Mobile revolution shakes up Silicon Valley

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In this Feb. 25, 2014 file photo, the Samsung Galaxy S5 is demonstrated at the Mobile World Congress, the world's largest mobile phone trade show in Barcelona, Spain. Smartphones, tablets and other gadgets aren't just changing the way we live and work. They are shaking up Silicon Valley's balance of power and splitting up businesses. (AP Photo/Manu Fernandez, File)

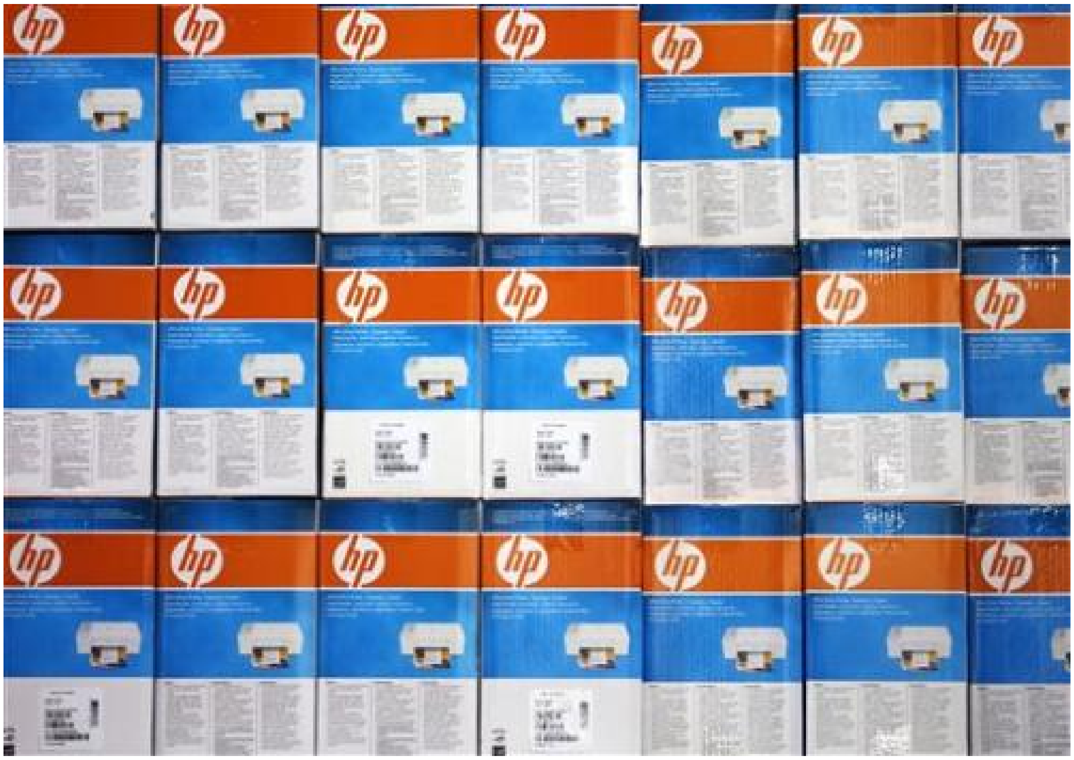
Smartphones, tablets and other gadgets aren't just changing the way we live and work. They are shaking up Silicon Valley's balance of power and splitting up businesses. Long-established companies such as Hewlett-Packard Co. and eBay Inc. are scrambling to regain their footing to better compete against mobile-savvy trendsetters like Apple and Google, as well as rising technology stars that have built businesses around "cloud computing."

That term covers a swath of Internet-driven services that shifted technology from the days software users paid a one-time fee to buy and install programs on individual machines where they also stored all their data on hard drives. But with the advent of the "cloud," people can now rent software to use over the Internet. This enables customers to access documents, pictures and other vital information from any kind of Internet-connected device, a convenience that's become a necessity during the past few years as people increasingly rely on smartphones and tablets instead of laptop and desktop computers.

Business software makers such as Salesforce.com Inc., VMware Inc. and Workday Inc. built their entire business models around the cloud. All have delivered impressive revenue growth that turned their stocks into hot commodities. Online storage services Dropbox and Box have yet to go public. But they have been minted with big valuations from venture capitalists who believe they will thrive amid the increased usage of mobile devices and cloud-computing services. Meanwhile, Apple Inc. and Google Inc. are prospering from the rise of mobile devices now that their competing software systems—iOS and Android—run most of the smartphones and tablets in the world. Apple now reigns as the world's most valuable company at roughly $600 billion while Google ranks third at about $400 billion.

Google is developing another way to make money off the cloud-computing movement: leasing some of the servers in its data centers to mobile application and Web service providers. Amazon.com Inc. has been doing the same thing for an even longer period of time, enabling providers to develop and introduce new cloud computing services without having to spend a lot of money on servers sold by the likes of HP, IBM Corp. and Oracle Corp.

The rise in mobile popularity has taken a big bite out of personal computer sales. That's slammed Silicon Valley pioneer HP, once the world's biggest seller of PCs.



In this Aug. 16, 2008 file photo, Hewlett-Packard printers are stacked on the shelf of a Best Buy store in Seekonk, Mass. Hewlett-Packard on Monday, Oct. 6, 2014 said it is splitting itself into two companies, one focused on its personal computer and printing business and another on technology services, such as data storage, servers and software, as it aims to drive profits higher. (AP Photo/Stew Milne, File)

Since Apple ignited the tablet market with the 2010 release of the iPad, the annual revenue in HP's personal computer division has plunged by more than 20 percent. That downturn is a key reason why HP's market value has fallen by about $55 billion, or 40 percent, since the iPad's release. In an effort to adapt, HP said Monday that it will split off its PC and printer operations and form a separate company tailored to business software and services for the cloud-computing age. The spin-off is something HP originally explored three years ago only to back off after CEO Meg Whitman concluded the company would be stronger if it held on to the PC division.

That conclusion reflected a long-standing belief that companies are generally better off when they have an array of products to appeal to the various needs of different customers.

HP and other large companies are "struggling to compete against younger upstarts," says long-time Silicon Valley observer Paul Saffo. "Once upon a time, scale and size were a competitive advantage. Now, they are a problem."

Last week online marketplace eBay announced a similar spinoff. After rejecting the notion earlier this year, it decided to unleash its online payment service, PayPal, to give it a better chance to compete against threats posed by other mobile payment options. Most analysts believe Apple's decision to introduce its own mobile payment service, Apple Pay, on the new iPhones released last month prompted eBay to finally cut PayPal loose.

"Is this the beginning of a trend?" wonders Bob O'Donnell, chief analyst at TECHnalysis Research. "We saw a lot of tech firms become conglomerates. At a certain point in any market, the pendulum starts to swing back the other way. You start to sell off pieces because it becomes unmanageable as a business."

Yahoo Inc., a long-struggling company that built one of the Internet's best-known brands, currently faces pressure from activist investor Starboard Value LP to make changes such as spinning off its lucrative stakes in two Asian companies, Alibaba Holding Group and Yahoo Japan. Since Starboard urged the company to take action in a letter late last month, Yahoo has only said it will explore its options and maintain an "open dialogue" with all shareholders.

Even though both HP and eBay dawdled with their spinoffs, it's probably a good sign that they both finally got around to doing it, says technology analyst Rob Enderle. Investors evidently think so too. EBay's stock price surged by more than 7 percent on the day the PayPal spinoff was announced, while HP's shares gained nearly 5 percent after the company disclosed plans to part with its PC division.

"The companies are at least trying to evolve to address the threat, which is a good sign because the change in technology is accelerating," Enderle says.

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