HP Considers Reorganization?

Brandon Bailey

bbailey@mercurynews.com **Posted: 09/29/2009 06:41:38 PM PDT** Hewlett-Packard is reportedly considering a major corporate reorganization that would fold at least some of its once-powerhouse printing business into the company's thriving personal computer division.

If CEO Mark Hurd goes forward with the plan, first reported Tuesday by The Wall Street Journal, it would reflect a changing dynamic in which printing, once HP's biggest profit center, has been overtaken as Hurd has moved aggressively to build other business segments devoted to PCs and commercial computing hardware, software and tech services.

While the printing division once contributed a third of the company's sales and more than half its operating profit, its portion has shrunk to 21 percent of HP's overall revenue and a third of the company's $9.5 billion in operating profit for the first three quarters of this year.

An HP spokeswoman declined to comment on The Wall Street Journal report, which cited unnamed sources. The Journal said Hurd has not made a final decision on the proposed reorganization.

But if true, the move would bring the company full circle: In early 2005, HP's printer division was so successful that some analysts called on then-CEO Carly Fiorina to spin it off as a separate company. Instead, she combined it with HP's struggling PC division.

Five months later, after HP's board ousted Fiorina and hired Hurd as her replacement, the new CEO reversed that decision and split printing and PCs into separate divisions again. HP has since become the world's leading seller of PC's.

"The fact that five years later PCs would be considered the senior partner to printing is nothing short of astounding," said veteran tech analyst Roger Kay of Endpoint Technologies, who noted that PC division head Todd Bradley is considered a rising star.

While the move is unexpected, Stifel Nicolaus analyst Aaron Rakers said it may reflect a desire to achieve more savings by combining printers more closely with PCs in the company's global supply and distribution chains.

The printing division's sales and profits have declined during the recession. In the most recent quarter, it still had the highest profit margin of HP's major segments, but its growth rate has fallen behind other HP divisions.

Longtime printing division head Vyomesh Joshi has launched an ambitious effort to woo new customers by promising to help businesses lower their costs through managed services contracts in which HP helps configure and operate their printing networks. He also has expanded into selling digital presses and supplies for companies that print everything from magazines to billboards and product labels.

That led some analysts to say it doesn't make sense for HP to fold the entire printing division into the PC segment, as the Wall Street Journal reported. Kay said the managed services and commercial printing units would be a better fit with the HP division that sells tech products and services to other businesses.