

HP Software: Raising the Bar

March 21, 2007

Vendor Event: Flash

INTRODUCTION

This Springboard Research document presents insights, observations and analysis from HP's Software Universe event held in Brisbane, Australia from March 5 to 9, 2007. The basis for the insights expressed within this document – beyond Springboard's continuous tracking of HP's business activities – include interviews with senior HP Software executives (many of whom were previously with Mercury Interactive), viewing demos of new HP Software products and meetings with HP Software customers and prospects.

KEY OBSERVATIONS

The event drew a diverse mix of customers, HP executives, press representatives and IT analysts from across Asia Pacific, and the mood was upbeat and forward-looking. Event attendees showed an enthusiasm missing from most vendor events we have attended, due perhaps to HP's recent Mercury Interactive acquisition and the resulting state of positive activity underway in the HP Software organization. Other key high-level observations from the event are outlined in the section that follows.

New Enthusiasm for HP

This is not the first time HP has emphatically declared its serious commitment to elevating its position in the global software industry; however, we believe that this commitment has reached a new high and level of importance within the company.

The recent Mercury, Systinet and Peregrine acquisitions have provided HP with software offerings and capabilities beyond its previous portfolio. These recent acquisitions have also doubled the firm's software revenue and raised HP's profile and reputation for offering quality products. Moreover, HP's expanded software catalog is highly synergistic with its existing products. Although some platform integration issues exist, there is considerable upside and product extension opportunities through the recent merge of the product suites.

In addition, it was very clear in meetings and interviews with HP employees at all levels that software is now getting a degree of senior leadership backing and airtime within HP never before received. From Mark Hurd to the entry levels of the organization, we heard that HP executives are picking up a clear signal from senior management that software is a key focus and priority for HP. This message will need to lead to actual improvements throughout all operations and to every facet of the customer-facing field teams – perhaps most importantly to the sales organization – but it is clear that a strong and persistent message is being communicated.

The Mercury Integration is Going Well

Interviews with former Mercury Interactive executives revealed an enthusiasm and support for the acquisition that is rare after a merger this big.

The executives we consulted spoke enthusiastically about the expanded sales and services capabilities for their software offerings, and of the support they received from HP's CEO from the beginning. The perception that the HP-Mercury integration went smoothly was also validated by interviews with Mercury Interactive customers, who indicated it was business-as-usual from their perspectives.

Some former Mercury employees acknowledged the adjustments required to adapt to a larger organization, and indicated they did not feel the same degree of market strategy aggressiveness within the broader organization; however, these areas of concern were minimal.

HP is Gaining Relevance with Many Mercury Software Customers

Springboard conducted several interviews with customers referred by HP and based mainly in Australia for further insight into the customer-perceived benefits of the Mercury Interactive acquisition.

First, it was interesting to note that most of the customers we interviewed – and those presenting at the event at HP's request – were Mercury customers, and not HP customers. Pre-merger HP customers were present also, but the strong representation of Mercury customers highlights HP's growing exposure to an entirely new set of customers. This base of customers can provide a conduit through which HP can extend its sales of software, services and potentially infrastructure.

Secondly, customer feedback came back positive in terms of relationship management. Generally, all customers felt the merger did not change how their accounts were managed. One customer also indicated his belief that the cultures of HP and Mercury were similar and complementary. The key acquisition benefits cited by customers were tighter product integration and complementary features in the products offered from both firms.

Finally, customers suggested that there will be up- and cross-selling opportunities for HP in the future. Many of the customers we met had relationships with Mercury in the past, and suggested they were getting an exposure to HP products and services that they had not received previously. All of the customers we interviewed saw this opportunity as positive, and were willing to consider HP as their provider for other products and services in the future.

This is a Work-in-Progress with Several Challenges to Overcome

While the outlook is positive for HP, it is clear that much work remains to realize the full value of the acquisition and to gain substantial prominence in the global software market.

The first – and perhaps most manageable – challenge for HP is the integration of its software and product portfolios with those from Mercury. Although the offerings are highly synergistic, GUIs and other programming elements still need to be synchronized and integrated more effectively.

A more challenging hurdle will be changing HP's culture to view software with the same importance as it does infrastructure. HP is very dependent on the sale of PCs,

servers, printers and storage, and this dependence is often reflected in the focus, power structure and business planning at all levels. This is changing, but it is a deeply ingrained mindset that will take time to change completely. Changes will be required in the allocation of marketing funds, sales strategies and incentives, as well as the business priorities developed by the management team.

Another area HP will need to address is the coordination between its services and software organizations. It was very apparent throughout the event that most HP software solutions will require strong service involvement and coordination. Although the links between the software and services teams are strengthening, it is clear to us that more work needs to be done to create more collaboration between these business units.

Finally, HP will need to spend more on marketing to change the common perception of end-users that HP is primarily a hardware company and not a serious software provider. Although this perception may be unfounded, we believe it is pervasive and that many customers and prospects do not think of HP as a formidable software company. We believe HP needs to continuously work to alter this perception and gain greater software mindshare in the marketplace. Perception is the customer's reality, and this specific end-user view is a limiting factor to HP's software progression.

Expect Uncharacteristic Market Aggression and More Business Deals

It was also clear to us during the sessions and interviews that HP sees its current placement in the market as a starting point, and that it is not content to stand still. We expect to see the firm continue to push forward with bold strategies, and to continue looking for strategic software acquisitions that complement its software portfolio and raise its prominence in the market.

CONCLUSION

Hardware still comprises the majority of HP's revenue, culture and corporate identity among prospects and customers; however, this is in the process of changing quickly. Springboard Research believes that the company's focus on the software market is different from its previous forays into the market. The Mercury Interactive acquisition was a catalyst for these changes, but we believe the depth and breadth of this transition runs deep and that the company is seriously committed to becoming a more important software player globally.

Nevertheless, it is worth pointing out that this is indeed a work-in-progress and that there remain substantial challenges to overcome regarding organizational change, integration – of the platform itself as well as the company's software, services and sales organizations – and market perception. These issues will not be resolved on their own, and HP needs to address them as aggressively as it does its software technologies and offerings. In the past, HP has sometimes shown fervent focus on excellent product and technology development, without the marketing and business strategy execution to match.

In the final analysis, we believe HP is on the road to becoming a more important global software player, but that its success will still come down to execution and

addressing the challenges outlined above. After several meetings with customers and HP Software executives, reviews of its new portfolio and discussions regarding its future plans, we believe it is ready to confront these challenges and move into a new realm of software prominence.