

HP shows recovery following PC flip-flop fallout

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In a Friday, March 9, 2012 file photo, Hewlett Packard CEO and President Meg Whitman speaks at a conference on the Stanford University campus in Palo Alto, Calif. HP is in the midst of a turnaround under a new chief, former eBay Inc. CEO Whitman. Hewlett-Packard Co. showed signs of recovery in the first three months of the year as it strengthened its position as the world's largest maker of personal computers and gained back some of the business it had lost while weighing whether to dump its PC division. HP's stock jumped nearly 7 percent by early afternoon Thursday, April 12, 2012, the first trading day since research groups Gartner and IDC released their quarterly PC shipment estimates. (AP Photo/Paul Sakuma, File)

(AP) -- Hewlett-Packard Co. is showing signs of recovery as it strengthened its position as the world's largest maker of personal computers and gained back some of the business it had lost while weighing whether to dump its PC division.

HP's stock jumped 7 percent by mid-afternoon Thursday, after research groups Gartner and IDC released their PC shipment estimates for the first three months of the year. [HP](#) was the best performer in the [Dow Jones industrial average](#).

HP is in the midst of a turnaround effort under a new chief, former [eBay Inc.](#) CEO [Meg Whitman](#). Her predecessor, [Leo Apotheker](#), wanted to sell or spin off the [PC business](#), a plan that contributed to his ouster in September after 11 months on the job. Whitman decided a month later to keep the unit, despite the growing competitive challenge the PC industry faces from smartphones and [tablet computers](#).

The company lost market share during that period of uncertainty. With PCs increasingly commoditized, customers were free to choose a rival and avoid wondering whether HP would be around to offer product support in a few months.

According to IDC, HP's worldwide market share dropped to 16 percent in the fourth quarter, after HP signaled in mid-August that it might shed the PC business. HP's share had been at least 18 percent earlier in the year.

IDC estimated late Wednesday that HP's worldwide share in the first quarter of 2012 was back to 18 percent.

In the U.S., IDC said, HP's first-quarter share was 28 percent, nearly back to what it had been last summer. In the holiday quarter, it had dropped to about 23 percent.

Analyst Brian G. Alexander at Raymond James said Thursday that the numbers suggest the fallout from HP's indecision had eased. He also said they "add support to our view that HP is not a broken company."

The worldwide market share for [Lenovo Group Ltd.](#) fell slightly to 13 percent, from 14 percent in the fourth quarter. But Lenovo was strong compared with a year earlier. First-quarter shipments rose 44 percent from the same period in 2011, when market share was about 10 percent and Lenovo was fourth rather than second among PC makers.

The third-largest PC maker, Round Rock, Texas-based Dell Inc., saw market share drop slightly in the first quarter to 12 percent, from 13 percent in the previous quarter. Shipments fell 2 percent from a year earlier.

Alexander said HP's gain was Dell's loss.

"Results suggest that Dell was previously able to capitalize on the uncertainty surrounding HP's (PC) division," he said in a research note. "Now that HP has apparently stabilized, and Lenovo is firing on all cylinders, Dell has additional headwinds."

Another analyst, however, said other factors may be involved.

Keith Bachman at BMO Capital Markets said HP may have won back market share by cutting prices, a move that reduces profits, while Dell may have ceded [market share](#) to focus on the higher-end, higher-profit PCs.

In a statement, Dell said its strategy has been to balance growth and profitability by focusing on "differentiated, higher-value solutions, rather than participating in lower-margin business simply for unit-share sake."

Besides the flip-flop over PCs, Palo Alto, Calif.-based HP has struggled with internal management problems, including a complex supply chain that reduces efficiency. Gartner said HP's growth in the first quarter

suggests that those internal issues were resolved, though Whitman has described the turnaround as a multiyear effort. Last month, HP announced plans to combine its PC and printers divisions to cut costs and improve operations.

The latest PC numbers also suggest that manufacturers have mitigated supply constraints in hard storage drives caused by heavy flooding at manufacturing centers in Thailand last fall.

Gartner said there were moderate problems in selected markets, such as low-end consumer laptops, but "low PC demand was able to mask the tight (hard drive) supply overall." IDC said larger PC makers such as HP and Dell succeeded in managing inventory and absorbing price increases in the parts caused by supply shortages.

Despite the gains, HP and other PC makers still face a broader challenge from the growing demand for mobile devices. In the U.S. and other developed markets, consumers have been delaying PC replacements and buying the latest phones and tablet computers from Apple Inc. and others instead.

Late Wednesday, Gartner said worldwide shipments of PCs increased 1.9 percent in the first quarter, compared with its earlier expectations of 1.2 percent. IDC said shipments were up 2.3 percent, better than a projected decline earlier of 0.9 percent.

But those gains were small compared with the double-digit percentage growth PC makers enjoyed before the tablet boom.

IDC expects PC shipments will pick up late in the year as Microsoft Corp. releases a new version of its Windows operating system, one that is designed for both PCs and tablets. That will make it easier for PC makers to build machines that have the versatility of PCs and the slim

designs and longer battery life of tablets. Still, IDC expects growth in PC shipments for the full year to be a modest 5 percent.

HP's stock rose \$1.67, or 7.1 percent, to \$25.08 in afternoon trading, though it's still at the low end of its 52-week range of \$21.50 to \$41.74. Dell's stock gained 2 cents to \$16.27.

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