

# Whitman faces big challenges at HP

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No one's counting Hewlett-Packard Co. out. But by any measure, new CEO Meg Whitman faces a mountain of problems as she takes the reins of the world's biggest-selling tech company.

With \$126 billion in revenue last year, more than 320,000 employees and a global operation that ships the equivalent of two personal computers every second, HP is still a force to be reckoned with in the tech industry. But the Palo Alto, Calif., giant is reeling from recent turmoil in the corner office, a disappointing [financial performance](#) and a poorly executed effort to revamp the company's strategy for a new era in tech.

Whitman, the former [eBay](#) Inc. chief who was named CEO of HP last week, faces two immediate challenges: In her own words, "there is no higher priority" than getting HP on sound financial footing, after a series of downward revisions to its sales forecasts caused a steep slide in HP's stock. In addition, analysts say she needs to resolve the question of whether HP will stay in the PC business after last month's announcement that HP might spin off or sell its \$40 billion personal computer division.

"Meg has a huge challenge ahead of her. She is going to face big, big challenges," said Peter Bendor-Samuel of the Everest Group, a tech services consulting firm.

Many believe Whitman must clarify what HP's strategy will be. She appeared to straddle the fence last week, saying she supports fired CEO Leo Apotheker's controversial decisions, while backing away from his

stated goal of "transforming" the company into one focused on software and cloud computing. HP will expand its software business, Whitman said, but it's not going to stop being a hardware company.

Experts warn that several of HP's core businesses, including [computer servers](#), printers and tech services, are threatened by new trends in the way people and companies use technology. In the most obvious example, many people now use [mobile gadgets](#) such as smartphones and Apple's iPad instead of PCs to access the Internet.

Despite that trend, Apotheker decided last month to stop selling tablets and smartphones using HP's webOS software after initial sales proved disappointing. That leaves HP with no major product to counter the iPad's popularity.

Whitman may also find challenges inside the company. Critics say HP is ill-served by a board of directors that approved Apotheker's recent moves. Shareholders have already sued the company over Apotheker's decisions and the recent decline in HP's stock, and they may draw more ammunition from a New York Times report that some board members voted to hire Apotheker last year without ever meeting him in person. Whitman joined the board in January.

Some also warn that the board's hasty appointment of Whitman, after deciding to remove Apotheker earlier this month, may have left other top HP executives feeling passed over and eager to leave.

First, however, Whitman "needs to move swiftly, to communicate what is the future of the PC business and get customers to understand what that future looks like," said Crawford Del Prete, a veteran industry analyst with the IDC research firm.

Confusion over the company's plans for the personal computer business

has caused HP's corporate customers to hold off on making large-scale purchases of new PCs for their workers, according to Del Prete and others who track the industry. Dell and other rivals have launched new campaigns to lure away those customers.

HP executives have recently said their preference is to spin off the PC division as a stand-alone company that will work with HP to support its products and customers. Some analysts predict that HP, after reviewing the options, will decide to keep the division in-house because it helps HP sell other tech products and negotiate discounts for components used in other computer systems.

Whitman insisted last week that she has an "open mind" on the question, but she also promised a resolution by the end of December. "The best thing we can do is get to a decision as soon as possible," she said. "This decision is not like fine wine. It's not going to get better with age."

As for improving the company's financial performance, Whitman gave no hint of specific plans. Chief Financial Officer Cathie Lesjak said last week that HP can meet its profit projections for this quarter but said she has "less certainty" about its sales forecast.

At rival Cisco Systems, CEO John Chambers confronted declining sales this year by ordering big spending cuts and trimming nearly 13,000 jobs. Without ruling anything out, Whitman and HP Executive Chairman Ray Lane suggested they can improve on Apotheker's performance by taking a more hands-on stance and getting top executives to work "on the same page."

"We're going to function as a team in a way that we haven't for quite some time here," Whitman vowed.

Wall Street analysts mostly applauded the decision to remove

Apotheker, after HP's stock lost nearly half its value during his 11 months as CEO. But several voiced dismay over Whitman's statements endorsing the moves Apotheker announced last month, especially the review of the [PC business](#) and the deal to buy commercial software-maker Autonomy for a pricey \$10.3 billion.

"Despite naming a new CEO, HP's value-destructive strategy remains unchanged," Deutsche Bank's Chris Whitmore wrote in a note to investors.

Whitman insisted that she was excited about the prospects for Autonomy's software, which helps companies manage and search "unstructured" data such as the contents of emails and audio or video recordings.

But she echoed Lane in disavowing Apotheker's intention to "transform" HP.

"Transformation was probably not a good word," she told the San Jose Mercury News. While the Autonomy deal might add \$1 billion or more in revenue to HP's business, she said, "we have almost \$130 billion in revenue largely from hardware and services. So adding \$1 billion in software revenue isn't going to transform that business. We are in the hardware business and we're going to continue to own that business."

While Autonomy's technology is useful, analysts say, the acquisition makes more sense if HP buys more companies to fill other gaps in its software offerings. Whitman gave no indication that she will pursue other deals, but many believe Autonomy's cost will make it difficult to swing another big purchase for a while.

HP, meanwhile, is one of the world's biggest suppliers of server computers and other tech gear for corporate data centers, as well as

computer printers and technology services. But analysts note that each of those businesses is under pressure from new trends.

Profit margins are shrinking in the server business. Printing growth has slowed. And the advent of cloud computing and other new technologies has led to shrinking demand for traditional outsourcing of computer maintenance and other functions that are a big part of HP's \$35 billion services business.

Add in the effects of another economic downturn, along with increased competition from Oracle, Cisco and other tech giants, and the challenges for Whitman seem huge. But analyst Toni Sacconaghi at Bernstein Research, who said investors are "exasperated" with HP and its board, isn't ready to write the company off.

"We continue to believe that [HP](#) is not a broken company," he reported to clients Friday, adding that HP's stock price offers "the potential for meaningful upside for patient investors."

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