

HP Transforms From Printers To Diverse Tech Business

Brandon Bailey

bbailey@mercurynews.com Posted: 10/02/2009 05:34:13 PM PDT Five years ago, more than half of Hewlett-Packard's earnings came from selling printers and ink, and its PC unit barely eked out a profit.

Since then, HP has become the world's leading seller of PCs, edging out longtime rival Dell, and is the world's biggest tech vendor overall. Meanwhile, its printing business, while still highly profitable, has been overtaken by faster-growing sectors of HP's giant empire.

That dramatic shift is part of a larger transformation at a company that CEO Mark Hurd has aggressively remade, through relentless cost-cutting, savvy acquisitions and expansion in several business segments. But the success of the PC segment, highlighted by numbers that HP released last week, has brought new attention to that division's little-known chief, Todd Bradley, whom some have described as a potential successor to Hurd one day.

The Palo Alto company, which had \$118 billion in sales last year, now draws its biggest profit from a unit that provides tech services to other companies and public agencies. But in the PC segment, Bradley "has been able to do some incredible things with a division that most people thought, before he came on board, couldn't be fixed," said veteran tech analyst Rob Enderle.

"He appears to be on a fast track" among company executives, Enderle added.

Earlier this week, The Wall Street Journal reported that Hurd is considering a plan to fold the printing business into Bradley's division. HP executives have declined to confirm or comment on the report, which the Journal attributed to unnamed sources.

Despite the potential for cost savings, analysts disagree on the wisdom of consolidating two segments that differ in fundamental ways. While the PC division has ridden high on sales of stylish, portable notebooks, the bulk of HP's printing revenue comes not from the sale of printers but from recurring sales of highly profitable ink.

The move, however, would give more responsibility to Bradley, a low-key but well-regarded manager who was one of Hurd's first major hires after becoming CEO in 2005. It also could mean an uncertain future for printing chief Vyomesh Joshi, a longtime HP executive whose star had risen under Hurd's predecessor, Carly Fiorina.

Bradley, the 50-year-old head of HP's Personal Systems Group, has seen his division's sales and profit suffer in the recent recession. But analysts say the former Palm CEO has shown a knack for anticipating consumer trends, while cutting costs and vastly improving the efficiency of HP's global supply and delivery system.

Today the PC division contributes a healthy 12 percent of HP's operating profit — earning nearly \$1.2 billion on sales of \$25.4 billion in the first nine months of 2009.

That's a smaller share than printing or tech services, which contributed 33 percent and 38 percent, respectively, of HP's \$9.5 billion in overall operating profit for the same period. But as the recession appears to be ending, Chief Financial Officer Cathie Lesjak announced last week that HP expects its PC sales to increase by 3 percent to 5 percent next year, compared with 2 percent or less for printing. Analysts credit Bradley with rethinking the company's approach to selling PCs. When he joined the company, HP was struggling to digest its acquisition of PC maker Compaq; it had fallen behind Dell in a race to sell what were mostly low-cost, commodity desktop machines.

While Dell had succeeded by selling over the phone and online, Bradley focused on in-store sales — just as the tide of consumer interest began shifting toward laptop models, which shoppers like to see and hold in their hands. He also expanded HP's manufacturing and retail presence in China, where the potential for growth is huge.

Under his tenure, HP launched a successful marketing campaign with the slogan "The computer is personal again." Though lacking the cachet of Apple's high-end machines, HP has kept abreast of trends by rolling out touch-screen PCs, netbooks, and even a digital "clutch" — a mini-notebook marketed for women, with a cover by fashion designer Vivienne Tam.

"The computer is personal' has been a great campaign. It resonated well at a time when the notebook started to turn the PC into a very personal device," said analyst Stephen Baker of the NPD market research firm.

The 55-year-old Joshi, meanwhile, has likewise sought to shake up HP's Imaging and Printing Group. Although it's also suffered in the recession, printing still boasts one of the highest operating margins at HP, earning almost 18 cents profit for every dollar of printing revenue in the past three quarters, compared with 5 cents per dollar of PC sales. But where analysts say the PC division is well-positioned for future growth, industry trends make the future of printing seem less clear.

As businesses shift to electronic records, some analysts believe they will print less on paper. Many consumers, meanwhile, are increasingly viewing Web-based material on their laptops, smart-phones and portable devices, without feeling the need to print.

Joshi, however, has argued passionately that the explosion of digital content only creates more opportunities to print. In recent years, he has pursued an ambitious strategy for promoting new uses of HP's printing hardware, software, and highly profitable ink.

As part of the "Print 2.0" strategy, Joshi's division has introduced online services and Internet-connected printers to make it easier for consumers to print things like newsletters, movie tickets and coupons directly from the Web.

To increase its share of office printing, the company is emphasizing "managed print services," or contracts in which HP promises to lower customers' overall costs, with hardware and software that help reduce energy consumption and streamline the flow of paper through an organization.

HP has also expanded into commercial printing, with digital presses for graphic arts and publishing, as well as hardware and software for retail photo printing. HP executives say these high-volume devices give them an opportunity to sell ink and other supplies in huge quantities for years to come.

"These are real groundbreaking business models" that may take some time to show results, said Angèle Boyd, who follows digital printing for the IDC research firm.

Meanwhile, printing remains a key source of company profit, though it's no longer the biggest segment, said analyst Aaron Rakers at Stifel Nicolaus Equity Research. "It's still very important to their overall story."