

Will H-P keep Palm in smart phone market?

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After unveiling its \$1.2 billion plan to buy smart phone maker Palm Inc., Hewlett-Packard has sent somewhat confusing signals about its intentions to remain in the fast-growing but highly-competitive business.

Analysts, however, believe the high-tech giant will stay in that market -- while also adapting Palm's well-regarded mobile operating system for other portable devices.

Speaking to analysts last week, [Hewlett-Packard](#) Chief Mark Hurd caused a bit of a stir when he reiterated the tech giant's rationale for the planned merger with [Palm Inc.](#), saying H-P isn't buying the company "to be in the smart phone business."

"And I tell people that, but it doesn't seem to resonate well," Hurd added at the Bank of America conference in New York.

But his comment resonated in a way H-P didn't seem to expect, as it prompted speculation that the tech giant was planning to exit the smart phone market once it takes over Palm.

H-P moved quickly to clarify its CEO remark, saying that in connection with its bid for Palm, the company sees "an array of interconnected devices, including tablets, printers and, of course, [smart phones](#)."

But the level of the company's commitment to the business may be questioned. Hurd had also said H-P is not "going to run off and spend billions of dollars trying to go into the smart phone business," adding, "That doesn't in any way make any sense."

In smart phones, H-P faces an uphill battle. The market is ruled by popular product lines such as the BlackBerry by [Research In Motion](#) and the [iPhone](#) from Apple Inc. Other phone makers such as HTC and Motorola are also quickly picking up share.

Palm, by contrast, does not even rank in the top five handset suppliers in the U.S. market. And the company's sales have taken a beating of late, as [handsets](#) such as the Pre and Pixi have seen only limited interest at carriers such as Verizon and Sprint.

H-P has stressed the value of Palm's intellectual property, particularly its WebOS operating system, especially at a time of rapid growth in mobile computing.

"Imagine that being a web-connected environment where now you can get a common look and feel and a common set of services laid against that environment," Hurd said last week. "And for us, that is a very, very attractive value proposition."

However, H-P also has acknowledged the smart phone market's

importance. Hurd himself told analysts during H-P's last earnings call, "Clearly that's a \$45 billion total available market that is growing and so that is an attractive market."

And despite the buzz caused by Hurd's statement, many analysts also believe H-P will not head for the exit once it gobbles up Palm.

"I don't believe H-P will exit the smart phone market," analyst Tim Bjarin of Creative Strategies Inc. said. "They understand that the smart phone is just a small PC that happens to fit into your pocket. I am sure that they will continue to develop a smart phone platform that will be part of H-P's device eco system."

Ramon Llamas of IDC also noted that the smart phone market is "still in its nascency," and H-P will get a bigger foothold by buying Palm.

"The gold from this acquisition is definitely the WebOS," he said. But Llamas also added, "I don't see H-P turning off the faucet on smart phones all together. ... Mobile computing is where it's at. ... There are too many indicators saying, 'Go smart phone.'"

Kaufman Bros. analyst Shaw Wu agreed, arguing that, H-P has much to gain from the merger.

"It's a building block," he said. "And there's not a whole lot out there. A lot of companies can't afford to make this bet. They can afford it. And it's a potential shot at greatness."

He added: "If it doesn't work, it's not the end of the world. It just a month's cash flow."

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