

## VENDOR NEEDS AND STRATEGIES

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### Hewlett-Packard's Strategy for Business to Business eCommerce

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#### IDC OPINION

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With a balance of automated transactions and tailored content, the HP.com Business to Business solution aims to lock in large clients and shift their transactions to the most economical methods. Hewlett-Packard has implemented these important and difficult steps while contending with a wide range of competitors and carrying out one of the highest-profile acquisitions of the last decade. HP has begun automating its largest clients' transactions by integrating their eprocurement systems with HP, successfully integrated Compaq's Web content with its own, and increased its emphasis on direct sales without significantly disrupting its extensive set of channel partners. Meanwhile, other challenges remain:

- ☒ Deciding where the balance should lie between IBM's model of high-touch, client account-oriented extranets and Dell's model of ultra-automated ones (HP can compete with either company in these arenas, but it would have to devote considerable resources to compete successfully on two rivals' home turfs.)
  - ☒ Making the most of user data to best design the site and to demonstrate to Wall Street that HP.com provides merger synergies and lower costs per order
  - ☒ Motivating non-U.S. users to use the B2B sites more and motivating non-U.S. HP employees to sell the idea to local clients and users
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## IN THIS STUDY

HP's business-to-business (B2B) strategy has developed quietly and well below the industry's radar. Although Dell trumpets its direct connections to customers, HP also has an extensive strategy for integrating with both direct customers and channel partners, either via the Web or integrated in the customer's internal systems. (IBM also has a formal B2B strategy. See *IBM's eSites and B2B eCommerce Strategy*, IDC #29473, May 2003.) This study examines HP's strategy, describes what the goals and milestones have been so far, and explores the opportunities and threats that might arise in the near and medium future. Although the HP.com Business to Business solution includes the entire relationship with a customer, this study focuses primarily on HP's fulfillment and technical integration capabilities.

## SITUATION OVERVIEW

By the anniversary of its merger with Compaq, HP has developed a strong and cohesive B2B ecommerce strategy. This has been a vital initiative, given how much of HP's business comes from large companies and large channel partners. The company has also worked to balance its channel commitments with its direct sales efforts by having its channel partners use HP's direct selling tools. Partners may leverage the ecommerce sites modified for their own customers. There are also agent fees for customers that buy direct but work with partners. This is a continuing effort that will likely take years to iron itself out for any vendor, but credit goes to HP for forging ahead and trying to establish the necessary *détente*. Content management tools and site measurements ensure that HP.com Business to Business includes the most current data and is organized as well as possible. A significant amount of business comes from outside the United States.

All of these positive developments derived from the necessity of integrating Compaq, its clients, and its channel partners with HP. Although HP and Compaq have both had B2B ecommerce solutions in place for years, the Compaq merger sharpened the need to show that the strategy was working, implement efficient solutions, and retain and grow key accounts. Moreover, among its rivals (Dell and IBM), HP has the broadest assortment of direct accounts and channel partners, which adds to the complexity of reaching a balance. HP's ecommerce strategy and site design must be versatile enough to accommodate the clients that use ecommerce, use B2B integration, switch from one to the other, and use neither.

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## ORGANIZATIONAL STRUCTURE

Many large companies have struggled with how to integrate ebusiness into their existing business structure. HP's worldwide ebusiness group is a centralized organization that reports to Global Marketing and Global Operations. A governance council coordinates worldwide ebusiness activity among five broad functional areas:

- Supply chain and customer operations
- Technology and strategy
- Finance
- Marketing
- Regional teams

These are the groups that HP needs to coordinate to accomplish its goals of increasing clients' spending with HP, reducing transaction costs, and tracking the results of doing so.

Profit and loss responsibility for non-U.S. ebusiness is held in the regions and rolls up in the regions because Wall Street tracks regional business units' performance.

One important measurement for HP is cost as a percentage of ebusiness revenue because HP believes that this metric is a useful way to illustrate merger synergies. HP claims that that cost is down 30% year over year since the merger. Other measurements include customer satisfaction (up 20%, as measured by HP surveys) and overall worldwide ebusiness revenue growth (up 70%, not including EDI, from FY01 to FY02).

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#### A L O O K I N S I D E H P . C O M

This study focuses on HP's efforts to market to, sell to, and integrate with medium and large companies, but it is worth placing those efforts in the context of HP's overall ebusiness efforts.

HP.com includes both the company's public online stores, which any individual or company can use, and its major business accounts. They include information and purchasing access to over 10,000 products and services. The public stores receive 1.2 million visitors per week, or about 28% of all visitors to the Web site. IDC estimates that HP.com Business to Business generates about eight times as much revenue per week as the public stores.

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#### C O N T E N T M A N A G E M E N T A M A J O R P R I O R I T Y

Since its earliest ebusiness efforts, HP has found that content management is critical: It is not easy to present thousands of different products to thousands of different customers, many of them with prenegotiated pricing. Sales and marketing have been the primary drivers of content management, rather than IT support. Not only does better content management allow marketing to focus on growing the business instead of managing internal processes, but it also leads to more effective site design and allows better tracking of site usage. HP integrates solutions from:

- Documentum
- Trados (plus Uniscape, which Trados bought in late 2002)
- Trigo
- Vignette
- Homegrown modules and business processes

The need to integrate Compaq's product suite made the need even more acute. In the year since the merger, and with little or no interruption to users, HP has:

- Increased the number of global integrated HP/Compaq catalogs syndicated weekly to enterprise and commercial customers by a factor of nine
- Translated over 5 million words into 26 languages through centralized translation infrastructure
- Reduced the cost of worldwide content management by 35%

Given these efforts, HP was gratified to win site usability awards from the American Business Awards and The Customer Respect Group.

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#### L A R G E S T   A C C O U N T S   H A V E   T H E   C L O S E S T I N T E G R A T I O N

HP's largest 200 accounts worldwide have the most data integration with customers' procurement systems. Most of these accounts belong to direct customers — companies that are placing the orders for themselves, not resellers or distributors — because these are the companies that have adapted B2B systems. The goal is to enable them to place orders and HP to receive and fulfill them with minimal human intervention. This category does include a few indirect customers, such as distributors fulfilling large orders for their clients.

HP.com Business to Business also supports various integration technologies, including EDI, XML, and RosettaNet. HP indicates that its channel partners want and need these technologies much more than end-user clients do because many of those companies already have EDI systems and other integration technologies in place. Moreover, channel partners typically place more orders, larger orders, and orders with more line items on them than end-user customers do. These factors make it even more critical for channel partners to use automated interfaces for cost avoidance. Additional benefits include online advance ship notifications and invoices.

However, IDC believes that end users will come to appreciate the advantages of data integration. Indeed, the process has already started. The sales volume of HP.com Business to Business grew tenfold from 2001 to 2002, and HP forecasts that it will double again in 2003. Much of the growth was from a shift in purchasing tools — largely from clients making manual entries using HP's extranets — as clients got their internal procurement systems up and running and integrated those systems with HP.com Business to Business. Such integration leads to faster order processing, more accurate and efficient order entry and account management, better internal control on the client end, and an overall lower cost of doing business. HP believes that additional growth came from an increased share of customers' total spending.

The primary technologies that HP's customers enterprise customers request are XML (to connect with EDI systems), as well as Ariba, Commerce One, Oracle, PeopleSoft (mainly in the United States), RightWorks (mainly in the United States), and SAP. This set compares with that reported by most large companies that sell goods to medium-sized and large companies.

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#### S M A L L   B U S I N E S S E S :   F I N D I N G   T H E   M E A N

Like most large companies, HP seeks to balance small and medium-sized businesses' (SMBs) needs with their smaller individual revenue potential. In addition to using channel partners to reach these companies, HP uses several techniques of its own to accomplish this:

- Create and provide extranets to sell directly to companies with as few as 100 employees
- Provide sufficient information for such companies to make their own purchasing decisions, rather than relying on direct sales representatives
- Gather Web site usage data to better organize the HP.com site, especially the sections for technical support, drivers, and products

The number of HP.com Business to Business sites deployed for SMBs grew 34% from 1Q03 to 2Q03.

HP supports channel partners that serve the SMB market by integrating order routing and status when appropriate. Such channel partners often log onto customer sites to place orders for the customer, manage account information, and connect with other complementary partners.

## **FUTURE OUTLOOK**

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### **OPPORTUNITIES**

#### ***STEP UP THE PERCENTAGE OF INTERNATIONAL REVENUE***

Fully 59% of HP's total revenue (including Compaq) came from outside the United States in FY02, but IDC estimates that only a fraction of the Business to Business sites' revenue was from outside the United States. Although the numbers may not reach parity, there is clearly an opportunity to extend B2B site usage to companies that are already customers of HP. IDC estimates that IBM has a much greater percentage of B2B revenue coming from overseas than either HP or Dell, likely because IBM allows international managers wide latitude on what products and services may be sold via local sites.

HP.com's existing international Business to Business customers are currently all large companies that typically span two or more regions. They may have centralized or decentralized purchasing departments and buy via partners, from HP direct sales staff, from an HP.com extranet, or a combination thereof. The challenge is to ensure, both within countries and between countries, that all channels have the same pricing and product information and that orders come through the proper channels for each company.

#### ***CHANNEL SHIFT CONTINUES***

IDC believes that HP's customers, both end users and channel partners, will continue shifting their business to online channels: more B2Bi, more EDI, and more XML. Provided that customers can afford the integration costs — not all of them can — there are too many benefits to such channels not to take advantage of them. Although procurement managers at many companies have been slow to adapt some technologies (see *Easing Into the Tub: Results of the 2002 Procurement Managers Survey*, IDC #28768, January 2003), the large companies that form the core of HP's B2B customers are all more likely to have enterprise software and procurement systems that would benefit from tight integration.

Once a company has spent the time and resources to integrate with HP, it is significantly less likely to defect to an HP competitor. Anecdotal evidence suggests that HP's share of a customer's wallet increases after that customer integrates with HP.com Business to Business, but it is difficult to separate this from a shift in purchasing channels.

### **PITFALLS**

#### ***BEWARE OF GOING PAST "GOOD ENOUGH"***

HP has already put considerable effort into automating its transactions. The obvious benchmark company here is Dell, which has always pursued order and manufacturing efficiency. Trying to beat Dell at its own game would likely be a fool's errand, but HP

does not have to do so. Instead, HP's transaction automation and back-end integration merely has to be good enough to satisfy users on a case-by-case basis.

IDC estimates that few of Dell's customers, even its largest and most technologically sophisticated, put as much of their total spending with Dell through their highest-quality Premier Pages (Dell's equivalent of HP.com Business to Business) as Dell would prefer. Given the effort that Dell put into integrating those Premier Pages with the customers' procurement systems and its own manufacturing systems, Dell's integration has outpaced its customers' needs. To compete effectively, HP need only accommodate the clients most committed to ordering through online, automated channels. Other clients can likely be satisfied with solutions that demand fewer resources and still accomplish the goal of reducing the cost of transactions.

Similarly, strong content management is important to a large company that provides a huge variety of products and services to companies and individuals worldwide. HP's content management is the best of its peer group, but IBM's and Dell's content management skills are likely good enough. Now that Compaq's products and clients have been brought into the fold, additional content management improvements might produce diminishing returns, especially because better content management is often not immediately apparent to end users.

Better content management and content presentation may even be counterproductive. Analysis of site usage might indicate, for example, that a Search box would be more useful on the front page of a Web site. However, many individual consumers and small-business customers memorize how to use a site, rather than learn how to use one. They might know that the Search box is in one corner of the page, and then be completely baffled when site designers move it to the opposite corner.

#### ***DO NOT TRY TO BEAT BOTH COMPETITORS AT THEIR OWN GAMES***

HP currently combines elements of Dell's and IBM's B2B strategies. Like Dell, HP has worked to integrate its customers' procurement systems with its own order entry and manufacturing systems (although HP has pursued an integration strategy based on industry standards, while Dell has pursued proprietary extranet integration). Like IBM, HP provides the fullest range of account and product information to its largest, most valuable customers. Trying to compete directly with both companies, however, would likely cause HP to devote too many resources to a particular field.

Another way to focus on this is to consider the primary purpose of the site, whether that be customer acquisition, customer retention, or transaction cost reduction. Trying to become the best in each category would involve tremendous resources and might well leave HP development teams at odds with each other. Assigning one goal primacy will help make sure that the others are not pursued to the point of diminishing returns.

The "good enough" criterion applies here as well. For example, suppose that HP decides that its goal, similar to IBM's, is to provide superior content and information to its large clients. Over time, HP would increase its share of wallet with those clients by selling them additional products and services, especially high-end and customized ones that require a deep knowledge of each client's needs and capabilities. (Of course, like IBM, HP would also continue to sell PCs and low-end products.) In this case, it would not matter whether the integration between the two companies was as tight as humanly possible so long as it was sufficient to lower both parties' costs.

## ESSENTIAL GUIDANCE

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### ACTIONS TO CONSIDER

While IBM provides high-touch customer service to its largest clients and Dell focuses on automating transactions, HP takes a middle path. With structured content, automated transactions, and careful observation of customers' site usage, HP's goal is to create large extranet sites that are as useful as possible to clients while also reducing HP's internal costs. All three companies want to retain their largest clients, increase their share of those clients' total spending, and reduce the cost of transacting with those clients.

IBM shows that using extranets can definitely appeal to overseas users. HP has already created millions of words of non-English content and enabled transactions in several dozen currencies. The next step to building international usage is allowing non-U.S. staff the latitude to sell whatever products and services might appeal to local customers. Increasing international business will bring several benefits besides the additional revenue:

- Better service to multinational clients
  - Better understanding of content management strategies
  - Increased product lifespan in regions that trail HP's primary markets
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### STRATEGIES

As Dell begins selling its own printers and other peripherals, HP will have some hard decisions to make regarding its own strategies for these products. Given HP's content management skills, there is no technical reason why HP should not be able to make these items available in all of its online channels. However, given HP's reliance on indirect channels to sell these products, including retail, doing so would cause considerable channel conflict. Dell will be free to form its own partnerships with indirect, although the company has not been very successful to date in the retail channels and shuns any indication that it intends to leverage partners for the sale of its products. Dell will also be free to sell peripherals directly to all of its market segments, both individually and in package deals with other products.

Although Dell will win at least a portion of the market, there is no reason why HP should suffer a large loss of market share if it manages to have its channel partners accept the idea of HP's selling business-oriented printers and peripherals, if not consumer-oriented ones, directly to customers. HP can also do this in a parallel motion so that it actually turns into a lead generation engine for the partners. HP can use its Web site to promote products and then offer customers choices of where to buy them and offer partners the services for the product and the leads for supplies. The company must tread carefully because its retail business is key for reaching consumers as well as small and medium-sized businesses.

## LEARN MORE

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### RELATED RESEARCH

- Hardware and Network Channels and Alliances Taxonomy, 2003* (IDC #29707, July 2003)
- IBM's eSites and B2B eCommerce Strategy* (IDC #29473, May 2003)

☒ *Easing into the Tub: Results of the 2002 Procurement Manager Survey* (IDC #28768, January 2003)

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