

## Company Assessment

# Hewlett-Packard

Market: Data Center Technology, Enterprise Networking

Report Date: June 19, 2012



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**Current Analysis**

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### Rating Update Summary

It is clear that HP's acquisition of 3Com has yielded benefits for the company, including market share, portfolio breadth, and industry reach. HP had been quiet until Q2 2012, however, when it launched both virtual application networks (VANs) and a headline partnership with F5.

### Strategy: **Leader**

Hewlett-Packard's strategy for data centers, and IT in general, is to offer a one-stop shop. HP alone encompasses Ethernet networking, servers, storage, services, and the management necessary to run them all together, all from their own price list. Hewlett-Packard is positioned to continue to take advantage of the wave of automation the fully virtualized data center demands, especially since the integration of 3Com. One of HP's strategies is to provide value to the customer via simplicity of management and increased business agility, while reducing their cost of ownership. With increasing alignment across the key technologies that data centers require, HP is focusing on influencing the market while demonstrating leadership as enterprises address their cloud needs and the enterprise infrastructure of tomorrow. HP's strategy remains sound, though where infrastructure ranks relative to the many other investments for which President and CEO Meg Whitman is now responsible will require a couple of quarters to clarify.



## Company:

**Hewlett-Packard**Data Center Technology,  
Enterprise Networking**Solutions/Products: Very Threatening**

Hewlett-Packard's product lines are many and varied, but they all share the same characteristics of ease of use and often a reasonable price. HP spends considerable money on research and development, some of it product-directed and some of it component-directed, though less than its peers by percent of revenue. Paired with its strong R&D, HP's occasional acquisition (or even the much larger purchase of EDS) keeps the company's product lines competitive. In addition to that, HP has a large software division that covers everything from systems management to security platforms. The services organization, bolstered by the acquisition of EDS, is one of the largest in the world and capable of handling any IT task a customer may need.

**Marketing Strategy: Very Threatening**

Hewlett-Packard's marketing strategy essentially focuses around solving problems, from consumer to full-blown enterprise. HP's approach appeals to customers, as its messaging generally sticks to solving problems once you get past the hyperbole. HP also accents its depth of product line as a differentiator, in addition to a truly global presence. With products that meet nearly every IT need a customer faces today, solving problems faced around the globe, and with the ability to sell in every major market in the world, HP is a very well-known brand.

**Sales and Support: Very Threatening**

HP uses channel partners and resellers to sell the vast majority of its products and services, with the exception of customers that require direct touch at the top of the enterprise spectrum. HP's network of dealers and affiliated resellers is huge, and many of these partners have been selling HP's equipment for decades. HP offers numerous levels in which channel and reseller partners can participate. These include training, both sales and technical, as well as co-marketing funds for the upper levels. HP's channel support and management program is one of the strongest and broadest in the industry, which benefits every business unit within HP.

**Partnerships: Very Threatening**

HP is often the target of partnerships with other technology companies, rather than seeking them out. That being said, HP maintains partnerships with hundreds of technology companies that span every solution enterprise and carrier's need. HP typically forms partnerships for two reasons: one, to gain access to technology it is unwilling or unable to develop for itself; and two, to ensure cross-compatibility of technologies with market leaders, thus smoothing interoperation with complementary and competitive technologies. A technology partnership that includes HP reselling a vendor's products can make or break a startup and is often considered a sign of significant progress for smaller companies.

**Perspective****Current Perspective: Positive**

We are taking a positive stance on Hewlett-Packard Corporation because of its depth and breadth of products and services. HP is widely used by large companies for their data center infrastructure or general IT needs. HP's product depth in x86 and Itanium servers, networking, and storage for the data center gives it the ability to compete in enterprises ranging from small businesses to multi-national organizations. HP is often deeply involved with other companies such as VMware, Microsoft, Intel, and AMD regarding future direction and trends in the data center. A given company's data center involvement can include all or any aspect of HP's converged infrastructure offering as well as HP's services division.

While HP's execution of the 3Com acquisition would receive a passing grade, the issues that plague the brand and its global perception go beyond that of the networking business. With three CEOs

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in less than three years, a workforce reduction of 27,000, and a number of concerning business metrics, questions remain regarding how significant an effect HP's corporate-level issues will have on the networking and infrastructure groups' execution.

**Ratings**

Market	Perspective	Market Perception	Momentum	Vision	Innovation
Data Center Technology	Positive	Positive	Positive	Positive	Positive
Cloud Enablement	Positive	Positive	Positive	Positive	Positive
Data Center Architectures	Positive	Positive	Positive	Positive	Positive
Data Center Security	Moderate	Moderate	Moderate	Moderate	Moderate
Data Center Switching Infrastructure	Positive	Positive	Positive	Positive	Positive
Enterprise Networking	Positive	Positive	Positive	Positive	Moderate

**Strengths and Weaknesses**

**Strengths**

- Hewlett-Packard's biggest strength in the data center market is the footprint of products and services it can provide. HP's involvement in servers, storage, networking, data center management, software, and services makes it a strong player. HP can cross-sell all of its data center offerings and rely on partners for things that it does not directly provide, such as server virtualization. Additionally, HP has a huge influence in the market with its blade server line of products that are well suited to virtualized environments.
- HP has a broad portfolio of capabilities and products that satisfy environment needs from small to large. In addition, since the close of 3Com two years ago, HP has become the undisputed number two Ethernet switch vendor by revenue and market share, and it possesses a portfolio to compete with Cisco across most of the infrastructure any business would need.
- HP is one of the top providers of x86 server systems and has been for years. Its HP BladeSystem is particularly suited towards physical machine consolidation and machine consolidation via virtualization. HP's BladeSystem combines machine power with the flexibility of quick expansion within its frame. As with all of HP's products, particular attention has been paid to the management interface with an eye for ease of use. HP's x86 server products, blade and otherwise, are strong in the market place and regularly compete with IBM, Oracle (Sun), and Dell for supremacy in the data center.
- HP is taking a relatively neutral stance between virtualization vendors, offering Microsoft, VMware, and Citrix, each with equal enthusiasm. Since HP does not have its own server virtualization software, this is a sensible position that allows the customer to pick the virtualization vendor they prefer based on business need, rather than having to use what HP prefers. HP's neutral stance is good for VM competition and good for its customers. In addition, it requires the HP's services team to remain experts across all virtualization offerings and be able to consult with customers, providing guidance as to the best choice.
- HP's strong presence in the storage market is a direct result of its acquisition of Compaq years ago. The storage division is in regular and intense competition with rivals such as IBM and EMC. HP's main advantage against a competitor such as EMC is its associated and complementary product lines. Multiple product lines allow customers to thin vendor lists and only have one neck to



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choke in the event of an issue. HP puts considerable development effort into its storage products, from both a block and a file product perspective, and it has seen considerable success, especially with customers already using HP hardware for their servers. Additionally, since its acquisition of 3Par, HP has demonstrated clear intent that it intends to remain a leader in the storage space, and in particular, it sees storage virtualization as a key growth opportunity.

- With a formidable sales force, finance arm, and professional services division, HP is well-positioned to sell its products to a wide range of enterprise customers, and it is doing exactly that.

**Weaknesses**

- HP's corporate governance and vision is a bit lost currently, in addition to numerous executive changes. Meg Whitman has a challenge ahead in restoring healthy growth and sound business mechanics to all aspects of HP, and the effect will be felt by all BUs to a degree. According to Whitman, "We're struggling under our own weight. And we've got to restore a healthy balance in order to return HP to its position as a growing, thriving, innovating industry leader."
- HP's offerings are large and varied; it is easy for customers to get not just bewildered, but frustrated when trying to purchase data center infrastructure equipment, software, or services. HP's Web site is well organized, but the sheer size of HP tends to defy easy organization. Customers must rely on resellers and HP itself to find what they need (and in the correct configuration).
- HP competes extensively in the consumer market for PCs, printers, scanners, and cameras, amongst other products. Most of its largest rivals (e.g., IBM and Sun) do not have the distraction of the volatility of the consumer market and can remain focused on enterprises. On top of that, HP's enterprise equipment is sometimes positioned by competitors as being of the same quality level as its consumer-grade equipment, which is a patently unfair observation but a reality in a competitive market.
- HP's second place is a distant one to Cisco, which commands four to five times the market share of HP. In addition, Cisco refocused and doubled its efforts over the last nine months on this core business, which means that competitive pressures will continue to increase for all vendors in the infrastructure space.

**Recommended Actions****Recommended Vendor Actions**

- HP should remain vendor-neutral in the hypervisor market, and it should even consider expanding its support for smaller virtualization players such as Red Hat, in particular for its SMB/SME efforts. HP can continue to keep customers happy and provide market choice by maintaining a neutral stance, despite the extra money it costs to certify several hypervisors on its x86 server systems.
- HP possesses a comprehensive networking portfolio for all environment sizes. However, overlap and confusion remain in the product line and further efforts are required, primarily SKU reduction and product guidance for channels and enterprises alike.
- HP needs to address the means to manage multiple operating systems on its switches and multiple element management platforms to provide direction for the installed base and partner communities alike. A roadmap and an aggressive trade-in program should eliminate most customer defection, and with a consistent product line and the large installed base, HP will remove one of the weaker competitive attack points for other vendors.
- HP needs to do a better job of getting its resellers to sell the entire HP package (servers, storage, networking, software, and services) to customers. HP's products in all of these spaces are compel-

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ling, but there is more business, in particular by attaching its networking products more aggressively to server and storage customers. HP took a solid first step towards enabling this with the ExpertOne certification in late 2010; however, there remains little 'glue' to incite HP networking preference over competitors. This will help ensure partners and customers receive more cross-technology integration and deployment training in addition to educating the partner community on how to sell and integrate the complete solution, making engagements repeatable and predictable.

- HP should continue developing market incentive programs for its networking products that turn competitive bids into discounts for customers and channel partners. Both partner compensation and customer rebates or more aggressive promotions could drive significant opportunities to HP.

**Recommended Competitor Actions**

- All of the x86 server virtualization vendors need to try to get closer to HP in any way they can. HP is not likely to pick one over the other, but a close relationship will get more people at HP to recommend that vendor's product. This is particularly true when you consider HP Services. A close tie to HP's services division, with lots of education, will yield positive recommendations to customers.
- Dell needs to increase the amount of software it offers if the company wants to compete in the long term with HP and IBM. Dell has the x86 hardware and is growing its storage offerings, but until it becomes a bigger software player, Dell will be at a competitive disadvantage with HP. In addition, Dell's network strategy play needs to be more clearly articulated against HP and IBM's offerings now that it has closed Force10 and possesses the infrastructure technology.
- IBM can outflank HP by talking about complete cloud enablement vs. strictly technology. With WebSphere and the rest of IBM's \$20 billion-plus software business, IBM has the ability to sell not only the infrastructure and orchestration, but the fully integrated software stack, development environment, and services to deploy the entire solution. This is a powerful sales engine in the cloud solutions stack, given the complexity and scale many Global 1000 customers seek.
- Oracle needs to shed its image of being overpriced and overly complicated. HP prides itself on ease of use, and this is a lesson that Oracle could stand to learn, though hubris is not a characteristic from which Oracle suffers. The reliability of Oracle equipment and the Sun heritage remain valuable, but its expensive, monolithic image is hurting it in the enterprise data center.
- Cisco, Avaya, and Alcatel-Lucent offer more complete converged solutions than HP. These vendors should prepare marketing programs for their resellers that emphasize their 'one-stop shopping' for voice systems complete with security. The competing vendors' perceived internal integration could make it easier for their partners to sell both VoIP and security systems.
- Extreme and Enterasys both should focus on their IPv6 leadership, service provider presence, and embedded security capabilities where appropriate, as each has strengths in their respective areas. Neither can compete with HP on channel scale, but each can focus on their particular strengths and provide differentiation through superior channel engagement and tailored support.

**Recommended End-User/Customer Actions**

- Customers that currently buy one facet of HP's technology should consider the rest of the company for the synergies on both the business and technology sides that these products would bring. HP's stable of products can address nearly any data center or enterprise infrastructure need, and customers should consider the advantage of one-stop shopping. However, it is still important to keep a secondary supplier waiting in the wings, if for no other reason than to keep the prices from the primary supplier in line with the market.
- Companies that are looking for professional services should take a good look at HP's services. Its offerings are comprehensive and it should be able to provide value if hired, or at least a differenti-

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ated view point on a given project bid. In addition, HP can bring a balanced eye to an outsourcing conversation and assist with a migration if the model makes sense.

- Customers looking for networking equipment should get a bid from HP, as its offering now rivals many. HP’s lifetime warranties, competitive pricing, and excellent feature set make it a vendor that corporations should consider for their networking bids.
- Customers within HP’s strong networking verticals (e.g., education, healthcare, public sector, manufacturing, etc.) should view the company’s success within their respective industries as validation of HP’s products and its ability to support their needs.

**Overview**

<b>Company Name</b>	Hewlett-Packard Corporation
<b>Locations</b>	Worldwide
<b>Primary Markets</b>	Information technology, data center, Ethernet switching
<b>Revenues</b>	\$127 billion, FY 2011
<b>Employees</b>	349,600
<b>Founded</b>	1939
<b>Management</b>	Meg Whitman: CEO and President
<b>Key Partners</b>	VMware, Microsoft, Intel, AMD
<b>Product Lines</b>	HP switching, routing, wireless; ProLiant, Integrity, and BladeSystem servers; StorageWorks & EVA storage systems

