



"One HP" Becomes Two — Hewlett-Packard Enterprise and HP Inc.

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By: [Crawford Del Prete](#)

On October 6, 2014, HP [announced](#) its intention to split into two public companies — Hewlett-Packard Enterprise will focus on IT infrastructure, services, and software, and HP Inc. will focus on personal systems and printing. This announcement comes three years into HP's long-term restructuring plan and creates two "at scale" Fortune 50–sized entities. Meg Whitman will be President and Chief Executive Officer of Hewlett-Packard Enterprise, with Pat Russo as Chairman of the Hewlett-Packard Enterprise board. Dion Weisler will be President and Chief Executive Officer of HP Inc., with Whitman as Chairman of the HP Inc. board. HP expects that the transaction will close by the end of HP's FY2015.

The following are fast facts about the new structure:

- **Hewlett-Packard Enterprise** — Revenue mix: 48% Enterprise products, 39% Enterprise Services, 7% Software, 6% HP Financial Services; revenue: \$58.4 billion, operating profit \$6.0 billion, operating margin 10.2%; focus areas: servers, storage, networking, converged systems, services, software, security, cloud, financial services
- **HP Inc.** — Revenue mix: 59% Personal Systems, 41% Printing; revenue: \$57.2 billion, operating profit \$5.4 billion, operating margin 9.4%; focus areas: notebooks, desktops, mobility, workstations, printing, ink, managed print services

Why Now?

HP has indicated that the decision to create two companies was based on the progress that it has made in its turnaround efforts over the past three years. We agree that the increased demand and momentum in core parts of its business (specifically personal systems and portions of the enterprise group) and the restructuring progress in services have placed the company on a stronger footing to make the split. As a result of this new structure, HP gains the ability to better align employees with results (off a smaller base), as well as improve the speed with which it can act on strategic initiatives. Finally, it allows the company to make long-term investment/M&A decisions with a clearer link to the outcome for the respective operating company.

It's clear that the rate of change in the IT marketplace is accelerating. We believe HP needed to make this change in order to allow it to better compete in the individual segments in which it competes. These segments are moving faster than HP's ability to address change. If successful, this new operating structure will allow the company to increase the extent to which it can course correct and accelerate when required.

The Wrong Kind of Cloudy

We believe another motivation for this decision was to create greater clarity with respect to the company strategy. HP operates at unprecedented scale. While there are many benefits to the scale, the downside is that often it's very difficult for potential strategic partners or investment opportunities to understand how they would not only strategically fit within the company but, more importantly, how they can make an impact. While HP's efforts to reduce complexity have helped in this area, many of the businesses are not synergistic and have different levers for success. This new structure should make for much more productive discussions around organic and inorganic growth opportunities.

Where to Focus?

HP will be working over the next 12 months to complete this transaction. We view the most important areas of focus as follows:

- **Channel partners.** We believe HP has proactively been in touch with many large channel partners, and they have been, at a high level, receptive to this change. However, HP has worked hard over the past three years to improve channel relations and, frankly, pay them faster and more handsomely for the business they bring to HP. Unraveling HP into two companies will cause channel disruption. Managing this transition will be important for HP especially given the vast number of channel partners working with HP's portfolio, numbering in the thousands. Specifically, HP needs to make sure that partners do not become frustrated with new complexity associated with the change and potentially vulnerable to loss. At the same time, we are confident that strong competitors such as Dell and Lenovo will be aggressively wooing partners with programs to move business away from HP.
- **Long-term supply agreements.** Whitman has spoken at length over the past three years about the importance of HP's scale in terms of component procurement and the favorable costs that HP's size garners for the company. As part of today's announcement, HP made reference to completing a long-term supply agreement between the two companies that would allow HP to secure favorable pricing commensurate with the volumes of the combined company. While we are confident that this will happen, it will be very important to make sure that meaningful long-term agreement is put in place that will allow the company to stay focused on its high-volume, most competitive segments. Without this agreement, HP could find itself ceding share in core markets that it otherwise would have kept. Specifically, we are referring to PCs, volume servers/blades, and storage systems.
- **Demonstration of the why.** We believe it will be very important to quickly establish how HP is different as a result of this separation. This is a deal that changes the perception of HP to the outside world. HP needs to develop a structure that allows it to be more nimble and flexible with respect to developing new offerings and entering new segments. If this is simply a way to create two smaller (very large) companies from one giant, then it will have failed. HP needs to behave with a revised sense of urgency and purpose.

Conclusion: Now Is the Time

HP's role in the IT market has been becoming increasingly unclear — with parts of its business moving toward growth areas, while others are being optimized to compete on the last era's competitive battlefield. This left the company in a tough spot, where new innovation efforts were often overshadowed by large legacy challenges. HP has been addressing this through aggressive restructuring, ultimately shedding as many as 55,000 jobs by the end of FY2015.

At the same time, product and service transformation efforts have helped. Merging PCs and printers has allowed HP to harmonize channel and logistics competencies that reduce costs. Culling services offerings not only allowed HP to focus its efforts on more profitable engagements but also divest areas where there was not a long-term competitive advantage. Reorganizing software around Big Data, security, and IT management moved the company beyond Autonomy while leveraging its IP and customers, and in the Enterprise Group, HP is making Helion (cloud) one of its most significant long-term bets.

HP's efforts have put the company on a more solid footing. In revenue terms, the declines have meaningfully slowed — but sustained growth has not returned. As a result of the actions today, HP must be able to demonstrate that it can grow in these distinct market segments. This will require a mix of better execution for organic growth and M&A in new areas. HP has a window. It is executing better in its core markets, IT demand is holding steady and, financially, it's in a far better position to spend on acquisition targets.

In our opinion, it's not about what HP was, it's about what it becomes — and being able to make meaningful progress faster. As a result of this transaction, HP needs to become relevant for IT's future, rather than fighting for a share of its past.

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