

HP combines printer, PC units in turnaround effort

March 21 2012, By BARBARA ORTUTAY , AP Technology Writer

(AP) -- Hewlett-Packard Co. is combining its printer and PC divisions as it tries to overcome dragging profits, growing competition and the absence of a focused identity.

The move announced Wednesday will help the company streamline its business and save money to invest in growing areas. HP is also hoping its restructuring will boost innovation.

The change comes as sales of printers and ink, once HP's lifeblood, are falling because people are sharing more documents and photos online instead of printing them.

HP, the world's No. 1 maker of personal computers, is also coping with declining PC sales as consumers in the U.S. and Western Europe delay replacing their machines and spend money instead on smartphones and tablet computers such as Apple's iPad.

The restructuring is one of the first major steps taken by former eBay chief Meg Whitman since she became HP's CEO in September. Her predecessor, Leo Apotheker, had wanted to sell or spin off the PC business, a plan that contributed to his ouster after 11 months on the job. Under Whitman, HP decided to keep the unit after all.

Whitman inherited a faltering company that's facing growing competition from mobile devices and internal operational challenges such as a complex supply chain, which HP hopes to simplify by

combining the divisions.

Last month, Whitman said HP plans to spend several years turning its business around.

She promised a more streamlined and efficient company, and Wednesday's announcement is a step in that direction.

Besides combining the PC and printing units, HP is unifying its marketing functions under one executive and consolidating other areas of its business.

Whitman had said that HP has been running its business in "silos" for years, making the company "too complex and too slow." On Wednesday, the company stressed that the changes will mean a more streamlined, faster and consumer-focused Hewlett-Packard, one that fits its mantra, "One HP."

The company expects to increase productivity and efficiency, while streamlining customer support and the company's supply chain. Shaw Wu, senior technology analyst at Sterne Agee, believes there's room to cut expenses, particularly in administration and marketing.

But he warned that savings may be limited. Customers don't necessarily want to buy computers and printers at the same time. People replace PCs much quicker than printers, which can last five years or longer.

HP didn't say how much it will save or what effect the restructuring would have on jobs, but the move is likely to result in layoffs. In a 2009 shake-up of the printing, PC and other divisions, HP cut 4,400 jobs. The company had 349,600 workers as of October, the end of its most recent fiscal year.

The money HP saves, whether through layoffs or by other means, can be invested in growing businesses.

In this, the company has a lot of choices, Forrester analyst Frank Gillett said. For one, HP has been investing in thinner, lighter laptop computers known as ultrabooks - devices that are easy to hold like tablets yet more powerful in sporting regular keyboards and the ability to run programs side by side on the same screen.

Gillett also believes there's room for innovation in printing as the way people use printers evolves. He said it'll help to have PC and printer product designers working together.

Though the market might be shrinking, he said, "it's hard to imagine in the next 10 years that we are going to get rid of large, cheap, disposable displays - i.e. paper."

The combined PC and printing unit will be led by Todd Bradley, 53, the executive vice president of the PC group since 2005. Vyomesh Joshi, the head of the printing group, is retiring after 31 years with HP, with a severance package of about \$10.8 million.

HP said the restructuring will help improve its branding, a challenge for a massive and storied technology company with a role in everything from computers to consulting. Unlike, say, Apple Inc. or IBM Corp., HP lacks an identity that people can associate with it, Wu said.

Ultimately, HP will have to define the "big picture" of what the company stands for, Wu said. "What is HP?"

Gillett said HP is "trying to get back to a more integrated, coherent identity as a company."

"What I will be watching is whether they will translate that into more coherent, more integrated product innovation and consumer experience," he said.

HP, which is based in Palo Alto, Calif., had briefly combined the two businesses before, under the leadership of Carly Fiorina. Mark Hurd reversed that when he took over as CEO in 2005, when the printer division was still thriving.

The printing and PC units together made up about half of HP's \$30 billion revenue in the November-January quarter.

Revenue from the printing division was \$25.8 billion in the fiscal year that ended in October, down 13 percent from three years earlier. Meanwhile, operating profit of the printing division has dropped 13 percent to \$4 billion over the same period.

The PC division, while less profitable, has held up better. Revenue has dropped 6 percent from 2008, to \$39.6 billion, while operating income has been flat, at \$2.4 billion.

HP's stock fell 52 cents, or 2.2 percent, to close at \$23.46 on Wednesday.

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