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Q & A

E-Business Plan Lifts HP's Sales, Trims Costs

Linking Up Its Partners

Electronic procurement helped save \$1.5 billion since Compaq merger

BY MURRAY COLEMAN

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Hewlett-Packard Co.'s \$19 billion purchase of Compaq Computer is barely a year old. Already, though, HP has finished most of the heavy lifting involved in combining the two companies.

So says Marius Haas, an HP vice president. The merger took a lot of work, he says, but the computer maker is starting to see the fruits of its labor.

Haas is in charge of e-business for HP. He works with resellers and other business partners to sell HP products online. With more than 65,000 resellers around the world, HP's e-business is already a major source of revenue.

But in addition to boosting sales, e-business has cut costs at HP, Haas says. By handling procurement via the Internet, HP is now much more efficient.

The company says it's trimmed \$3 billion in annual costs since the merger, with some \$1.5 billion of that coming from streamlining its procurement systems.

Haas recently spoke with IBD about e-business efforts inside and outside HP.

IBD: How have changes in your procurement helped HP cut costs?

Haas: It's accelerated our abilities to be much more effective. We have consolidated some of our vendor base. So we don't work with as many suppliers.

IBD: Is that good having fewer suppliers?

Haas: It depends on what type of

commodity you're dealing with. In almost every category, HP's now the largest customer for our suppliers. So it creates leverage. It creates a strong relationship with the supplier base. It ensures there's the right inventory to deliver to meet our customers' needs. It's created more buying power.

IBD: How did you merge your procurement system with Compaq's?

Haas: We quickly looked at what each was doing and made a decision and adopted the system that would best fit our customer needs. We didn't try to re-engineer or recreate new business processes. We leveraged the existing system and improved upon it instead of trying to remake the whole process.

IBD: It must have been critical to have a good e-commerce system.

Haas: Absolutely. We make and distribute roughly 8,500 unique customer catalogs every week. Those are for a business customer who wants to order one of our products. It could be suppliers or retail customers.

They can place an order online, and those will flow through our systems all the way down to our factory floor.

So when we designed our systems strategy, we had to make sure that whole end-to-end system was ready to go to market. Since we have such a broad base of customers, we've developed a number of ways to reach those customers.

IBD: Is it one huge interconnected system?

Haas: Yes. For example, in the retail space we've deployed over 4,000 HP-branded kiosks. If a retail customer wants a unique configuration, they can order that product through a kiosk and have it delivered to their house. So it's a very good complementary strategy.

IBD: So they don't have to buy the product from the store?

Haas: What we do with our retail partners is make sure we have the

Marius Haas



■ Hewlett-Packard Co.

■ Vice president of worldwide e-business

■ 36 years old

■ B.S., business administration, Georgetown University; MBA, American Graduate School of International Management

hot retail items stocked on their shelves. But if someone has a configuration that's unique, they can go to a kiosk in a retail location and order it.

So they've had the benefits of being able to talk to someone at a store. But the customer can get what they need, and we don't have excess inventory lying around.

IBD: Doesn't that put you in competition with your retailers?

Haas: The retailer can actually offer services such as in-home installation and support. We're not trying to replace the retailer. It's a complementary strategy.

In fact, the situations where we've seen the best results are where retailers are making the same amount of investment of time and support as we are.

IBD: How big of a business is this for HP?

Haas: We have 15,000 co-branded kiosks. In addition, we have 4,000 HP-branded kiosks. Right now, that's generating roughly \$100 million a quarter in revenue. Industry analysts predict that the retail kiosk space will double in the next seven to eight years.

IBD: What other growth areas are you working in?

Haas: One of our key initiatives is our business-to-business integration

strategy. We're connecting business customers' procurement systems to HP's procurement system.

IBD: How big of a task is that?

Haas: Over 90% of our global and large business accounts are going down this path. We already have over 250 accounts opened today for this e-procurement process. We've seen 91% growth year over year. It makes up around 55% to 60% of our total online business today.

So it's bigger than HP's consumer and retail online businesses. It's also growing faster. In some instances we have close to 100% of all orders coming through these mechanisms.

IBD: Does this save customers a lot of money?

Haas: Our customers are telling us that they're saving close to 20% on their procurement costs. It's a great value to our customers. And we haven't lost a single customer we've done this sort of e-procurement integration with.

IBD: How does HP work with different systems that customers own?

Haas: If they've standardized on industry-leading e-procurement solutions, we've already done all the work needed to integrate the systems. So we've got all the connecting technologies set up for the leading e-procurement software packages.

IBD: What if someone doesn't work with those standardized packages?

Haas: The good news is that even if a company doesn't have one of the more pervasive industry solutions, most e-procurement software these days use fairly standardized communication protocols. So we can work with almost any system.

But we're seeing more and more customers standardizing on core technologies for e-procurement. A couple of years ago, we saw a lot of people wanting to create their own marketplaces. But that's changed as the e-business market has matured. They prefer working directly with their business partners.