-Systems and others. IT service providers are often seen as an OpEx-driven, project-based business whereas telecom operators are CapEx-based and scale driven. As a result, not all marriages between ITSPs and carriers have been successful. In the past mergers, we have seen companies offer IT services and telecom services, but failed to cross-sell any customers. It seems that despite the best efforts, customers have failed to believe in the value of integrated services. Conversely, KPN/Getronics wisely decided to integrate the front-end (e.g., customer facing organization) and credibly articulate the benefits (e.g., single contract, contact SLA and delivery process) as well as a lower TCO. They seemed to understand where they wanted to be in the value chain, and focused on a strong network-centric IT message and almost immediately KPN/Getronics produced their first reference accounts. As opposed to buying many small companies and knitting them together, KPN wisely went for one large entity that has an existing relationship supporting many of the same accounts and selling (to some extent) complementary areas within the same regions.

KPN/Getronics are making good progress, but is not out of the storm yet. Companies are tightening their belts as well as their IT budgets, requiring Getronics to respond with new products that can enable some of these accounts to move from a CapEx to an OpEx model, which is becoming very popular in these times. Hopefully, the company will also see the end of layoffs and will be in a position to focus 100% on the core business. There is also more work in terms of developing innovative products and improvements to be made to its global service delivery model. With Getronics plus six partners working in the alliance, there is a lot more in terms of synergies that can be gained. Despite the alignment of KPN and Getronics, the back-end factories are largely separate entities and at some stage the companies will have to poke this hornet’s nest in order to stir tighter integration.

## Recommended Actions

### Vendor Actions

• Getronics should broaden its Future Ready Workspace proposition to support and manage mobile devices and continue to integrate these capabilities more closely with Sympac, which is working on a range of mobility topics to support enterprise customers. This move would bring it in line with some of the lead integrators, such as HP/EDS, CA and T-Systems, capable of managing the desktop and devices. It can also enable both entities to better address the needs of the mobile workforce and tackle emerging issues, such as machine to machine (M2M) solutions, which are important to many verticals.

• Getronics has positioned itself as a provider of end-to-end solutions from the data center to the desktop. The company should draw special attention to all of the pieces it can provide such as data center services (e.g., security, hosting, business continuity, and IT management), managed connectivity (including CPE and LAN) and workspace management. Getronics can highlight its professional services division (via Getronics Consulting) and should emphasize the fact that it has more resources on the ground than most of its competitors.

• Getronics is embracing many facets of the end-to-end process in hybrid technology environments, and risks on the one hand not being able to support them competitively and on the other hand not deriving sufficient profit margins. Getronics must continue with its 'industrialization' drive but also be prepared to use partnerships and legacy technology termination if that improves efficiencies.

• Getronics must also retain an opportunistic market view and be ready to develop lucrative niches if they open up. The risk inherent in a 'grand vision strategy' is being tied to an under-performing complex delivery model with long term commitments.

**User Actions**

• Large European enterprises should take note of Getronics' strong and innovative global position in the workspace outsourcing market. Here may be a significant partial outsourcing opportunity. If workspace outsourcing makes sense then customers can easily add other Getronics service elements on top such as cloud based communication services.

• Large Dutch enterprise customers of either KPN or Getronics are sure to be cross-sold services now that sales teams have integrated. With the end-to-end approach that Getronics has adopted, customers can expect a complete solutions offering. This needs to be vetted competitively against other telecom and ITSP partnerships. On the other hand a commitment from KPN will be deeper when it comes with Getronics services than a corresponding relationship between a telecom and an ITSP with no ties or loyalties.

• Large Benelux enterprise customers should also investigate the Getronics/KPN solutions on a pan-European level where both companies have strong infrastructure and support presences. This is a hotly competitive market where also the financing capabilities play an important role. Potential customers should explore Getronics offers of risk-reward contracting and pure OpEx pricing.

• MNCs should be aware that while Getronics concentrates primarily on the Dutch market where it generates most of its revenues, it has developed an innovative Workplace Alliance programme working with six other partners where it has an ownership stake (between 10% to 30%), which is a lot different between the ad hoc partnerships that form around specific deals. Customers should also be aware that has active projects with 75 other partners across the globe.



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