

HP, Dell: PC makers in desperate need of a reboot

27 August 2012, by Michael Liedtke



This Tuesday, Aug. 21, 2012, file photo, shows an exterior view of Hewlett Packard Co.'s headquarters in Palo Alto, Calif. The PC business is faltering amid shifting technology trends since Apple Inc. shifted the direction of computing with the release of the iPhone in June 2007. HP's market value has plunged by 60 percent to \$35 billion, while Dell's market value has also plummeted by 60 percent, to about \$20 billion. (AP Photo/Paul Sakuma,File)

Hewlett-Packard Co. used to be known as a place where innovative thinkers flocked to work on great ideas that opened new frontiers in technology. These days, HP is looking behind the times.

Coming off a five-year stretch of miscalculations, HP is in such desperate need of a reboot that many investors have written off its chances of a comeback.

Consider this: Since Apple Inc. shifted the direction of computing with the release of the iPhone in June 2007, HP's market value has plunged by 60 percent to \$35 billion. During that time, HP has spent more than \$40 billion on dozens of acquisitions that have largely turned out to be duds so far.

"Just think of all the value that they have destroyed," ISI Group analyst Brian Marshall said.

"It has been a case of just horrible management."

Marshall traces the bungling to the reign of Carly Fiorina, who pushed through an acquisition of Compaq Computer a decade ago despite staunch resistance from many shareholders, including the heirs of HP's co-founders. After HP ousted Fiorina in 2005, other questionable deals and investments were made by two subsequent CEOs, Mark Hurd and Leo Apotheker.

HP hired Meg Whitman 11 months ago in the latest effort to salvage what remains of one of the most hallowed names in Silicon Valley 73 years after its start in a Palo Alto, California, garage.

The latest reminder of HP's ineptitude came last week when the company reported an \$8.9 billion quarterly loss, the largest in the company's history. Most of the loss stemmed from an accounting charge taken to acknowledge that HP paid far too much when it bought technology consultant Electronic Data Systems for \$13 billion in 2008.

HP might have been unchallenged for the ignominious title as technology's most troubled company if not for one its biggest rivals, Dell Inc.

Like HP, Dell missed the trends that have turned selling PCs into one of technology's least profitable and slowest growing niches. As a result, Dell's market value has also plummeted by 60 percent, to about \$20 billion, since the iPhone's release.

That means the combined market value of HP and Dell—the two largest PC makers in the U.S.—is less than the \$63 billion in revenue Apple got from iPhones and various accessories during just the past nine months.

The hand-held, touch-based computing revolution unleashed by the iPhone and Apple's 2010 introduction of the iPad isn't the only challenge facing HP and Dell.

They are also scrambling to catch up in two other rapidly growing fields—"cloud computing" and "Big Data."

Cloud computing refers to the practice of distributing software applications over high-speed Internet connections from remote data centers so that customers can use them on any device with online access. Big Data is a broad term for hardware storage and other services that help navigate the sea of information flowing in from the increasing amount of work, play, shopping and social interaction happening online.



In this undated file photo, a man tries out the enhanced version of International Business Machines Corp's Personal Computer which was unveiled in New York, March 8, 1983. The PC business is faltering amid shifting technology trends since Apple Inc. shifted the direction of computing with the release of the iPhone in June 2007. HP's market value has plunged by 60 percent to \$35 billion, while Dell's market value has also plummeted by 60 percent, to about \$20 billion. (AP Photo/File)

Both HP and Dell want a piece of the action because cloud computing and Big Data boast higher margins and growth opportunities than the PC business.

It's not an impossible transition, as demonstrated by the once-slumping but now-thriving IBM Corp., a technology icon even older than HP. But IBM began its makeover during the 1990s under Louis Gerstner and went through its share of turmoil before selling its PC business to Lenovo Group in 2005. HP and Dell are now trying to emulate IBM, but they may be making their moves too late as

they try to compete with IBM and Oracle Corp., as well as a crop of younger companies that focus exclusively on cloud computing or Big Data.

A revival at HP will take time, something that HP CEO Meg Whitman has repeatedly stressed during her first 11 months on the job.

"Make no mistake about it: We are still in the early stages of a turnaround," Whitman told analysts during a conference call last week.

The problems Whitman is trying to fix were inherited from Apotheker and Hurd.

HP hired Apotheker after he was dumped by his previous employer. He lasted less than a year as HP's CEO—just long enough to engineer an \$11 billion acquisition of business software maker Autonomy, another poorly performing deal that is threatening to lump HP with another huge charge.

Before Apotheker, Hurd won praise for cutting costs during his five-year reign at HP, but Marshall believes HP was too slow to respond to the mobile computing, cloud computing and Big Data craze that began to unfold under Hurd's watch. HP also started its costly shopping spree while Hurd was CEO.

How much further will HP and Dell fall before they hit bottom?

HP's revenue has declined in each of the past four quarters, compared with the same period a year earlier, and analysts expect the trend to extend into next year. The most pessimistic scenarios envision HP's annual revenue falling from about \$120 billion this year to \$90 billion toward the end of this decade.

The latest projections for PC sales also paint a grim picture. The research firm IDC now predicts PC shipments this year will increase by less than 1 percent, down from its earlier forecast of 5 percent.

Whitman is determined to offset the crumbling revenue by trimming expenses. She already is trying to lower annual costs by \$3.5 billion during the next two years, mostly by eliminating 27,000

jobs, or 8 percent of HP's workforce.

troubles of both companies.

Marshall expects Whitman's austerity campaign to enable HP to maintain its annual earnings at about \$4 per share, excluding accounting charges, for the foreseeable future.

"It's like they are both standing on the dock watching boats that have already sailed," Gordon said. "They are going to have to swim very fast just to have chance to climb back on one of the boats."

If HP can do that, Marshall believes the stock will turn out to be a bargain investment, even though he isn't expecting the business to grow during the next few years. The shares dropped 37 cents Monday to finish at \$17.21, HP's lowest closing price in eight years.

Copyright 2012 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

One of the main reasons that Marshall still likes HP's stock at this price is because of the company's quarterly dividend of 13.2 cents per share. That translates into a dividend yield of about 3 percent, an attractive return during these times of puny interest rates.

Dell's stock looks less attractive, partly because its earnings appear to still be dropping. The company, which is based in Round Rock, Texas, signaled its weakness last week, when it lowered its earnings projection for the current fiscal year by 20 percent.

Dell executives also indicated that the company is unlikely to get a sales lift from the Oct. 26 release of Microsoft Corp.'s much-anticipated makeover of its Windows operating system. That's because Dell focuses on selling PCs to companies, which typically take a long time before they decide to switch from one version of Windows to the next generation.

Dell shares slipped to a new three-year low of \$11.10 in Monday trading before closing at \$11.12, down 14 cents.

As PC sales languish, both HP and Dell are likely to spend more on cloud computing, data storage and technology consulting.

Although those look like prudent bets now, HP and Dell probably should be spending more money trying to develop products and services that turn into "the next new thing" in three or four years, said Erik Gordon, a University of Michigan law and business professor who has been tracking the

APA citation: HP, Dell: PC makers in desperate need of a reboot (2012, August 27) retrieved 19 January 2022 from <https://phys.org/news/2012-08-hp-dell-pc-makers-desperate.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.