



i n v e n t

Uncertain times: HP's latest chief faces a tough challenge

Will HP's new boss steer it into calmer waters?

It's been a stormy few years for HP, with a succession of CEOs, strategic U-turns and turbulent financial results. Can its latest chief executive get the business on an even keel and hold it there?
Danny Bradbury reports

Perhaps it's no wonder that HP is so volatile. After all, it was born during frenetic times. William Hewlett and David Packard started Hewlett Packard on 1 January 1939, shortly before the start of the Second World War. From its humble beginnings in a Palo Alto garage, the company has grown from a \$5,000, two-employee manufacturer of oscillators to a \$127 billion concern, spanning PCs, printers, enterprise servers, software and services.

Along the way, HP has experienced its fair share of controversy, including most recently another change of CEO, a hastily abandoned plan to sell off its consumer technology division, and an \$8 billion write-down of its acquisition of Autonomy amid allegations of financial irregularities.

The company has gone through a rapid succession of CEOs in short order. Carly Fiorina was ousted in 2005 after a bitter boardroom battle; her successor, Mark Hurd, was fired following allegations of misconduct. Leo Apotheker lasted less than a year amid internal board disagreements over his attempts to reposition HP on software rather than hardware.

HP has faced massive cultural shifts with every change of CEO that have taken it away from its core ethos of adding value through product innovation (see panel).

This culture of innovation was established by Hewlett and Packard, and endured until Fiorina moved into the fray. Under her leadership, HP purchased Compaq to ingrain itself even deeper into a high-volume, low-margin business. Hurd continued to slash R&D costs and focus on manufacturing volume, then Apotheker stumbled in his attempt at a further, more radical cultural shift designed to reposition HP as a software company. What next?

Meg Whitman, who took over as CEO in January 2011, has a track record that is far from aligned with that of the business. HP was a hardware company, focused on creating value through innovation in design, and solid engineering. Whitman cut her teeth in an e-commerce company which has little to do with that history. Admittedly, she took eBay from a medium-sized e-commerce player to a multibillion dollar behemoth, but there were mistakes along the way, including the purchase of Skype, which she failed to integrate into eBay, and which was later sold at firesale prices.

A year after Whitman's arrival, HP is still trying to nose up from a spectacular dive. True, in its latest quarter, Q1 FY 2013, it posted better-than-expected results, returning a net income of \$1.23bn on net revenues of \$28.4bn. However, this was still a 16.1% profit drop from the same quarter last year, on revenues down 5.2%.

Whitman has said she has some innovations in store that will disrupt things, and that the firm will reap benefits from restructuring this year. She also wants to profit from what she calls market uncertainty over Dell's buyout plans, under which the company will return to private ownership.

Overview

HP (NYSE: HPQ) is the world's largest IT company, with revenues totalling \$120.4 billion in fiscal 2012. It is ranked 10th in the Fortune 500 for 2012 and its 331,800 employees operate in more than 170 countries. The company, headquartered in Palo Alto, California, operates across several distinct business units, covering PCs and mobile devices, imaging and printing, enterprise servers and storage, software, services and financing.

Founded in 1939 by William Hewlett and David Packard, HP began as a manufacturer of scientific instruments. It was incorporated in 1947, and went public 10 years later. In the 1960s, it branched out from the test and measurement market into fields such as medical systems and analytical instruments, developing its first computer in 1966.

A decade later, in 1976, HP surpassed \$1 billion in sales, growing exponentially to \$2 billion in revenues just three years later.

HP substantially expanded its presence in the computer business in the 1980s, investing heavily in desktop computers in addition to many computer systems. It made a foray into the printing market. By the end of the 1990s, it experienced such success in these fields that it spun off its original test and measurement and components businesses, forming Agilent Technologies as a discrete company.

The company has been through an acquisitive phase of late, making purchases in the mobile computing software and hardware space, in networking, security and in corporate services. Particularly large acquisitions have included Palm, 3Com and EDS.

No quick fix

But don't expect any of this to be quick. Whitman has made it clear that the restructuring will not be complete until 2016 and investors should expect to see more pain before the hoped-for gain. In the meantime, she has said, the company will not be broken up – although in a recent 10-K filing, HP specifically said it was examining options including selling off business units at less-than-desirable prices if necessary.

The market clearly needs more, given HP's long downward trajectory. In November 2012, Moody's Investor Service downgraded the firm's credit rating to BAA1 – just three levels above junk – from a previously gold-plated A3.

What has been causing this angst over HP's market position? The company took two write-downs during the last fiscal, as a result of two misjudged acquisitions.

The latest write-down was for \$8bn and related to its \$10.3bn purchase of Autonomy in August 2011. HP said it had been duped into buying the firm following "serious accounting improprieties, disclosure failures and outright misrepresentations" by Autonomy. More than \$5bn of the accounting impairments were related to that misrepresentation, it claimed.

This prompted former Autonomy CEO Mike Lynch to post his own website (www.autonomyaccounts.org) in which he challenges HP's allegations. None of this sits well with HP's former CEO, Leo Apotheker, who was in charge when HP purchased Autonomy. Apotheker was not able to fully implement his strategy to merge the two businesses, he said in response to HP's complaints about Autonomy. In any case, Whitman was on the board when the decision was made to buy the company, and she voted for it.

The subsequent scandal surrounding the HP acquisition now includes a Department of Justice investigation into HP's claims of wrongdoing by Autonomy.

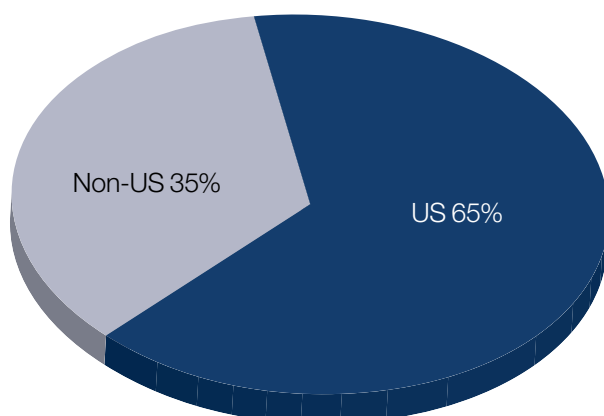
HP's assertion that Autonomy managed to hide more than \$5bn from its own due diligence team might carry more weight if the company had not taken another \$8bn write-down last year on its EDS services business, which was originally purchased for \$13.9bn in August 2008.

How can a company overvalue an acquisition by almost 60% of the purchase



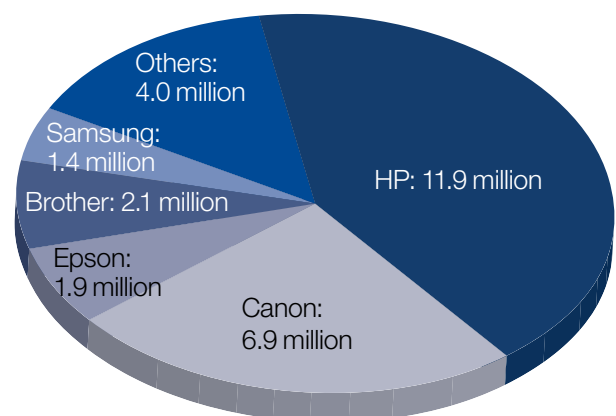
Meg Whitman, CEO

Revenue by region



HP FY 2012 annual report

Worldwide printer market share



Source: IDC Worldwide Quarterly Hardcopy Peripherals Tracker, February 2013

cost? The EDS purchase didn't happen on Whitman's watch, but she had to clear up that mess, too. And the write-down signals a bigger reality adjustment for the firm's services business. That will be painful for a company competing with large rivals such as IBM in the mega-vendor space.

Whereas the Autonomy deal was an Apotheker bolt-on, the EDS acquisition arguably changed the DNA of the company, paving the way for Apotheker's subsequent software shift. It forced a renaming of HP's services segment and a reorganisation of business units within the division. HP's services arm now comprises application services, infrastructure technology outsourcing and business process outsourcing. Consulting and integration dissolved into these new operations.

Shift towards services

Services forms a major part of any enterprise company's portfolio and, while HP formed its own services unit in 2001, it took a significant leap with the acquisition of EDS. With 2007 revenues of \$22.1bn, EDS bolstered HP's revenue substantially and accelerated its journey towards end-to-end mega-vendor status. HP's US revenue increased by almost an eighth in 2009, mainly as a result of the EDS acquisition.

EDS was intended to help HP expand into a vertically oriented sales model, as a key tool in enabling HP to take its technology and tune it to specific industries. Former CEO Mark Hurd was committed to moving sales into discrete vertical sectors as part of its enterprise business.

The acquisition of EDS bolstered HP's enterprise operations at the time, offsetting a 20.8% decrease in net revenue for the enterprise server and storage division, and a 15.4% drop in software. The EDS acquisition strengthened outsourcing's position as the highest-performing business area, growing 40% in 2009 compared with 18.7% in 2008.

Services revenues decline

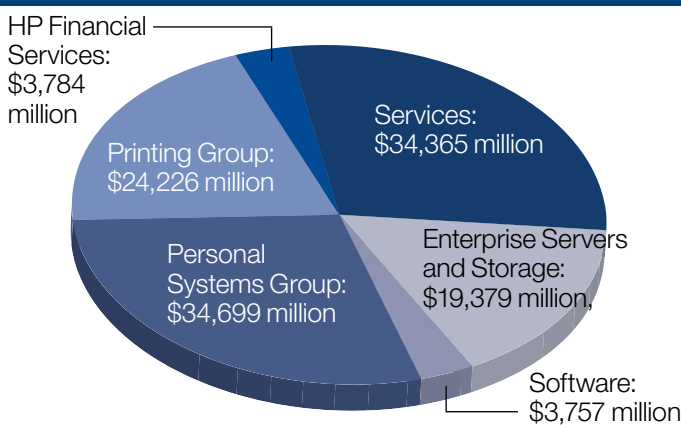
However, things have changed drastically since then. Net revenue on technology infrastructure outsourcing dipped 1.5% in 2012 after a meagre 2% increase in 2011 – and the firm's services business overall dropped by 2.2% last year. The gross margin on services dipped in 2012, as it did in 2011, leading to a 2.9% decline in services as a percentage of overall net revenue. HP's outsourcing business seems to be moving downmarket.

Key executives

- CEO, Meg Whitman
- Executive vice president and chief financial officer, Catherine A. Lesjak
- President and chief executive officer, Margaret C. Whitman
- Executive vice president and general manager, Enterprise Services, David A. Donatelli
- Executive vice president, Personal Systems Group, R. Todd Bradley
- Executive vice president and chief communications officer, Henry Gomez
- Executive vice president, general counsel and secretary, John F. Schultz
- Executive vice president, Human Resources, Tracy S. Keogh
- Executive vice president HP Software, Abdo George Kadifa
- Senior vice president and treasurer, John N. McMullen
- Senior vice president, controller and principal accounting officer, Marc A. Levine
- Executive vice president and chief marketing officer, Martin Homlish
- Executive vice president, Global Technology and Operations, John M. Hinshaw
- Executive vice president, Enterprise Services, Michael G. Nefkens
- Chief operating officer, William L. Veghte

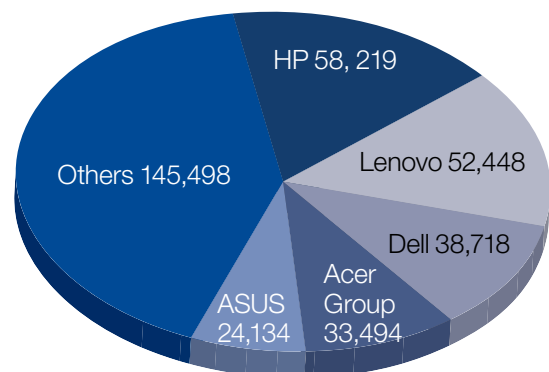
Source: HP annual report

2012 net revenue by business unit



HP FY 2012 annual report

Top 5 vendors, worldwide PC shipments 2012 (preliminary)



Source: IDC Worldwide Quarterly PC Tracker

This is likely to have a detrimental effect in the UK, where EDS had a bigger impact. It has traditionally been the largest revenue earner in the region.

Services presents significant opportunities for HP, since revenues from services contracts are often more stable because of the longer-term relationships they create. However, services have fluctuated as a percentage of revenue. In 2008, they made up 12% of corporate sales, rising to 15.9% in 2010, before falling to 14.3% in 2011. Now they stand at a mere 11.7%. How low can they go?

Even before the revaluation of the business inherent in the FY 2012 Q3 write-down, the EDS acquisition leaves HP facing some significant challenges. For one thing, the services giant has experienced a high level of staff turnover. With the firm came multiyear contracts that were signed by EDS teams, which in many cases left the company.

Combating fragmentation

HP's offerings were highly fragmented before Fiorina joined, and in spite of the controversy surrounding her departure, consolidating the company's product and services lines will be seen as one of her legacies. Nevertheless, the firm still has a reputation for being splintered.

The UK arm launched a new sales model in November 2009, assigning a single account team for each large enterprise client, spanning all the business units, managed by a single account manager.

Products and services

PCs

- Desktop and all-in-one PCs
- Laptops
- Electronics and accessories
- Software
- Monitors

Printers and consumables

- Inkjets
- Multifunction
- Specialist colour
- Portable
- Lasers
- Black and white
- Colour
- Large format
- Scitex industrial printers
- DesignJet
- 3D
- Calculators
- Scanners

Home servers and storage

- Disk storage
- NAS
- Storage networking
- Tape

Photo printing services

- Snapfish

Point-of-sale solutions

Networking

- AllianceOne zl Services module
- Switches
- Routers
- Network management software
- Tipping Point IPS and security management appliances
- Unified communications

Servers and blades

- Windows Home Server
- ProLiant x86 servers
- Integrity Itanium servers
- HP9000 servers
- HP e3000 telco-grade servers
- ProLiant blades
- Integrity blades

Software

- Business technology optimisation
- Business intelligence
- Communications and media solutions
- Information management

- Print/copy infrastructure management
- Content/document management
- Output management
- Mobile printing
- Server management
- Storage management
- Workstation and PC management
- HP-UX operating system
- OpenVMS operating system
- NonStop operating system
- Third-party operating systems
- Halo video telepresence, conferencing and collaboration

Services

- Business process outsourcing
- Technology infrastructure outsourcing
- Application services
- Imaging and printing
- Security and compliance
- Consolidation and virtualisation
- Energy and resource efficiency
- Messaging, networking and communications
- Education and training

Source: HP annual report

HP is working hard to integrate its own products into an HP 'stack', in which all products, from servers through to storage, networking and security, work together. That may sound simple, but it is difficult when a company has been through as many acquisitions as HP has in the process of fleshing out its portfolio.

A case in point is its acquisition of 3Com, which it announced in late 2009 and completed in 2010. 3Com broadens the networking part of HP's stack, which was sorely missing as it tackled the datacentre with the rest of its enterprise product portfolio.

3Com was to give HP the fuel that it needed to go after Cisco, which has been happily encroaching on its space by diversifying into integrated stacks with its own server offerings. 3Com showed strong performance in 2011 and HP seemingly integrated it well, rebranding it to HP Networking and cross-training its staff. Nevertheless, HP seems to have a habit of taking strong companies and deflating them. It retired 3Com's VCX IP voice and telephony product, much to the chagrin of its networking channel.

Strategic security moves

In that other fast-growing segment, IT security, HP has been gradually building a portfolio of products and services under its four-year-old Secure Advantage banner. The company had not followed its competitors in acquiring security giants. EMC, for example, purchased RSA, while IBM bought Internet Security Systems. McAfee (which would have suited HP well with its mix of consumer and enterprise customers) was snapped up by Intel.

Instead, HP is focused on best-of-breed point solution providers, rather than companies offering a range of security products. In September 2010, HP announced the \$1.5bn purchase of a company offering point solutions: security management and compliance tools firm ArcSight. It made the announcement shortly after agreeing to purchase Fortify. Fortify, like ArcSight, will fit well into the firm's business technology optimisation portfolio. It enables developers to fold software security into the application development life cycle.

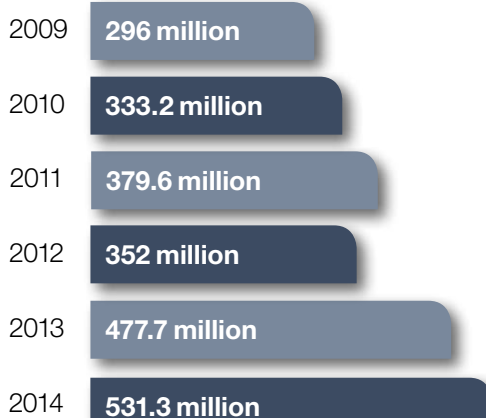
By focusing on companies such as these, HP is making a strategic security play. In advising companies on compliance, and giving them the management tools to orchestrate security using other best-of-breed products, the company was hoping to exploit the value-added side of the security market. Played correctly, this could complement HP's services unit very well.

UK executives

- Country manager, Mike Nefkens
- Executive vice president, HP Europe, Middle East & Africa, Bill Thomas
- Managing director, HP UK & Ireland, Craig Wilson
- Regional vice president, HP UK Civil Government and Transport, Rod Halstead
- Vice president and managing director, HP Defence and Security and MEMA, Sir Robert Fry
- Vice president and account executive, HP Work & Pensions, Mark Manser
- Account executive, HP Shell, Peter Hands

Source: HP annual report

Estimated global PC shipments



Source: IDC

Net revenue growth 2010-2012



Source: HP FY 2012 annual report

More recently, it launched a security service. The HP Security Breach Management Solution, introduced at the end of January 2013, focuses on helping companies after they have been hit by a security breach, and therefore ties in nicely with its compliance offerings.

The challenge of the servers

HP often talks about three aspects of its enterprise business in the same breath. Although HP Services, Software, and Enterprise Servers and Storage (ESS) are different units from a financial reporting perspective, they have sufficient synergy to cause HP to lump them together.

HP faces challenges in its server business. On the one hand, it is well-positioned in commodity Intel servers. The x86 architecture underpinning this business has proven itself in the enterprise space, enabling corporate customers to scale out

HP's CEO merry-go-round

HP has seen a range of CEOs come and go with alarming speed in recent times.



Carly Fiorina: victim of boardroom battles

Fiorina, who replaced Lewis Platt in 1999, lost a bitter boardroom battle over the company's direction and was eventually ousted in February 2005, after her own employees and board turned against her.

Her departure followed significant profit shortfalls. Having pulled HP from a sprawling behemoth with more than 80 autonomous business units into a more monolithic four division company, Fiorina – the first company outsider appointed to HP's leadership – left analysts predicting the eventual breakup of the firm.



Mark Hurd: ousted after a scandal

Fast forward five years, and the company faced yet another controversial CEO departure. Hurd, who took the helm after interim CEO Robert Wayman, was fired in early 2010, following two linked scandals. The first involved a sexual harassment allegation by a former marketing contractor, and the second a violation of business

conduct, after submitting inaccurate expense claims to conceal his relationship with her.

That led to a spat between Larry Ellison and HP, after the mercurial Oracle CEO hired Hurd. "The HP board just made the worst personnel decision since the idiots on the Apple board fired Steve Jobs many years ago," said Ellison.

This public battle foreshadowed increasing tensions between the two companies that broke with a legal spat

over support for the high-end Itanium chip, which HP developed in conjunction with Intel.



Leo Apotheker: leaves after a year

Apotheker, formerly CEO of enterprise software company SAP, joined HP as CEO on 1 November 2010. However, less than a year later, he was gone, replaced by former eBay CEO and sometime politico Meg Whitman.

Where did Apotheker go wrong? On his watch, the firm had a number of disappointing quarters, with flat revenues and declining profits. This is perhaps not surprising, given the odds that were stacked against him. He was a software company CEO first and foremost, having joined HP from SAP, and yet software comprised only 3% of HP's revenue when he joined.

Apotheker had few allies at HP and the board had reportedly been deeply divided about whether to hire him. With all these challenges, he faced the task of steering the company through a difficult and competitive market period.

He worked hard to make software a bigger part of HP's portfolio. "We all believe that HP should be more valuable than the sum of its parts," Apotheker said the day after being named leader. "Software is sort of the glue to make that happen. Software is how we differentiate on our industry-standard platform. Software is how we can make sure that the various parts of our technology actually fit together."

This was always going to be a cultural challenge for a company with a strong hardware base, and Apotheker made things worse by fumbling several important strategic decisions concerning its hardware direction while simultaneously trying to grow a software business. He decided to divest HP's PC unit, and backed out of a tablet PC market that it had only just entered.

systems, creating clusters, grids and blade architectures that can be expanded simply with the addition of more servers. Most cloud-based service providers, faced with dramatic increases in demand as business grows, simply add more servers to accommodate growth, rather than using massively parallel 'big iron' machines to scale up. It is a cheap and easy way to increase computing capacity.

On the other hand, HP has Itanium, the 64-bit processor architecture that it began developing with Intel in 1994. This project turned into a decade-long initiative, which at the time was supposed to yield a high-volume processor that would replace much of the existing x86 market in the enterprise world. In reality, because x86 scaled so well, there was less demand for Itanium than people imagined.

Consequently, Itanium has turned into something of a niche product, relegated to HP's mission-critical server business. It has essentially turned Itanium into a single-vendor processor architecture. HP sells 85% of all Itanium systems, just as Oracle's Sun Microsystems developed the Sparc architecture that it sells. With Microsoft discontinuing support for Itanium in Windows, Itanium looks even lonelier.

On the upside, HP recently won the first phase of a court case against Oracle, in which a judge ruled that Oracle had a contract to continue producing software for Itanium. Oracle's bid to get the ruling overturned failed in January 2013. The next stage of that case will decide whether Oracle breached the contract, and what damages, if any, should be awarded. HP has asked for up to \$4bn.

This ruling means Oracle will be forced to port its database software to Itanium until HP elects to stop shipping servers enabled with this processor. It is still launching them, having upgraded its range of Integrity servers in November 2012 to reflect Intel's launch of the Itanium 9500 processor.

Business-critical servers

Still, the server operation as a whole seems to be sputtering. Things looked promising in 2011, when revenues grew 9% from the previous year, even though that was a slowdown from a healthy 26% in 2010. In 2012, though, revenue for the Enterprise Servers, Storage and Networking division dipped by 7.1%. Earnings from operations dipped too, to below 2010 levels.

HP blamed this on falling revenues in industry standard servers, high-performance business-critical servers (which the firm says fell by almost a

Timeline

1980

- Introduces the first laser printer that is fast and inexpensive enough for use outside a central computer room
- Revenue: \$3 billion
- Employees: 57,196

1983

- Introduces its first touchscreen personal computer, the HP-150

1984

- Introduces the HP LaserJet printer
- HP Labs Bristol opens as the first HP research operation outside Palo Alto

1985

- Establishes China Hewlett-Packard (CHP), the first high-tech joint venture in China

1986

- Introduces PA-RISC architecture

1988

- Introduces HP DeskJet

1989

- Acquires workstation manufacturer Apollo Computer

1990

- HP Labs Japan opens in Tokyo

1991

- Introduces HP 95LX palmtop PC
- Introduces Colour DeskJet

1992

- Lew Platt takes over as CEO from John Young

1994

- Introduces HP Color LaserJet printer
- Commences work on IA-64 processor with Intel
- Formalises telecommuting policies

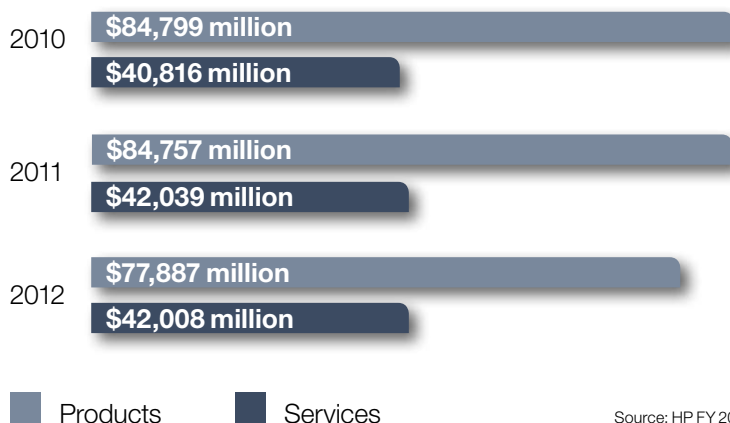
1995

- Enters home computing market with HP Pavilion PC

1997

- Introduces HP Photosmart system for home photo printing

Products vs services revenues



Source: HP FY 2012 Annual Report

quarter), and storage. The dip in revenue from business-critical servers is an ongoing trend, and is not surprising, given documents uncovered by Oracle during the discovery phase of its court case with HP.

During Project Blackbird, an internal 2009 feasibility study into whether it should buy Sun Microsystems, it said "HP-UX is on a death march due to (the) inevitable Itanium trajectory". In short, its business-critical systems unit was not long for this world – and internal revenue projections bore that out. In its 2012 annual report, HP attributed the large fall-off in BCS revenue to poor Itanium demand.

Competition accelerates in the server market

HP's industry-standard X86 business is growing more in real value than the business-critical unit is shrinking, but HP faces challenges here too. Business-critical servers are a rarified business, with fewer players, whereas the world and its dog are making general-purpose Intel servers. Diane Bryant, head of Intel's datacentre group, said that HP, Dell and IBM accounted for 75% of server processor sales in 2008. Now, eight vendors make up that number – and the fifth largest, Google, doesn't even manufacture those servers for other people. No wonder that HP's industry-standard server revenues slipped 7% in fiscal 2012, due to decreased volume and unit pricing.

Dell, which has trailed HP in second place in the PC market and concentrates entirely on x86-based systems, is also struggling to be relevant in the enterprise space, but HP has a broader appeal in the enterprise market, thanks to its strong presence in the datacentre.

HP's victory over Dell in their bidding war for 3PAR cements its presence here. HP and Dell slogged it out in public during August 2010, upping their bids against each other, until HP clinched the deal, buying 3PAR for \$2.4bn.

3PAR bought a key technology to HP's portfolio in the form of thin provisioning, which enables IT administrators to offer only as much storage capacity as users require. This saves customers a great deal in terms of capital expenditure by making their storage infrastructures more efficient.



1998

- Introduces its first Jornada 820 PDA

1999

- Spins off measurement, components, chemical analysis and medical businesses into Agilent Technologies, retaining 84.1% of common stock
- Carly Fiorina replaces Platt as CEO

2001

- Creates HP Services unit, encompassing IT consulting, outsourcing, support, education and solutions deployment
- Launches IA-64 (Itanium) processor that it worked on with Intel

2002

- Opens HP Labs India in Bangalore
- Purchases offset printing firm Indigo, propelling it into that market
- Acquires Compaq
- Enters tablet computing market with Compaq Tablet PC TC1000

2003

- Launches Adaptive Enterprise strategy to tighten links between customers' business and IT efforts

2004

- Launches digital entertainment strategy, a series of products and strategic deals designed to pull together multimedia content for customers

2005

- Mark Hurd replaces Fiorina as CEO after interim spell by CFO Bob Wayman
- HP Labs China opens in Beijing
- Buys Snapfish photo-sharing service
- Launches HP Halo Collaboration studio telepresence suite

2006

- Acquires software testing and development tools firm Mercury Interactive
- Acquires high-end PC vendor VoodooPC

2007

- Opens HP Labs Russia in St Petersburg

This acquisition spearheaded what was an otherwise ageing storage portfolio and is propping up HP's storage strategy. In 2012, storage revenues slipped 6% for HP, due primarily to a decrease in tape and storage networking kit. Only 3PAR, along with HP's StoreOnce products, saved it from being worse. The firm clearly realises that it needs to inject some adrenaline into its storage portfolio, because it is rebranding the lot. 3PAR will become StoreServs, accompanying other brands such as StoreOnce, StoreVirtual and StoreEasy.

3Par and StoreOnce form the basis for the storage side of HP's converged infrastructure strategy, which goes far further than disk arrays. The firm has developed a strategy called Converged Infrastructure, designed to deliver its vision of an integrated computer stack.

Virtualisation

Both HyperV and VMware can fill the virtualisation part of this offering. That said, HP has thrown in its lot with Microsoft. In January 2010, the two companies announced a \$250 million, three-year partnership designed to consolidate their work on cloud computing (of which virtualisation is an integral part). Although details were vague at the time of launch, it had both Microsoft chief Steve Ballmer and Hurd's direct support, making it a strategic partnership with some considerable commitment.

The partnership cemented HP's commitment to cloud computing. It is impossible to cross a conference room floor today without hearing about cloud services, and HP is committing to the concept at both commercial and research levels.

Moving into the cloud

Since then, HP has taken its Converged Infrastructure model and plugged it into a broader cloud strategy called Converged Cloud. It will sell you the hardware and software portfolio that you need to run private virtualised cloud services on premise, it will manage your own hardware for you off-site or provide a private cloud environment for you off-site. Or you can feel the love and make use of multitenant, open source-based public cloud services offered by HP.

The company pulled this public cloud service out of beta testing and into commercial operation in December 2012, complete with monthly service level agreements that allowed for about 22 minutes of downtime a month. This beats Amazon's S3 SLA.

HP also expanded its Microsoft partnership, expanding its Converged Cloud portfolio with a joint set of services. The Joint Private Cloud scheme is designed to get customers into cloud services more quickly, using Windows Server 2012 at its core.

All this seems to complement Cloudstart, a fast-track service for deploying private clouds, which the company launched in August 2010. It also seems to have replaced HP's fluffy, white and largely incomprehensible Everything as a Service, which was an umbrella initiative encompassing a variety of cloud-based initiatives, including printing services, social networking and online project and portfolio management services.

Research and development

Making this transition from private to public cloud services has been part of the company's research mandate. HP's Bristol research laboratory has co-ordinated cloud-based research across the world, pulling together efforts in other areas, such as its Singapore lab.

2007

- Launches Touchsmart PC
- Furthers application development tools portfolio with acquisition of security assessment tools vendor SPI Dynamics
- Acquires datacentre automation firm Opsware

2008

- Acquires EDS
- Buys 3Com

2010

- Purchases thin provisioning storage vendor 3PAR after public bidding war with Dell
- Appoints former SAP chief Leo Apotheker as CEO after Mark Hurd ousted in sex scandal
- Buys Palm for \$1.2bn

2011

- Apotheker out as CEO; Meg Whitman in
- Announces it will can the PC division, then promptly uncans it
- Reveals plan to open source WebOS

2012

- Merges Personal Systems Group with Imaging and Printing Group
- Leaked memo indicates formation of new mobility division
- Whitman says she wants back into the smartphone market
- Announces losses of \$8.9bn in third quarter after writing off 60% of EDS's acquisition value. Lowers outlook for financial year. Takes \$8.9bn write-down on Autonomy acquisition, blaming former management for misleading accounting and bringing in SEC to investigate

2013

- Announces Q1 results showing \$1.72bn in operating income on revenues of \$28.36bn – down from the same quarter a year before, but still beating Wall Street expectations
- Sells WebOS to LG

HP is making a concerted effort to recapture its former mantle as an innovator by pumping more money into R&D. Hurd slashed the firm's R&D budget from 3.5% to 3% in 2007-2008, and then again to 2.5% in 2009, as part of a swingeing efficiency drive that saw any non-commercialisable projects axed, and the total project count reduced from about 150 to 30. Since then, the company has increased spending, reaching \$3.4bn in 2012, up from \$3bn in 2010. Still, it trails the average 3.52% of revenue that Booz Allen Hamilton found in 2010. In its 2012 annual report, HP acknowledged it needed to address its underinvestment in this area.

Moving beyond the PC

While HP continues to grow the high-end servers as part of its business, it also faced significant challenges at the lower-margin end, and has been having an identity crisis in its PC division. The company was all set to throw in the towel with its consumer electronics operation under Apotheker in August 2011. Its Personal Systems Group (PSG), which supplies roughly a third of HP's revenue through its sales of PCs and other personal technology products, saw declining revenues in 2009, along with most other competitors in a market known for razor thin margins.

On 18 August 2011, the manufacturer announced "the exploration of the separation of its PC business into a separate company through a spin-off or other transaction". It also killed off the Touchpad, its attempt to trounce Apple's incumbent iPad in the tablet market. In doing that, it in effect gave up on the WebOS operating system that it had acquired along with Palm for \$1.2bn in April 2010.

Then, it performed an about-face. It kept the Personal Systems division but merged it with the Imaging and Printing division, its printing group. Both of these divisions – traditionally high-volume, low-margin businesses – have seen relatively flat performance over the past few years. Now, they are called the Printing and Personal Systems Group, and are both headed by PSG chief Todd Bradley.

Smartphones – a missed opportunity

The ambiguity over WebOS caused a kerfuffle at the time. HP executives asserted that this acquisition had little to do with the smartphone market. HP had lost its footing in that space, partly because of its choice of Windows as a mobile operating system. Before it purchased Palm, it had only one smartphone on offer. WebOS was the real prize from the acquisition.

Bradley had predicted in 2010 that by 2013, 45% of its total available market in PSG would come from products beyond its core PC business. WebOS featured heavily in that product set. But things change quickly on HP's stormy planet.

In September 2011, it turned it into an open source platform, giving it to the community and pledging support for its development. Just under a year later, HP announced it would spin off the operating system into a new subsidiary called Gram. Leaked documents suggest a kind of skunkworks project, veiled in secrecy but designed to integrate with HP's cloud efforts and Enyo, the mobile Javascript application framework that underpinned the Touchpad. The tagline: "Potent. Light. Nimble. At the core of all things big and small."

HP axed half the WebOS division's staff early in 2012, and WebOS lead Jon Rubenstein resigned.

All of this looked like frantic thrashing, as the company tried to work out its place in the PC – and the post-PC – market. In February 2013, WebOS lost its battle

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Source: HP annual report

at HP. Or perhaps it won the chance to be taken seriously. LG bought it and announced plans to use it for smart TVs.

PC market 'on the ropes'

Perhaps finally finishing with WebOS will give HP some direction in the PC market. It looks as though it needs it. Prices on consumer products in this division continue to drop and the division's revenues took a 9.9% hit in 2012. Notebook, desktop and workstation revenues all suffered from punishing market conditions.

The PC market is on the ropes, and HP's fumbling with WebOS and the TouchPad cost it dear. Analysts including Gartner have said that Windows 8 has done little to prop up a stagnant market. Instead, it dropped again in Q4 2012, with shipments dipping almost 5%, according to Gartner.

Tablets, on the other hand, continue to flourish. IDC is predicting 261.4 million worldwide shipments in 2016, up from 70.9 million in 2011. Most of those will be iOS and Android devices, it says. No wonder Whitman said that HP would be refocusing on the tablet market – and that Android seems to be its primary choice, after Microsoft chose to break into the hardware market with its own surface device. This notably irked PSG head Todd Bradley, who publicly criticised the hardware.

Can HP turn things around? It needs to manage things carefully and its main problem in the past has been indecision. In September, Whitman was quoted as saying that the company missed out on innovation and needed to make PCs more "beautiful". Five months later, she announced the firm would be shifting resources from PCs to tablets. None of this inspires confidence.

HP's move of its managed printing business into the printing business unit as part of the reorganisation of its services arm may staunch the flow for a while.

The future of printing

Managed printing is a growing area that is attracting the attention of businesses at all levels. With printing one of the last areas of uncontrolled costs in business, it makes sense for customers to buy fewer numbers of better printers, rather than peppering departments with inefficient, consumer-grade machines.

Printing as a managed service also strengthens the relationship between HP and its customers. It is no coincidence, then, that managed printing revenues increased 2% in 2012, compared with a 6.5% decline in the overall printing business over the year.

It seems that every year, HP has more to bounce back from. In the first quarter of 2012, it lost \$8.9 billion, compared with \$1.93 billion in its third quarter during 2011. Revenues continue to plummet and the company has issued a warning for the fourth quarter.

Whitman wants to stop the rot, but she has a lot of heavy lifting to do. The company wants to rediscover some of its former innovation and find its way back into markets that it abandoned, such as the smartphone and tablet, but it will have to achieve that while losing talent (much of which is walking voluntarily), and generally fighting weak figures and bad morale.

Whitman hopes the latest results will herald the start of a long-term turnaround. Share prices rose after the Q1 2013 financials, as the market warmed to her new breed of management. Let's hope she can keep pulling the rudder hard enough.

Key facts

- Net revenue: \$120.4 billion
- Net earnings (loss): \$(12.7) billion
- Specialisms: PCs, printers, enterprise servers, storage, networking, services, software
- Employees: 331,800 worldwide
- History: founded in 1939 by William Hewlett and David Packard. Incorporated 1947

Source: HP FY 2012 annual report