

Computer sales not leading to profits

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For computer manufacturers, the latest report confirming a surge in global demand for personal computers should have been heartening, but one of the biggest beneficiaries of the seemingly insatiable appetite worldwide for new PCs said it was slashing its workforce in order to retain its competitive edge.

Hewlett-Packard confirmed Tuesday it will cut about 10 percent of its total workforce, or 14,500 full-time jobs, over the next six months in an effort to reduce costs by \$1.9 billion annually. The company said it will be offering voluntary retirement programs to U.S. workers who have been with HP for a significant length of time, but it will end the corporate pension program for those who are not old enough or have worked long enough at HP to qualify now. Rather, the company will increase its employer's match to 401(k) retirement plans to 6 percent from the current 4 percent. "After a thorough review of our business, we have formulated a plan that will enable HP to begin delivering its full potential," Mark Hurd, HP's chief executive officer, said in a news release. "We can perform better for our customers and partners, our employees and our shareholders -- and we will."

"This is about what we were expecting," Harry Blout, a Wall Street analyst at Lehman Brothers, told United Press International. He added that he expects more cost-cutting efforts to come.

HP's restructuring plan comes only a day after research group IDC reported the company ranking second in sales volume among U.S. computer manufacturers. IDC, in Framingham, Mass., is a consultancy

specializing in the information technology and telecommunication industries. Its researchers found that, overall, shipments by U.S. manufacturers globally increased by 16.6 percent in the second quarter, because demand was strong not only in the United States, but also in Europe and Japan, as well as the Asia-Pacific region.

Dell topped the list, accounting for about one-fifth of overall market share. The company saw shipments increase by nearly 24 percent from the same period a year ago, while HP saw sales jump over 16 percent, with a market share of about 15 percent. Lenovo came in third, as sales soared 271 percent from a year ago and accounted for a market share of over 7 percent.

IDC said the continued fall in computer prices was the biggest factor driving up demand. Loren Loverde, director of the company's worldwide quarterly PC tracker, said in a news release such growth was "amazing."

"At some point we expect the flood of consumer and portable demand to let up, but so far falling prices and demand across regions and market segments continues to support growth," Loverde added.

For HP, however, the problem has been less about selling computers than profiting from the sales. So the latest efforts by the company to become leaner and more efficient could lead to profits as well as sales growth, said David Daoud, client computing research manager at IDC.

In a competitive environment, there is "limited ability to raise prices, and the only thing to do (to boost profit) is cost reduction," Daoud told UPI. He warned, however, that in the longer term, severe cuts in staffing may hurt HP's retailing strategy.

"There will be no major product change" or any other significant shift in how HP sells its products over the next few months, but the company's

streamlining efforts could shift the way it sells its products -- for better or worse, he added.

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