

Hewlett-Packard – Compaq Strategy Report

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Major Points

The Hewlett-Packard and Compaq merger decision case study provided many points necessary in the understanding of why these two companies would undergo a risky business venture. Compaq was a company that began successfully with record setting financial statements, but in an attempt to expand its market, threatened company stability. With the acquisition of Tandem Computer and Digital Equipment Corporation, Compaq experienced decreased revenues resulting in their inability to fully recover. In a competitive information technology market, HP was one of the industry leaders. Due to a failure to be proactive to market changes, HP grew stagnant and looked to reinvent company strategies through newly appointed President/CEO Carly Fiorina. Competitive advantages for both HP and Compaq included imaging and printing segment and high performance PC technology respectively.

Management's reasons for the merger included their assumption that together, HP and Compaq would be able to replicate and overtake competitors. Oppositions to the merger included a decrease in shareholder interests, a reduction of focus for company core competencies, and an unprofitable future. Several financial advisors and industry analysts were in agreement that the proposed merger would not be in the best interests of either company. Despite the uncertainties, information gathered and forecasts projected were in favor of the merger, which resulted in shareholder approval and the merger of Hewlett-Packard and Compaq Computer.

SWOT Analysis

In researching Hewlett-Packard's present-day company position, a strengths, weaknesses, opportunities, and threats (SWOT) analysis was conducted. Strengths found include HP's strong market position internationally and on the domestic end, a successful growth throughout large

acquisitions, and a considerable brand value. HP currently has a 28.6% market share in the United States of America while internationally they stand at 17.7%. As the current number one leader in PC sales, HP has a solid market position. Although the strengths are allowing HP to maintain market position, there are also weaknesses present in all companies.

Compared to other companies in the same industry, Hewlett-Packard lacks significant software product and management consulting services. As a result, Hewlett-Packard's weakness is its weak market segment integration. HP is able to answer consumer demand when it comes to PC technology and imaging and printing software, but they fall short in the software product creation and consulting services to combine with their successful departments of PC technology and imaging and printing services.

As Hewlett-Packard continues to grow and seek an increase in market position, opportunities surface. A spin-off of the PC technology business, entering the cloud computing market, and expanding imaging and printing solutions portfolio are opportunities HP has going forward. In placing more emphasis on the PC technology aspect of the company, HP may find that this venture will become as profitable as the imaging and printing department in the long-run. With the announcement of this spin-off, their share of US PC shipment increased from 25.4% to 28.9%. This positive reaction from consumers is an early indicator of possible success as a result of placing resources to build up the PC technology department. Cloud computing is a fairly new concept in which resources and software are delivered through a network, mainly over the Internet. As this is market quickly growing in demand, HP's introduction of HP Cloud Assure is a great opportunity for future prosperity.

With success comes opportunities of threats, and Hewlett-Packard is no exception. With projected decrease in information technology (IT) in the near future, an increase in demand for

non PC devices, and competitors with more diversified portfolios, HP's threats are numerous. Industry analysts have projected a decrease of IT in upcoming quarters which will decrease HP's profitability. HP has already witnessed a decrease in consumer spending during last quarter's back-to-school spending. If analyst projections prove to be true, changes will quickly need to be made. As more and more consumers are entering the non PC device era, HP is losing a segment of the market with their inability to provide products for this demand. HP's more diversified competitors such as Dell and Samsung are able to easily capture the demand for these tablets.

Future of the Company

Through the case study, present-day SWOT analysis, and outside research conducted on Hewlett-Packard, the group has concluded that the company will remain constant, but unless strategies are implemented to answer more consumer demands, they may lose market share. New CEO Meg Whitman has a technology visionary that will shift HP's focus to answering consumer demands. Her leadership capabilities and projections for company future are a desirable mix for a company to achieve sustainable future relevance. With the implementation of HP Cloud Assure, a new venture capitalizing on the growing consumer interest of cloud computing, HP is already adapting to answering the demands of consumers. As long as the company continues to anticipate and provide the products and services desired, sustainability will be maintained.

Questions

1. What are the strategic challenges that HP is facing?

Strategic challenges: Cost- reduction initiatives that included "difficult but necessary voluntary-severance programs" and manufacturing consolidations. "Unacceptably high expense growth"

contributed to a decline in earnings from operations and net earnings. HP had a weak macroeconomic environment and competitive price pressures that led to slumping sales. Management was unable to keep pace of the changing market conditions which were a key contributor. HP management failed to follow Dell's lead in adopting a low- cost, Internet based direct sales channel to offset its reliance on the retail channel.

- Accelerating growth in existing businesses
- Streamlining the existing decentralized operating model to fuel growth opportunities
- Implementing a “total customer experience” approach
- Taking advantage of HP's strong balance sheet and cash generation capability to fund new growth initiatives
- Leveraging HP's market position
- Creating e- services ecosystems and placing HP at the center

2. Is the proposed merger likely to address these challenges?

Benefits from the merger included personal systems, improved economics, and innovation. HP management believed that the combined company would have a lower cost structure due to economies of scale. HP would also be able to leverage Compaq's progress in developing a direct sales channel, yielding a more flexible distribution model. Complementary leadership in key markets: Compaq's strength in industry standard servers, coupled with HP's Linux and UNIX offerings, would result in an industry- leading product line spanning the entire server category. By adding HP's strength in high- end storage, the combined company would be the industry leader in both the enterprise storage segment and the fastest growing sub-segment storage area networks. Doubling HP's sales force, the merger would allow HP to increase account coverage

and better compete for important customer engagements around the world. IT Services: Strengthened Business Provides Critical Mass in Key Growth Market- Management believed the merger would significantly strengthen HP and Compaq's combined services business for several reasons. Financial Benefits- As predicted the merger would yield \$2.5 billion in annual cost saving by mid-2004. Yes, we do believe the proposed merger is likely to address the challenges HP faces.

3. How do you interpret the market's reaction to the proposal deal?

We interpret the market's reaction to the proposed deal to be negative. Just two months of the Merger announcement, HP's share price trailed the preannouncement level by 27%, representing a loss of \$12.3 billion of market share value at the same time comparable companies increased 9.9%.

4. If you were a shareholder of HP, how would you vote on the deal?

If we were shareholders of HP, we would vote against the deal. It is obvious the company is losing a great deal of money at the same time other companies in the same industry are making money. The merger is not looking out for the best interest of the shareholders so we would not vote for the merger.

Sources

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“Hewlett-Packard – Compaq: The Merger Decision”

Marketing Research

<http://www.marketing--research.com/marketing/swot-analysis-hewlett-packard>

Jennifer Brown Synopsis

The process of completing this assignment has helped me discover how to view business decisions in a more analytical way. When approaching this one it seemed overwhelming at first. I began pulling outside sources and background information that helped me gain a better understanding of the project at hand. That extra research was very useful in explaining what the companies were going through and giving different perspectives as to why. I was able to apply what I have learned in my accounting classes when the case study and articles referred to financial ratios and provided financial reports. That was helpful when trying to answer the questions assigned. Working with a group was also beneficial because there were several times my group members made great points that I may have missed working alone.

Our group has met several times since the project has been assigned. I have been present at each meeting. Before we met the first time we decided we would read the case study in full to have an understanding of what we would need to do. Our first meeting we discussed the case study and our stance on what HP should do. We also discussed the questions within the case study and started our outline for our power point.

Outside of the meeting I researched articles to gain background information. Our group had several more meetings at which we outlined our strategy report and assigned each person a portion of the report. When we were finished with our portion we would submit it to the rest of the group for proofreading. Everybody completed their task as set and we came together as a group and finalized the report. I, as well as the other members of the group, contributed to the makeup and layout of both the strategy report and the power point.

Charnele Hodge Synopsis

Being that this has been my first time in a group doing a strategy report on a company, I took away a few key elements. I have learned, understood, and properly used the purpose of a SWOT Analysis. I know this form of analysis will be used in my future endeavors, so I know it will be very beneficial to me. Also, I learned while in a group setting how to effectively achieve a SWOT Analysis to inform and persuade others to understand and see our point-of-view on our particular position. As a Business Management major, this group project has helped me realize that in not every group setting, that there needs to be a set leader. In my group, I felt that everyone meshed well with each other and there was not a constant need for someone to be in charge. Every group member knew what was at stake and that being at meetings and pulling her part in the group was essential.

My individual contribution to the group was making sure that I gave my opinion on the different positions that we would be taking on the SWOT Analysis. I made it my individual objective to make sure that I pulled my part in completing each and every task that I volunteered to work on, that it was done properly, as well as completed on time. Being a Business Management major, I believe I helped bring balance among my other peers that are majoring in different genres in the college of business. I took a more realistic, rational approach to the group, in who would be better fit for particular objectives.

Sakina Middleton Synopsis

Conducting a strategy report required using resources from all aspects of my undergraduate studies. I was able to read the Hewlett-Packard and Compaq merger decision and understand the different aspects used to compile the information. In utilizing marketing concepts, I was able to conduct a strengths, weaknesses, opportunities, and threats (SWOT) analysis of Hewlett-Packard's present company structure. My management background allowed for an understanding of company decisions made, such as whether to undergo a merger. Finally, the accounting knowledge I have acquired thus far has enabled me to read and comprehend the many financial statements used to decide which options should be made based on the factual numbers provided.

Overall, my primary takeaway was my ability to read, comprehend, and analyze a case study regarding two merging companies with the knowledge and education provided by Savannah State University's College of Business Administration. Throughout this project I was able to increase my ability to problem solve in a group of my colleagues. No one group is perfect, but the communication skills I have acquired allowed me to handle all situations appropriately and in a timely fashion.

For this strategy report, I was responsible for arranging all group meetings regarding the collection and accumulation of information for the paper. I was the initiator of correspondence and also the channel of delivery for every member's designated portion of the paper. My personal contribution includes the compilation on the strengths, weaknesses, opportunities, and threats of the present-day company Hewlett-Packard. I was also responsible for the editing of the final paper.

Summer Wilcox Synopsis

In March 2002, Hewlett-Packard's current CEO and president, Carleton Fiorina announced the acquiring of HP's rival company, Compaq Computer. The merging of the two companies was designed to put Hewlett-Packard/Compaq in a position to challenge one of its top leaders in the industry, IBM. The merger was also designed to create a global technology powerhouse that would provide consumers with products and services demanded by profitable enterprise customers.

After reading over the case, I started to feel like the merger was not going to be a success. The merger presented itself to be too risky. Although Hewlett-Packard was aiming to become the industry's leader by expanding into new markets, the idea of the merger just didn't seem to look out for the best interest of the company. Management felt that HP and Compaq needed to improve their whole business structure to effectively compete with Dell which was the industry's leader. They also felt that HP and Compaq's leadership would complement each other in key markets such as the enterprise storage segment and storage area networks, and by having a broader portfolio of products and services. Management believed that HP and Compaq had a weak combination of products and services, and merging would strengthen that area.

While some thought that the merger would be a success to Hewlett-Packard, there were some who were against it. Among those few were the director and son of HP cofounder William Hewlett, Walter Hewlett. Walter Hewlett was HP's second largest shareholder and had a very powerful, important voting privilege of HP. Walter was against the merger for 4 main reasons. He felt the proposed merger would be worse, the integration risk of the proposed merger would be substantial, the financial impact on HP's stockholders would remain negative, and the position of the company would not improve.

I agree with opposing the merger of HP and Compaq. They knew from the beginning stages that the merger was going to be risky. Shareholders would lose an ample amount of value on their shares. Stockholders would get a very small amount of the combined company's contribution to earnings. The merger would drown the stockholder's interest in the imaging and printing business which is the most profitable of HP already. The merger would not improve the position of the company. Furthermore, HP had no experience with handling a merger of that size. All HP had to do was invest and focus more on the printing and imaging part of the company. The printing and imaging varied in low-end printers and supplies to commercial printing solutions. Instead of taking such a risky acquisition, they could have focused on something that proved already successful for the business.

My contribution to the overall strategy report was to research where HP stands now. I also found official documents filed by both HP and Compaq to the SEC about the planned merger. The documents further explained forward-looking statements, assumptions, uncertainties, and risk of the planned merger between the two companies.