



An Analysis of the Printer Industry
and
Hewlett-Packard's Competitive Positioning

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Introduction:

Hewlett-Packard (HP) has customers in over 170 countries and realized net revenue of \$120 billion dollars in 2012 (HP Annual Report, 2013). HP operates distinct business units- personal computers, printing, IT Services, Enterprise Infrastructure, and Software markets- and generates 65% of its net revenues outside the United States. Our Porter's five forces analysis will focus on the printer manufacturing industry (SIC 3577 - Computer Peripheral Equipment).

Printers and other peripherals account for 20% of HP's business and cater toward six groups of customers: buyer groups, individuals, small businesses, large businesses, governments, and educational institutions. To satisfy these groups, HP uses 98 firms, representing 95% of its procurement budget, to secure all the necessary inputs and raw materials. HP, the market leader, is primarily challenged in the printer market by Canon, Epson, Samsung, and Brother. As of 2010, HP held a 53.4% market share of Hardcopy Peripherals in the US and was followed by its nearest competitor Canon, which held a 14.2% share (Dignan, 2010).

Rivalry:

Based on industry analysis, high rivalry exists within the peripheral equipment sector, especially amongst traditional laserjet and inkjet printer manufacturers. Although successful in the past, Hewlett-Packard has recently positioned itself poorly within the market and is looking to refocus with sustainability efforts and new products such as 3D printing.

HP's product offering is very similar to those of its competitors. Considering the homogenous nature of industry products, many firms are driven to compete on price. Additionally, substitute products to printing and other interfaces have decreased the overall demand for printing. The profitability of this industry may lure some additional competitors; however, the decline in overall sales over time reduces this incentive. HP's printer division increased its operating profits 8% in the third quarter of 2012 even though HP forecasted a 3.8% decline in printing revenue for the year (Gupta, 2012). These factors have led to a high degree of rivalry in the printer manufacturing industry.

Industry analysis is meant to focus on the average and dominant firms, in general. Discussion of HP, in particular, may be left for the firm specific portion.

Threat of Substitutes:

The threat of substitutes for the printer industry is very high. Printers are a complementary good to personal computers, a market in which sales have dwindled due to saturation. In the second quarter of 2013, PC sales were down 14%; this was the fifth straight quarter of negative growth (First Research, 2013). In contrast, substitutes, such as mobile devices and tablets, which do not typically interface with peripherals like the keyboard, mouse, and printers, have seen 68% and 4% growth respectively (Gartner, 2013) as seen in Appendix 1.

The internet, tablets, and mobile devices have become increasingly popular for consumption of books, magazines, and newspapers, where they can be accessed in audio or digital format, decreasing the demand for printed products. The growth in cloud-based web applications, such as Google Drive and Gmail, has decreased the need for printers by allowing consumers to access documents and email from any device. Additionally, consumers, looking for ways to reduce waste, have become increasingly environmentally-conscious.

Barriers to Entry:

Barriers to entry for firms interested in entering the peripheral manufacturing market are very high because the firms that are successful have numerous patents (HP has 36,000) (HP 10-K), access to suppliers, and an established consumer base. Additionally, there is a forecasted 0% growth rate over the next four years (First Research) in the PC peripheral market as seen in Appendix 2. As a result, there is minimal market share for an entering company to capture. Incumbents such as HP, Canon, and Brother benefit from brand recognition amongst consumers, especially individuals.

What do patents do for entry? While technology is important, the other major players also have several thousands of patents for the time period that you are focusing on. How is brand a BTE? Is brand equity as a result of the technology portfolios that these companies have built? It needs to be clarified what the BTE are, at the **industry** level.

Bargaining Power of Suppliers:

The bargaining power of suppliers is low. Many components that go into making a printer- aluminum, plastic resin, chemicals, and hardware- are easily accessible from different suppliers and have become commoditized. HP uses 98 suppliers, including direct competitors Canon and Samsung, for all its manufacturing supply needs (www.HP.com). Since no supplier is responsible for the majority of components within a printer, the suppliers have little bargaining power to take profit away from the firms. Actually, the industry's low profitability leads firms to pressure suppliers extensively to decrease prices.

Bargaining Power of Buyers:

Among the six buying groups, no single group wields enough buying power to influence the printer manufacturers' prices and margins. However, the rivalrous nature of the printer industry hosts numerous competitors offering undifferentiated products. This lack of distinction and the inelastic nature of the buyers give price-sensitive consumers significant purchasing power. Even though this power is mitigated by firms' brand recognition within the industry, most buyers, specifically individuals, are ultimately influenced by price. One segment of buyers, specialty printers and photography studios, is more dependent on the high quality and top performing aspects of printers; however, this group represents a small fraction of consumers.

The power of buyer groups such as individuals, small businesses, large businesses, governments, and educational institutions has also increased due to low switching and sunk costs. For example, a customer with an HP printer and inks may only hesitate to switch brands if he has excess ink cartridges, typically retailing for \$25, which could not be used on a new printer. Verticals such as firm-specific paper and ink have been replaced with more affordable options from stores such as Staples and Walgreens, and internet-based companies such as Quill.com.

Competitive Positioning:

In March 2012, HP made the strategic decision to consolidate its businesses in order to strengthen its overall corporate position. Consolidating its PC and Printer divisions achieved this (Vance 2012). Since this consolidation, HP has seen a growth of 7% to 60% of the market share in India (Sen, 2013). Although HP sought to merge these two divisions, it remains extremely well diversified in product offerings, value-added services, and its market penetration globally compared to competitors. HP leads in the number of printer products shipped in 2012 both domestically (2,704,329) and worldwide (10,500,055) and holds the largest global market share at 39.6% (Dignan, 2012). HP has marketed their holistic approach, OneHP, as a one stop shop for customer solutions (Appendix 3). HP's diversification will allow the company to remain stable into the future and hold its position as consumer demands change.

One example of diversification is HP's venture into the arena of 3D printing. HP teamed up with Stratasys to ensure a 3D printing market share in April 2010 and produced their first 3D printer, the HP DesignJet 2000 (HP Press Release 2010). Although this product was ultimately unsuccessful due to poor timing, HP has remained invested in researching 3D printing to maintain an edge over the competition (Grimm).

In addition to new products, HP is banking on its commitment to sustainability to drive business growth moving forward. This commitment is evidenced by HP being one of the first companies, globally, to disclose its carbon footprint statement. This commitment is not just benefitting HP but also its customers, who enjoyed a 50% reduction in energy consumption over five years (HP Living Process). HP is also focused on capturing value from used technology that would otherwise have been discarded.

From an Accenture Case Study, HP has actually won business from large companies who were looking to purchase the "greenest" products. As of May 2009, at least two-thirds of the requests for proposal HP is receiving contain questions relating to the environment and sustainability. As far as individual consumers are concerned, HP is also able to charge a higher price premium for Energy Star rated products; a premium ranging from \$10 to \$12. For small and medium sized businesses, HP's inkjet technology is a powerful alternative to laser printers. The compound annual growth rate of the inkjet market is forecasted at 5.2% from 2011 to 2016; this represents an increase of over 4 million units worldwide. (Press Release, HP.com, 2013). This increase is in line with HP's sustainability commitment-- inkjet printers deliver faster printing at a lower cost and with less waste.

While it is useful to learn about HP's portfolio of products in the printing business, it does not really contribute to our understanding of competitive positioning and advantage? What are the unique activities along HP's value chain that contribute in creating the wedge between WTP and cost. How does it compare relative to industry peers? Does HP have a competitive advantage? Is it cost, differentiation, dual? Why?

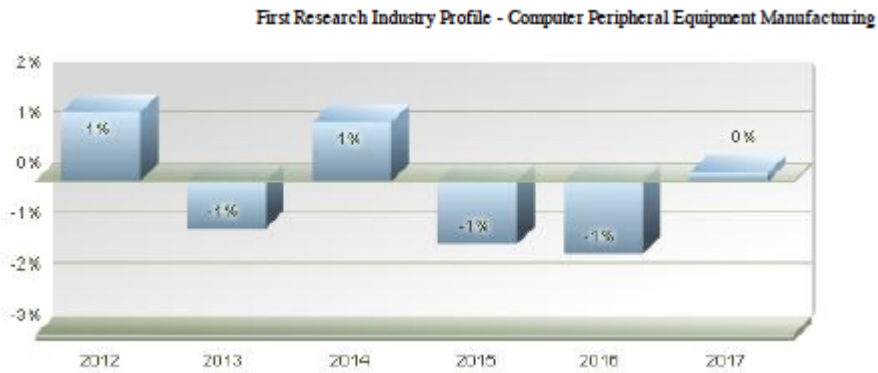
Appendices

Appendix 1

Worldwide Devices Shipments by Segment (Thousands of Units)			
Device Type	2012	2013	Growth
PC (Desk-Based and Notebook)	341,273	305,178	-11%
Tablet	120,203	201,825	68%
Mobile Phone	1,746,177	1,821,193	4%
Total	2,217,440	2,348,497	6%

Source: <http://www.gartner.com/newsroom/id/2525515>

Appendix 2

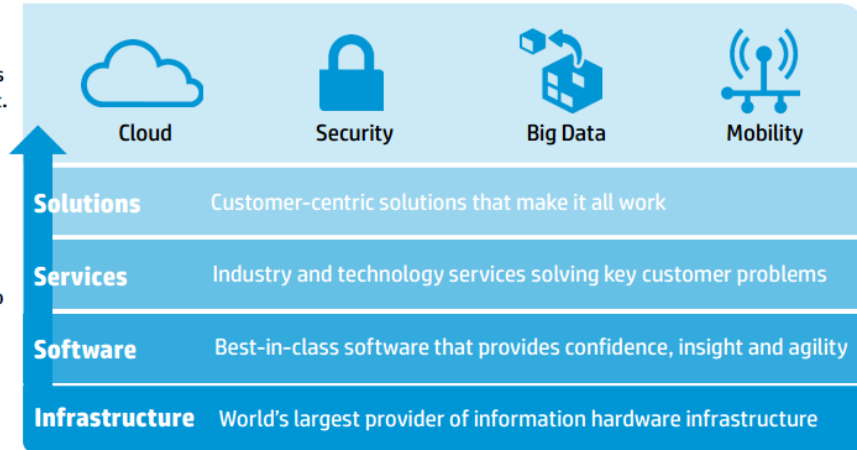


Source: Computer Peripheral Manufacturing Industry Report. First Research. 8/5/13

A OneHP strategy for you

Focus areas

Solution areas customers have told us matter most.



HP strategy

HP hardware, software, and services combined to create solutions that matter to customers.

Source:

<http://hpinvent.hp-sp.ch/pdf/K01-Welcome%20to%20the%20new%20style%20of%20IT.pdf>

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