

Atop Meg Whitman's worries: H-P's size

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Writer



In this Sept. 3, 2008 file photo, Meg Whitman, national co-chair for McCain 2008 and former president and CEO of eBay, speaks at the Republican National Convention in St. Paul, Minn. Hewlett-Packard Co.'s stock sank Friday, Sept. 23, 2011, to its lowest level in six years, as investors worried that new CEO Meg Whitman isn't the right person to turn the company's fortunes around.(AP Photo/Paul Sancya, File)

(AP) -- Meg Whitman's primary job as Hewlett-Packard Co.'s new CEO will be to restore a sense of direction at a company that has lost its way after a decade of leadership lapses and disjointed deal-making.

With 320,000 employees, more than \$125 billion in annual revenue and a broad swath of businesses, the technology [conglomerate](#) needs a leader

who can quickly decide on a clear path and convey that to customers and shareholders.

The company's stock hit a 6-year low Friday, a day after Whitman got the job following HP's firing of [Leo Apotheker](#). HP has lost \$60 billion in market value since Apotheker's predecessor, Mark Hurd, resigned amid a sexual harassment scandal last year.

In technology, size isn't always an asset, as HP is learning. One of the biggest challenges for Whitman will be to figure out how big HP needs to be. It's a key question that has tripped up a string of CEOs, from Carly Fiorina and her hard-fought battle to buy Compaq Computer, to [Mark Hurd](#) and his \$20 billion acquisition spree and 50,000 job cuts, and Apotheker's poorly received plan to steer HP away from lower-margin areas of computer hardware.

No one has figured out the right balance, which has made the top job at HP one of the hardest CEO slots to fill.

HP, which was founded in the 1930s as a maker of sound equipment, is no stranger to long and difficult transformations. But, under Whitman, the company could shrink substantially. Revitalizing the company depends on whether she can lead a major transformation. Indeed, analysts believe HP needs to emulate IBM Corp., whose dire [financial situation](#) in the 1990s forced a complete exit from consumer markets.

IBM's transition, however, was brutal. The Armonk, N.Y.-based company shed more than 150,000 workers in the 1990s as the company lost nearly \$16 billion over five years. It, too, sold its PC division, and HP's flirtation with following suit indicates its willingness to aggressively pursue IBM's model. IBM has thrived in recent years because of a focus on high-margin services and software deals.

One of Whitman's most pressing concerns: what to do with the world's biggest personal computer business, which supplies a third of HP's revenue but is its least profitable division.

Last month, Apotheker said that business would go up for sale in a badly blundered announcement that hastened his demise. His disclosure likely devalued the business in the eyes of potential buyers. Many analysts now speculate that HP has no choice but to keep the business and work on repairing strained relationships with customers. Whitman says a decision, on whether to keep it or possibly spin it off, should come by the end of the year.

Carving out the business would be a tricky kind of surgery.

"This idea of a spinoff is very complicated," said Steve Diamond, an associate professor at Santa Clara University School of Law. "Tearing apart a business unit of that size is like taking out organs. It's very painful. It's like dividing Siamese twins. It's very, very difficult to do and you don't know how it's going to come out."

PCs and printers are areas where HP leads. But the company wants to abandon those businesses because its profit margins on those units are thin. In the more profitable areas where [HP](#) needs to expand, it is playing catch-up. In technology services it has to contend with none other than market leader IBM Corp. HP's technology services division is one of several businesses that Apotheker identified as the victim of underinvestment. The company will also try to make further inroads into computer networking, a segment dominated by Cisco Systems Inc.

Another drastic move of Apotheker's that Whitman will need to usher to completion is the company's decision to kill off HP's fledgling tablet and smartphone businesses, conceding defeat in fast-growing consumer markets.

With all the tough tasks on Whitman's to-do list, the mixed reactions to her appointment are understandable. HP's stock sank Friday to its lowest level in six years. The stock fell 90 cents, or 4 percent, to \$21.90. In the morning, the stock hit \$21.50, its lowest level since May 2005.

Raymond James analyst Brian Alexander said that "investors should rightfully question the board's quick trigger" decision to immediately name a replacement CEO. "Clearly Ms. Whitman is a well-respected Silicon Valley executive with a long history of strong leadership and execution," Alexander wrote in a Friday research note. "That said, it remains to be seen if Ms. Whitman is capable of running a \$120 billion technology juggernaut that is facing a crisis of confidence."

Even so, Whitman's decade-long stewardship of eBay Inc. has won over some market watchers, who say her strong personality will help focus HP's disparate businesses.

"For a company this size, there are so many different businesses, you need a good leader, someone that people respect, and this board is not going to push around [Meg Whitman](#)," said Brian White, an analyst with Ticonderoga Securities. "I think it's a good choice. It doesn't mean she'll succeed. She has her work cut out for her. But the odds are she'll have more success than Leo."

The stock decline carries a glimmer of hope, according to some analysts. It may have fallen so far that it's due for a rebound.

Alexander, for instance, has a \$34 price target on the shares, more than \$10 per share higher than where they're trading now. Jefferies & Co. analyst Peter Misek has a target price of \$40 per share, and rates HP's stock a "buy."

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