

# HP and DELL Rivalry: What HP did to outsmart?

**Prof. Kalyan Kumar Sahoo**

Professor

The Management University of Africa, Nairobi.

Mob. +91-7735317670

Email: [dr.kalyan.sahoo@gmail.com](mailto:dr.kalyan.sahoo@gmail.com)

ORCID: <https://orcid.org/0000-0002-9207-3615>

(First Author and Correspondence Author)

**Prof. Anil Roy Dubey**

Associate Professor

Skyline University College, Sharjah

E-mail: [ardubey@gmail.com](mailto:ardubey@gmail.com)

<http://orcid.org/0000-0002-5138-2868>

(Co- Author and Correspondence Author)

**Prof. Vikash Barnwal**

Asst. Professor, School of Commerce and Management,

KK University

Biharshariff, Nalanda

Email: [vikash\\_0707@yahoo.co.in](mailto:vikash_0707@yahoo.co.in)

(Second Author)

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## Abstract:

**Purpose:** The purpose of this case research is to formulate the HP's strategies by understanding the Dell business model and comparing financial performance.

**Design/methodology/approach:** financial ratio analysis, environmental analysis of Dell and HP can be used to analyze the case.

**Findings:** The case found that there is a relationship between financial ratios like gross margin, net margin, operating margin with strategy and found that affects the organizational success.

**Practical implications:** This case pointed to the need for organizations to adopt the best strategies from competition and environment, which encourages the competitive advantages.

**Originality/value:** Environment and financial analysis of competition has an impact on the ability of organizations to detect errors and learn the best strategies to get competitive advantages.

**Keywords:** Rivalry, Strategy, Competitive advantages

## **HISTORY OF HP AND DELL:**

### **Hewlett-Packard (HP):**

The Hewlett-Packard (HP) Company is an US based Multi National, headquartered in Palo Alto, California. The company founded by William Hewlett and David Packard with the initial production of electronic testing and measuring equipments in a car garage. It offers technological solutions to enterprise groups, software, financial services and corporate investment. The HP was a leading PC manufacturing company from 2007. It developed and manufactured computing devices, printers, data store, networking devices, bundled software and other services. Services and consulting projects are also part of the offering. The exceptional events of HP enclosed the production of its electronic and bio-analytical measure instruments a part of its business as Agilent Technologies in 1999, the combination (merge) with Compaq in 2002 which led to a Fortune 500 ranking of 11 in 2006.

### **DELL Inc.:**

**Dell**, an American company, started in 1984 by Michael Dell, was one of the record breaker features of the 21st century. Dell produced a range of products from notebook computer to workstations, printers, tablets, mobile devices, networking, software, storage devices, servers, security related products, other electronic & IT devices. Dell not only targets individual customers but also focuses on various organizations like SME, MNC, public bodies, education, hospital and allied organizations as target customers. Dell was popular for its best practices in suppliers managements and e-business, uniquely its "direct selling" and "build-to-order" approach to produce

and deliver individual personal computers configured as per tailor-made specifications. Dell was dealing hardware components before 2006. In the same year, Dell came to 25<sup>th</sup> position in the annual list, published by Fortune magazine. Dell started a partnership with highly acclaimed organizations such as Egan-Marino-Curly (EMC) Corporation and other companies to achieve competitive advantage in storage and software industries. Dell won 300 awards from 2010 to 2012. Out of these awards, one of the awards is relating to the No.1 in healthcare IT service.

### **HP computer sales 'overtake Dell' in BBC News on 19<sup>th</sup> Oct. 2006:**

Hewlett-Packard (HP) superseded Dell to gotten to be the world's largest marketer of individual computers, as per the survey made by market research firm named "Gartner". HP gained 16.3% of the worldwide market in comparison with Dell's 16.1% in the third quarter of 2006. In the three months to the conclusion of September, HP transported 9.65 million units of personal computers in compare to Dell's 9.54 million shipments. Gartner analysts said that HP had superseded Dell because of better adaptation with changing market conditions. HP will continue to benefit more in consumer market from the higher growth segments.

### **Dell beats Wal-Mart as "Most admired" in CNN Money (2005):**

Dell got to be Number-1 within the yearly list of the Fortune 500 companies, supplanting Wal-Mart, which has held the beat spot for the past two a long time and fell to Number-4. "Corporate reputation is the product of alchemy -- a mixture of everything from the way a company nurtures homegrown talent to

how it manages its balance sheet," *Fortune* writer Abrahm Lustgarten said. Customer satisfaction, shareholder return and splash of community citizenship measure of that corporate headquarter within the progression of American trade. Dell positioned "Number One" on the premise of the rating given by *Fortune Magazine* and its study accomplices counting administrators, executives and securities examiners with criteria of the highest incomes in 65 businesses on development, worker ability, monetary soundness, administration, utilize of corporate resources, social obligation, long-term speculation and item quality. In 2001, Dell became the leading company in computer systems in the world with more than \$40 million a day in online sales. In 2005, Dell selected as "America's Most Admired Companies" in *Fortune* magazine.

**HP'S PROBLEMS:** HP had been worried for the past few years from 2003 to 2005 over this downward trend of their stocks. The board removed Carly Fiorina and enlisted a new CEO. The new CEO needed to move forward the foot line and was enlisted YOU as an expert to strategize how to out-compete DELL. DELL appeared to be winning marketing war on personal computers and storage gadgets, also sharply snatching HP's market share from profitable printing venture in 2004, 2005 and 2006. While HP's research and development (R&D) drive is the key to its success, according to BOD, DELL is enjoying less Selling General Administration expenses because of online marketing presence. A comparative income statement between HP and DELL enclosed from 2003 to 2006. Data represented in thousand United States Dollars. (Figures):

Period Ending	DELL(USD)			HP(USD)		
	03-02-2006	28-01-2005	30-01-2004	31-10-2005	31-10-2004	31-10-2003
<b>Total Revenue</b>	55,908,000	49,205,000	41,444,000	86,696,000	79,905,000	73,061,000
Cost of revenue	45,958,000	40,190,000	33,892,000	66,224,000	60,150,000	53,648,000
Gross Profit	9,950,000	9,015,000	7,552,000	20,472,000	19,755,000	19,413,000
<b>Operating Expenses</b>						
R&D	463,000	463,000	464,000	3,490,000	3,506,000	3,652,000
Selling, general & Admin. expenses	5,140,000	4,298,000	3,544,000	11,184,000	11,024,000	11,012,000
Non Recurring	-	-	-	1,487,000	205,000	1,081,000
Others				622,000	603,000	563,000
<b>Operating Income or Loss</b>	<b>4,347,000</b>	<b>4,254,000</b>	<b>3,544,000</b>	<b>3,689,000</b>	<b>4,417,000</b>	<b>3,105,000</b>
Income from Continuing Operations	-	-	-	-	-	-
Total other Income/Expenses Net	255,000	191,000	194,000	70,000	-31,000	-8,000
<b>Earnings Before Int. and Taxes</b>	<b>4,602,000</b>	<b>4,445,000</b>	<b>3,738,000</b>	<b>3,759,000</b>	<b>4,386,000</b>	<b>3,097,000</b>
Interest Expense	28,000	-	14,000	216,000	190,000	209,000
Income Before Tax	4,57,000	4,445,000	3,724,000	3,543,000	4196,000	2,888,000
Income Tax Expense	1,002,000	1,402,000	1,079,000	1,145,000	699,000	349,000
<b>Net Income From Continuing Operation</b>	<b>3,572,000</b>	<b>3,043,000</b>	<b>2,645,000</b>	<b>2,398,000</b>	<b>3,497,000</b>	<b>2,539,000</b>
Net Income	3,572,000	3,043,000	2,645,000	2,398,000	3,497,000	2,539,000
Preferred Stock and Other Adjustments	-	-	-	-	-	-
Net Income Applicable To Common	3,572,000	3,043,000	2,645,000	2,398,000	3,497,000	2,539,000

**Question:** With the aid of relevant computed figures, provide four major pieces of advice to HP's corporate Management on how to out-compete the DELL. Use financial analysis.

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## **CASE STUDY ON SECURITY ANALYSIS & PORTFOLIO MANAGEMENT**

### **MINICASE 1**

Mr. Nitin Gupta had invested Rs.8 million each in Ashok Exports and Biswas Industries and Rs. 4 million in Cinderella Fashions, only a week before his untimely demise. As per his will this portfolio of stocks were to be inherited by his wife alone. As the partition among the family members had to wait for one year as per the terms of the will, the portfolio of shares had to be maintained as they were for the time being. The will had stipulated that the job of administering the estate for the benefit of the beneficiaries and partitioning it in due course was to be done by the reputed firm of Chartered Accountants, Talwar Brothers. Meanwhile the widow of the deceased was very eager to know certain details of the securities and had asked the senior partner of Talwar Brothers to brief her in this regard. For this purpose the senior partner has asked you to prepare a detailed note to him with calculations using CAPM, to answer the following possible doubts.

1. What is the expected return and risk (standard deviation) of the portfolio?
2. What is the scope for appreciation in market price of the three stocks-are they overvalued or undervalued?

You find that out the three stocks, your firm has already been tracking two viz. Ashok Exports (A) and Biswas Industries (B)-their betas being 1.7 and 0.8 respectively. Further, you have obtained the following historical data on the returns of Cinderella Fashions(C):

Period	Market return (%) Cinderella Fashions	Return on (%)
-----	-----	-----
1	10	14
2	5	8
3	(2)	(6)
4	(1)	4
5	5	10
6	8	11
7	10	15

On the future returns of the three stocks, you are able to obtain the following forecast from a reputed firm of portfolio managers.

State of the Economy	Probability	<u>Returns (in percentage)</u>				
		Treasury Bills	Ashok Exports	Biswas Industries	Cinderella Fashions	Sensex
-----	-----	-----	-----	-----	-----	-----
Recession	0.3	7	5	15	(10)	(2)
Normal	0.4	7	18	8	16	17
Boom	0.3	7	30	12	24	26

Required: Prepare your detailed note to the senior partner.

## MINICASE 2

Mr. Pawan Garg, a wealthy businessman, has approached you for professional advice on investment. He has a surplus of Rs. 20 lakhs which he wishes to invest in share market. Being risk averse by nature and a first timer to secondary market, he makes it very clear that the risk should be minimum. Having done some research in this field, you recommend to him a portfolio of two shares - stocks of an oil exploration company ONGD and an oil marketing company BPD. You tell him that both are reputed, government controlled companies.

You have the following market data at your disposal.

Period	Market return (%)	Return (%) on	
		ONGD	BPD
1	10	18	8
2	12	16	10
3	8	12	14
4	-6	(12)	20
5	-4	-7	16
6	10	16	8

The current market price of a share of ONGD is Rs. 1200 and that of BPD is Rs. 423.

On the future returns of the two stocks and the market, you are able to obtain the following forecast from a reputed firm of portfolio managers.

State of the Economy	Probability	Returns (in percentage) on			
		Treasury Bills	ONGD	BPD	Market Index
Recession	0.3	7	9	15	(2)
Normal	0.4	7	18	10	14
Boom	0.3	7	25	6	20

The firm also informs you that they had very recently made a study of the ONGD stock and can advise that its beta is 1.65.

Mr. Garg requests you to answer the following questions:

- What is the beta for BPD stock?
- What is the covariance of the returns on ONGD and BPD? Use the forecasted returns to calculate this.
- If the forecasted returns on ONGD and BPD are perfectly negatively correlated ( $\rho = -1$ ), what will be expected return from a zero risk portfolio?
- What will be the risk and return of a portfolio consisting of ONGD and BPD stocks in equal proportions?
- What is the scope for appreciation for the two stocks?