

## IT Analysis – HP Reinforces focus on responsible printing while controlling costs

By Louella Fernandes, Principal Analyst, Quocirca Ltd

HP recently invited European analysts for its first Halo telepresence briefing, a departure from its usual format and demonstrating the use of its own technology which is now installed at 30 offices across HP, aimed at reducing travel and the associated financial and environmental costs. Along with Halo, which is part of its Imaging and Printing Group (IPG) business, HP discussed its strategy for its consumer, SMB and enterprise markets and its goal of capturing colour or “value” pages across all segments, whilst minimising the environmental impact of printing.

HP continues to emphasise its “printer to pages” focus, which is the foundation for driving revenue growth from pages printed, rather than hardware sales. Colour pages generate significantly higher revenue for printer and copier vendors than black and white pages owing to the associated cost of supplies such as toner, ink and maintenance kits. HP is looking to capture more colour pages both in the consumer market, where it already dominates, and in the enterprise market, where it is up against established competitors such as Xerox, Ricoh and Canon, as well as Samsung, which has aggressively captured market share from HP at the lower end of the market in the past few years.

HP’s original IPG EMEA organisation has been consolidated from five groups into three:

- Inkjet and Web Solutions Business
- LaserJet and Enterprise Solutions Business
- Graphic Solutions Business

Each group has profit and loss responsibility for hardware, supplies, services and software solutions.

The challenge that HP faces, as do all players in this market, is driving growth in a market that is relatively flat. According to HP estimates, between 2008 and 2010 total pages printed in the enterprise market will grow by a CAGR of just 2%, whilst growth in pages printed in the consumer market is predicted to be even lower

than this. The SMB market represents the highest growth, with a steady growth in colour printing as more SMBs turn to low cost multifunction colour printers.

### SMB and consumer initiatives

Although the consumer and SMB (1-99 employees) segments are mature markets experiencing relatively flat growth, HP continues to focus on driving growth through new hardware and software products. SMBs are increasingly receptive to producing high quality colour documents in-house that would have been previously outsourced to external print houses, enabling costs savings. Awareness of the environmental impact of printing is also supporting sales of low energy inkjet based printers such as the HP Officejet Pro range as an alternative to more power hungry laser printers. Meanwhile, to capture incremental pages in the highly mobile and connected consumer market, HP has developed software such as iPrint and Cloud Print. iPrint is a freely downloadable software application to print photos from an Apple iPhone or iPod touch on most HP networked WiFi printers.

To further expand the consumer opportunity for HP printing, HP has launched its “store-in-store” initiative which sells HP’s entire range of consumer offerings – from PCs to printers. These stores, launched in July 2008, consist of various zones which are manned by trained HP experts. The aim is to provide shoppers with an “HP experience” that enables them to try and test the full range of HP products. HP plans to open 150 stores and 500 HP zones by end of 2009. Stores such as the one based on the premises of Computer City in Stockholm; also include an environmental zone where customers can hand in ink cartridges, printers, screens and other computer products for recycling. In the London HP’s new store-in-store concept can currently be seen at Harrods and House of Fraser.

Since HP's store-in-store launch in July 2008, revenue for store-in-store locations has risen by 144% for printers and by 172% for PCs.

### **Capturing more MFP pages in flat enterprise market**

HP's most formidable challenge is probably gaining increased market share in the enterprise print market, which is moving away from single function devices where HP has a 51% market share to multifunction printer (MFP) devices where HP has just a 22% share. Its ambitious plans are to capture a 51% market share by expanding its MFP product portfolio. In a relatively flat market, this requires displacing some well established players such as the copier heritage vendors - Xerox, Ricoh and Canon. HP recognises that this lucrative market offers the potential for the highest value pages, and therefore sales of supplies. HP estimates that 65% or more of pages in the enterprise market are printed on MFPs, so winning in the MFP space is vital for HP to capture share in a market where page growth is slowing year over year.

Meanwhile, HP intends to aggressively target the emerging markets in the EMEA region; the opportunity is exemplified in Russia which has already overtaken Germany as the largest installed base of HP LaserJets in Europe. HP estimates that the emerging market is worth US\$19B per annum and it intends to grow its lead in this market where Xerox and Canon are also increasing share.

### **Enterprise growth through managed print services**

HP is betting heavily on its comprehensive managed print service (MPS) capabilities where it typically goes head to head with Xerox Global Services. Although the recession may have resulted in organisations holding on to their assets for longer, an MPS allows organisations to take out cost very quickly through optimising their print environment. So where new hardware sales may be lacking, HP is able to focus on up-sell opportunities in the installed base driven by software solutions and services such as secure or "follow-me" printing and document workflow.

HP has been particularly successful in leveraging its network integration capabilities — for example, between HP Web JetAdmin and HP

OpenView. Pulling hardware sales through leading with services is HP's key strategy and in total it has developed 25 services ranging from design and discovery, through to sustainability. HP has \$4.2 billion under MPS contract worldwide, and MPS revenue grew by 70% in 2008 compared to 2007.

HP's integration with its services acquisition EDS (May 2008) is well underway, and IPG has now defined engagement models creating a combined go-to-market approach. Existing EDS contracts with Xerox are expected to run their course, offering HP the opportunity to potentially migrate customers to HP devices where applicable. The EDS acquisition certainly offers HP a wider reach, although other printer and copier vendors are likely to develop stronger ties with other systems integrators as a result.

HP has now incorporated its graphics art solutions into its MPS portfolio, and it estimates that around 30% of its contracts include the management of HP large format printers.

### **Solutions for reducing environmental impact**

HP is not alone in extolling the fact that optimising the print environment can help reduce costs and improve environmental credentials through replacing older, less efficient, and either under or over utilised devices with higher performance and energy efficient devices. HP has seen more customers, such as a UK division of WPP, the communications services group, requesting full environmental assessments as part of their MPS tenders, reflecting the importance that environmental impact measurement plays in MPS decision making.

The HP Carbon Footprint Calculator enables users to identify the environmental impact associated with their current printer fleet, such as energy consumption, paper use and carbon output. Users can then determine how making changes such as changing the device-to-employee ratio, utilising print management tools or employing duplex printing can reduce their carbon footprint. HP's carbon footprint calculator is part of HP EcoSolutions programme and can be found at <http://www.hp.com/large/ipg/ecological-printing-solutions/carbon-footprint-calc.html>.

The calculator covers, in total, 3,000 HP and non

HP devices, including geographic information for more than 146 countries.

Halo, HP's telepresence solution, falls within its LaserJet and Enterprise solutions business. Halo, which is also part of HP's Eco Solutions portfolio, offers multi point collaboration in that it can connect to multiple locations around the world at any one time. HP expects to capture an increasing share of the lucrative telepresence market, where competitors include Cisco, Tandberg and Teliris. HP (source: Wainhouse) estimates that the market will be worth \$1.9bn worldwide by 2012, up from \$800mn in 2008. Typically, it's the larger enterprises with globally dispersed offices that are investing in telepresence. HP offers Halo as a managed solution offering installation, management and maintenance.

#### **Moving upstream with Exstream**

HP acquired Exstream, a provider of enterprise document automation software in January 2008. Its Dialogue software enables businesses to create personalised customer communications such as bank statements, telephone bills and invoices. Also known as transpromo communications, information from multiple sources can be incorporated to create customised print and online content. The public sector and financial services in particular are adopting transpromo communications. The Driver and Vehicle Licensing Agency (DVLA) is one customer which has replaced 33 million vehicle registration certificates with customised documents, enabling it to produce 3.8 million tax reminders and personalised letters each month. With Exstream, HP is able to target the opportunity in the commercial print space together with its Indigo and Inkjet Web Press production devices, in a market also occupied by vendors such as Xerox, Kodak and Pitney Bowes. At the same time, as growth in printed output flattens, with Exstream, HP is capturing the market for personalised content creation on other channels, be it mobile devices, online or email.

#### **Conclusion**

In the printer market HP is actively developing its product range across its hardware, solutions and service portfolio to differentiate it in a highly commoditised market. Success here will also rely on active engagement with channel partners, HP's primary route to market. Increasing penetration in the enterprise market

remains HP's key challenge, given the strength of established vendors. With HP Exstream, HP has a real opportunity to capture the higher value pages in the production space, as well as participate in multichannel content creation, although it still lacks the production devices to effectively compete against vendors in light/mid production such as Xerox, Canon, Ricoh and Konica Minolta.

HP will need to continue to place emphasis on addressing the environmental concerns associated with printing. With its comprehensive MPS offerings and its wide solutions portfolio to optimise printing practices, HP certainly has the technology to help customers achieve this. Whilst it may be straight forward to educate customers to take simple measures to reduce paper wastage, ultimately HP is encouraging customers to print more colour, but in the context of printing efficiently. This has essentially become a mantra for most printer companies, and needs user education to understand that print volumes can be reduced in favour of fewer, but better quality prints. But where black and white printing is sufficient, print management capabilities should be utilised to limit wasteful colour printing. Ultimately, any organisation will want to save costs, and if quality can be improved at the same time, so much the better.

## About Quocirca

Quocirca is a primary research and analysis company specialising in the business impact of information technology and communications (ITC). With world-wide, native language reach, Quocirca provides in-depth insights into the views of buyers and influencers in large, mid-sized and small organisations. Its analyst team is made up of real-world practitioners with firsthand experience of ITC delivery who continuously research and track the industry and its real usage in the markets.

Through researching perceptions, Quocirca uncovers the real hurdles to technology adoption – the personal and political aspects of an organisation's environment and the pressures of the need for demonstrable business value in any implementation. This capability to uncover and report back on the end-user perceptions in the market enables Quocirca to advise on the realities of technology adoption, not the promises.

Quocirca research is always pragmatic, business orientated and conducted in the context of the bigger picture. ITC has the ability to transform businesses and the processes that drive them, but often fails to do so. Quocirca's mission is to help organisations improve their success rate in process enablement through better levels of understanding and the adoption of the correct technologies at the correct time.

Quocirca has a pro-active primary research programme, regularly surveying users, purchasers and resellers of ITC products and services on emerging, evolving and maturing technologies. Over time, Quocirca has built a picture of long term investment trends, providing invaluable information for the whole of the ITC community.

Quocirca works with global and local providers of ITC products and services to help them deliver on the promise that ITC holds for business. Quocirca's clients include Oracle, Microsoft, IBM, O2, T-Mobile, HP, Xerox, EMC, Symantec and Cisco, along with other large and medium sized vendors, service providers and more specialist firms.

Details of Quocirca's work and the services it offers can be found at <http://www.quocirca.com>