



HP's founders began business in a garage over 60 years ago. It eventually grew into a global electronics empire and since May has been twinned with Compaq. But is this a match made in heaven? Robert Blincoc finds out

## Supplier profile: HP

When HP completed its merger with Compaq on 3 May 02, it became the world's largest PC manufacturer. This was the first time it had made the top slot but, by the time you read this, the reign of the 'new Hewlett Packard Company', as it likes to call itself, may well be over. Dell is snapping at its heels and the company has issues with products, brands and how these are sold as the merger works through. It also has to keep on top of quality at a time when it could very easily take its eye off the ball.

HP is a multibillion-dollar computer sales giant which manufactures and sells IT products. In the retail and small business sector it sells PCs, notebooks, handhelds, printers, paper, ink cartridges, digital cameras, projectors, scanners, DVD drives, hard drives, monitors and networking equipment. To large firms it sells heavy-duty servers, networked printers and services, as well as everything on the PC list.

Compaq has always been a strong force in the business market but has never

performed as well in the small business and consumer market. HP, meanwhile, is the king of printers in both the consumer and corporate worlds, but its PCs, notebooks and handhelds have never been as hot. In the words of David Atherton, MD of online retailer Dabs.com, which sells £1m worth of HP kit a month: "HP's a perfectly good PC brand. They're an 'A' brand, but they've never done well in PCs. They are seen as a printer company."

Atherton thinks HP gets the product and marketing right with its peripherals and printers, but just can't seem to manage it with PC hardware. "The HP OmniBook (HP's high-end notebook) was a failure. The Compaq Evo (Compaq's equivalent) was a success," he says. Stock clearance specialist Morgan Computers always has a healthy batch of discount HP Pavilion PCs to shift.

Though his view isn't shared by all, Atherton believes that the merger wasn't brought on by desperation – both parties were successful – but done with the view that consolidation was inevitable and these two companies would fit together well.

### Teething troubles

However, since the merger deal was completed HP's revenue has fallen more than it anticipated and it is losing market share in PCs. The merged business saw

revenues decline by 11 percent to \$16.5bn in its most recent trading quarter and sales in the personal systems unit were down 20 percent on the previous year to \$4.8bn. This needn't necessarily matter to the consumer. After all, both HP and Compaq are regarded as top brands in terms of quality and price. But the thing to watch out for in this kind of merger is the company losing control of its quality as it struggles to marry its businesses.

According to market research company IDC, HP held 15.1 percent of the worldwide PC market in the second quarter of 2002 while rival Dell held second place with 14.8 percent. But Dell is growing while HP contracts. Dell's shipments grew by 15.5 percent in a year while HP's declined by 16.2 percent, according to IDC.

During the same period, HP had 23 percent of the notebook and desktop UK market, with Dell just behind at 20 percent. In the consumer sector HP is top, but with just 14 percent of the market, one point ahead of the Time Group.

### Shrink to fit

It's too early for any benefits of the merger to have had an effect on HP's PC business and reverse this trend, but it is also very unlikely that HP's total PC sales will add up to the individual sum of HP and Compaq's pre-merger PC business.

The point of merging was to enjoy some cost savings, which inevitably involves some rationalisation of its product lines.

At the retail end of its business the new HP is keeping both the HP Pavilion and the Compaq Presario brands. This gives the company more shelf space in retail outlets, namely Dixons Stores Group.

It also allows the company to appeal to more buyers. "It's a bit like Proctor & Gamble," says Steve Torbe, group manager of HP's personal systems group, recalling the household product giant's domination of supermarket shelves with different washing powders such as Bold, Daz and Ariel.

"What they're trying to do is push these brands in two areas," says Gartner analyst Ranjit Atwal. "One at the high end, one the medium to low. It's quite hard to push one brand across a market sector."

The Compaq Presario will probably take the higher ground, considering the firm's strong name in the business market. The HP PC brand has one distinct advantage: it offers consumers the comfort of getting a PC bundled with a printer or digital camera carrying the same logo. For some people this is seen as a reassuring guarantee of compatibility, like buying your television and video recorder from the same manufacturer.

But this strategy means HP has the difficulty of differentiating the look, feel and spec of its consumer PC lines, while making them as similar as possible inside to cut costs.

### What's in a name?

In the business line the newly merged company will concentrate on the Compaq Evo. The handheld success story, the Compaq iPaq, will be rebranded the HP iPaq. The Evo name hasn't been around for long enough to stand up without the Compaq brand propping it. As the dominant partner in the merger, HP prefers to push that name when it can.

Mobile and wireless computing are areas HP will push. It is going to spend time revising and tweaking combinations of these products and has forged partnerships with Orange and Vodafone to aid this. The iPaq is being bundled with HP projectors and sold as the solution for the busy road warrior and his presentation needs. The handheld is also bundled with digital cameras that fit over the iPaq as a jacket.

A mini industry of other add-ons has also sprung up from third-party manufacturers.

The iPaq is the best selling handheld using a PC-derived operating system, Pocket PC. However, at Dabs Palm OS handhelds – PalmPilots, Handsprings and Sony Clies – outsell Pocket PC handhelds two to one. Whether HP has backed the right horse

**HP is a big, successful company and it will sort out your problems eventually – just maybe without the personal touch**

remains to be seen. The Jornada, the handheld product HP brought to the merger, will be killed off at the end of the year.

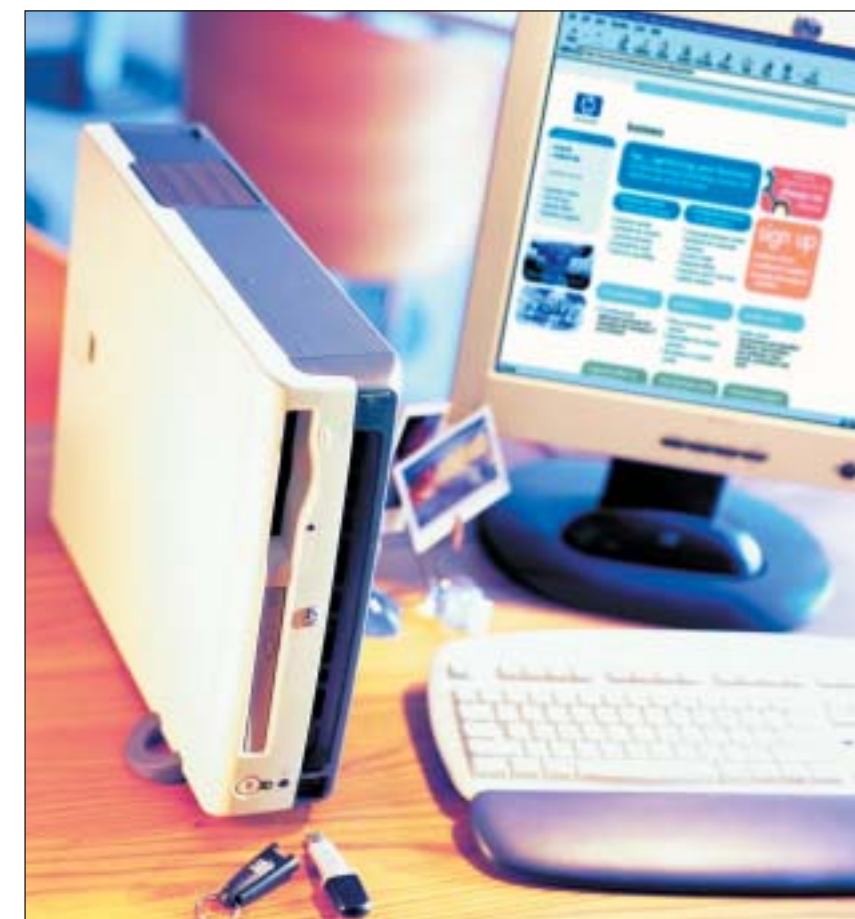
### Customer concerns

HP's warranty on the iPaqs has just been extended to two years. The company will try and sort out any problems over the

phone, but if that's a no-go it will send out a padded pack in which to return your device. At the consumer/small business end of the computer market HP provides a standard one-year return-to-base warranty that can be extended to three years.

It's worth pointing out that HP offers the style of customer service typical of a large corporation. This involves long sessions pushing buttons on your phone to navigate endless automated options, or receiving several automated email responses to your complaint before getting any proper help. Robert Nicklin, MD of Morgan Computers, has suffered this cycle several times while trying to get some assistance for his HP Pavilion customers. His considered opinion is that company customer service departments are "rarely about customer service".

But HP is a big, successful company and it will sort out your problems eventually – just maybe without the personal touch. Like many global companies boasting customer service strengths, HP is mainly a sales, marketing and research and development company.





**"Even though we've been going through the merger, we've been quite exceptional. We haven't let things slip."**

Steve Torbe, manager, HP's personal systems group

### We PC kings of Orient are

Compaq and HP have sourced most of their PCs and notebooks from Taiwan and Korea for some time and, until the merger is smoothed through, the two companies still have deals with separate suppliers.

Compaq buys 85 percent of its desktop computers and 80 percent of its notebook computers from Taiwan's contract manufacturers. Its desktop PC producers are Hon Hai Precision Industry, Mitac and FIC; its laptops are Inventec and Arima. All HP's notebooks and 85 percent of its desktop machines will come from Taiwan in 2002. It also uses Mitac and FIC for desktops, but Quanta and Compal for laptops. There is also a \$4bn three-year deal with Korean manufacturer Trigem.

It's interesting to note that, along with Compaq and HP, rivals like Dell, NEC, Toshiba, Sony and Fujitsu have all sourced from these same Taiwanese players. The big computer names will all counter that it is design and quality control that differentiate the goods, not the supplier (even though the firms don't do the design work either).

HP's Torbe says: "The key is not the manufacture – it's around the design; the

way the wireless technology is integrated. It's about the whole user experience."

The UK's own small PC and notebook companies also source from Taiwan and Torbe has worked on this side of the business. He feels Compaq and HP can beat these competitors on service.

He says HP can offer consistency of product. This means that if the company discovers it can source a new sound card for \$2 less than the one it has been buying, it will not immediately swap it into the production line without thoroughly checking the product first. Torbe says he knows from experience this happens at other companies.

### Innovations catalogue

As for design, HP can lay claim to some innovations. The company is an early promoter of CD-RW drives for recording CDs and it's one of the main forces behind the DVD+RW standard for recording DVD discs. HP is also in the midst of a several-month rollout of some 50 new printing and imaging products. The company is spending \$1.2bn in this area to fight Lexmark, Canon, Kodak and other competitors.

Another area of innovation (or at least straying from the norm) is that HP is preinstalling Corel's WordPerfect suite on its consumer PCs in the USA instead of the ubiquitous Microsoft Works. There are no plans to do the same in the UK, but if it makes business sense in the US it should make sense this side of the Atlantic.

Corel's WordPerfect is thought to be cheaper than Microsoft's Works Suite, which allows HP to trim costs. The move also means HP is taking advantage of Microsoft's legal antitrust troubles and gaining freedom from the software giant's market control.

### Making all the right moves?

In spite of the drop in revenues, the general consensus from HP, its analysts and retailers is that the company is moving in the right direction. Gartner's Atwal says: "In terms of what they're supposed to be doing, they're either doing it or making the right noises about doing it."

Torbe's line is: "Even though we've been going through the merger, we've been quite exceptional. We haven't let things slip. The merger was right a year ago, it's even more right now."

## HP at a glance

**T**he 'new Hewlett Packard Company' is the result of a merger between HP and Compaq. The deal was closed on 3 May 02.

- Number of employees Approximately 145,000 worldwide, once it has shed 10,000 staff following the merger. HP operates in more than 160 countries. HP was founded in a garage in 1939 by Bill Hewlett and Dave Packard. Compaq was started in 1982 by a trio of former Texas Instruments executives.
- Turnover HP's sales were \$45.2bn in FY2001; Compaq's sales were \$33.6bn for FY2001.
- Chief executives Carleton (Carly) Fiorina is chairman and CEO, Michael (Curly) Capellas is president.
- Headquarters Palo Alto, California.
- Website [www.hp.com](http://www.hp.com)
- Telephone HP information 0870 547 4747; warranty support 020 7512 5202; Compaq 0845 270 4222

However, the merger wasn't entirely uncontested, especially in the HP camp. In fact, HP founder Bill Hewlett was especially vociferous. Asked 'in terms of the HP-Compaq merger, what would you have done differently?' Kasper Rorsted, HP's managing director for Europe, Middle East and Asia replied: "It would have helped if we'd made Mr Hewlett shut up earlier."

Even now, not all technology analysts are convinced of the wisdom of the union. Martin Butler, founder of the Butler Group consultancy, recently gave his opinion of the merger and HP's chances of staying in the 'gang of five' top IT suppliers, along with IBM, Microsoft, Oracle and Sun.

"A marriage made in Hell," he calls it, "an accountant's dream and a marketing man's nightmare. I did a study on Compaq a few years ago and concluded that it contained three distinct companies that didn't work well together. Now there's four."

"HP does everything from printer cartridges to corporate servers and it's one hell of a messy organisation. They'll always make good printers, but will they always be an IT heavyweight? I'd say probably not." ■