

EVENT FLASH

HP Starts the Clock on PSG's Future

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HP rocked the PC market today with its announcement that it would explore strategic alternatives for its Personal Systems Group (PSG) business unit – including the possibility of a spin out or outright sale – over the next 12 to 18 months. In addition, the company announced it would be killing the WebOS hardware, including the less than 60-day old TouchPad, and exploring alternatives for the WebOS operating system. Together these two announcements represent an enormous shift in HP's overall strategy, and they bear a remarkable resemblance to the moves that IBM made nearly a decade ago when it sold its PC business to Lenovo.

The company had been getting pressure from Wall Street and stockholders to focus on high-margin businesses, and the notoriously low-margin PC business was a clear target despite the fact that it brought in 31% of HP's total revenues in the most recent quarterly results. However, by announcing its intention to spin off or sell PSG without a clear plan or buyer in place, the company effectively set the clock ticking on the profitable PC business's viability – and value. And despite statements from HP to the contrary, IDC believes the company's actions today have effectively killed the already slim chance WebOS had in the mobile OS market.

IDC believes HP must move rapidly to sell or spin off PSG. The uncertainty introduced from today's announcement will undoubtedly lead to an exodus of top talent from PSG. This is the same group that made HP the number one PC vendor in the world. Three months from today PSG will likely look a bit different from today. In 18 months, PSG as an organization may be unrecognizable.

As PSG considers its options, HP will need to work hard to leverage the technology services organization in order to keep commercial PC sales growing. This segment has been strong for HP of late, and the uncertainty this announcement will cause in the customer base could be significant. While price sensitive consumers will still buy PCs off the shelf at Best Buy, the opinions of enterprise buyers are a different story. Large companies that insist their PC vendors offer clear product roadmaps, stable images, and long device availability guarantees will undoubtedly turn to HP's competitors if the situation isn't resolved quickly. Those same competitors are likely gearing up today to make an aggressive play for HP's business. By leveraging technology services, HP can ensure that those products will be supported long after a deal is closed. Additionally (and as was the case in the Lenovo deal) we would expect a long term reseller agreement that would allow HP to continue to sell HP PCs after a spin off.

Speaking of competition, at first blush HP's announcement looked as if it might represent an opportunity for WebOS. With HP discontinuing its WebOS hardware products, the OS suddenly looked like a potential licensing venture. With vendors such as HTC, LG, and Samsung likely looking for options beyond Android (after Google's announcement it would buy Motorola Mobility), HP could have moved to license the OS. However, by effectively placing WebOS in limbo until PSG's future is sorted out, HP has put a stake in the operating system's heart. In a market where Apple's iOS and Google's Android are already building a nearly insurmountable lead, and things are evolving at a rapid pace, nobody is going to wait on WebOS. Furthermore, we would argue that this week's announcements (today's by HP and Google's planned acquisition of Motorola Mobility) make Microsoft's position much more attractive longer term across computing and mobility (as well as HTML5).

In our opinion, today's announcements brought about more questions than answers. As more details are revealed, the importance of HP's statements today will become clearer. However, we're certain that some vendors—notably Samsung and Lenovo—may consider purchasing PSG in order to establish themselves as worldwide leaders in the PC business. We note that this would be an immense deal for either of these entities. However, both companies have aggressive growth plans and, if executed, would instantly reset the entire PC world.

Of course, HP CEO Leo Apotheker also said during the Q&A session today that another real possibility is that HP won't sell PSG. If that turns out to be the case, HP may well have seriously damaged PSG and its future profitability in an attempt to appease Wall Street.

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