

# HP and Open Innovation: ups and downs

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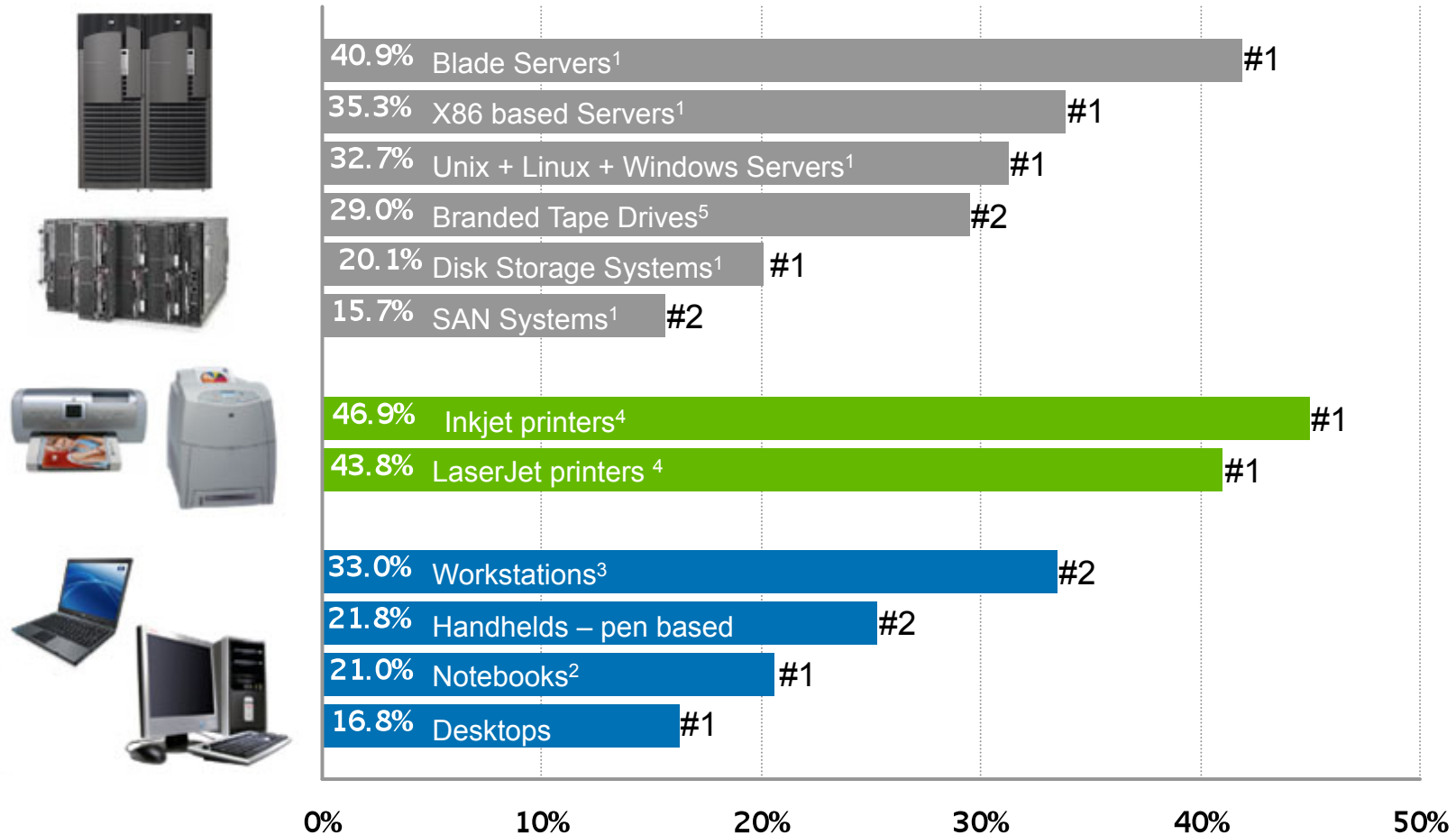
# HP today

- Fortune 14 company
- Simplifying technology experiences around the world
- 156,000 employees
- 145,000 sales partners
- 70,000 service partners



# Leadership across the board

Worldwide data for calendar CQ1 2007



<sup>1</sup> Factory Revenue; Other percentages are units

<sup>2</sup> Classified as "portables" by IDC

<sup>3</sup> Includes PWS Desktops, PWS Mobile and RISC workstations

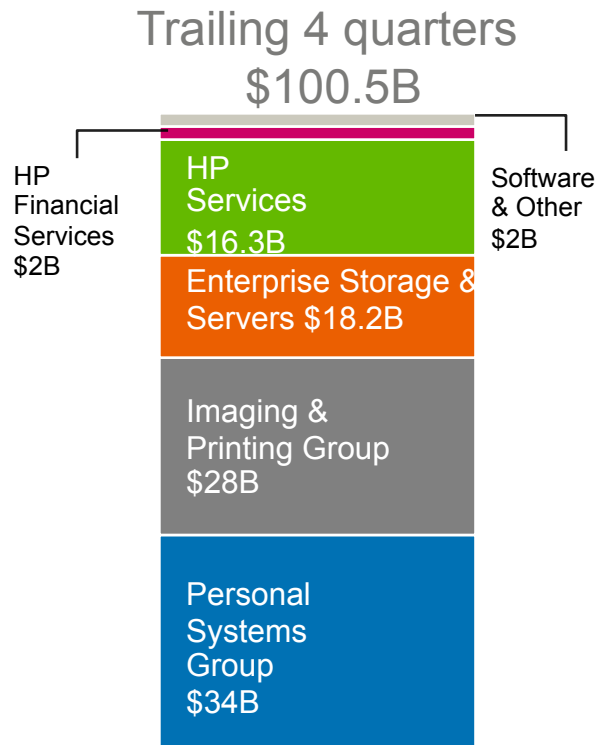
<sup>4</sup> Includes color and monochrome; single and multifunction excluding SFDC

<sup>5</sup> Branded Tape Drive revenue from Worldwide Branded Tape 2006 Vendor Analysis IDC #206511

Source: IDC Q1 2007 worldwide data

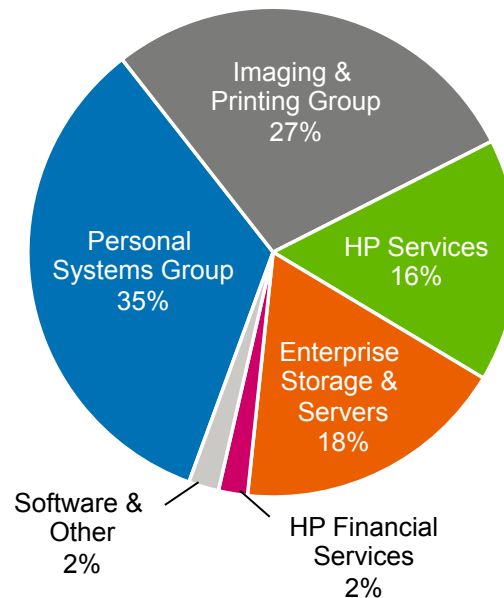
# Financial strength

- Q3 net revenue up \$3.5 billion Y/Y or 16%
- Fiscal year revenue growth year to date of \$8.9B
- \$12.5 billion in gross cash at end Q307
- Generated \$1.9 billion in cash flow from operations Q307

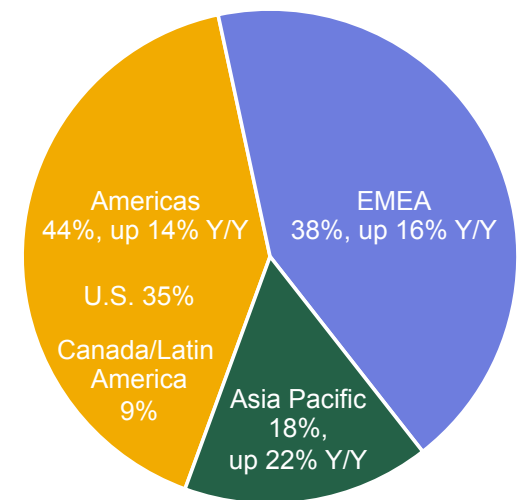


Q3 FY07 revenue: \$25.4B

Revenue by segment



Revenue by region



# HP and Open Innovation: hit or miss

- HP has long tradition of alliances, partnerships, joint work towards creation of standards

## VERSUS

- Till late 1999, HP was grab bag of 80+ product divisions
- Little tradition of sharing IP in IT industry
- HP very protective of IP in printing (25 years of inkjets)
- As Dell emerged as #1 PC vendor in late 1990s, HP strove to “differentiate”
- Impact of DOJ settlement with Microsoft

# HP and Open Innovation: #1: LTO

- In late 1990s, HP was (and still is today) #1 in tape storage – key storage solution for SMB/Enterprise
- Format proliferation (DLT, DAT, etc) limited scale benefits
- Quantum licensed DLT format from DEC
- Would tape survive vs. disk?

SOLUTION: IBM, Seagate and HP formed LTO consortium

- A first in IT industry – common road map shared by competitors (cleared in advance by DOJ)
- 4 generation product road map announced
- By late 2006: LTO has >90% market share – and Quantum has bought into consortium.
- Tape sales have not declined as predicted





# HP and Open Innovation: #2: Photos

- In late 1999, HP announced Cartogra, photo-sharing site
- In 2000, HP simultaneously invested in Ofoto and Zing, startup photo-sharing sites – “typical” investments in dot-com era, roughly \$5 Million each
- Cartogra (aka “HP Photo”) uses Ofoto for fulfillment, cuts prices, becomes photo-sharing site for eBay
- Kodak acquires Ofoto in 2000, Zing sold to Conexant in 2002, which shuts it down
- HP acquires Snapfish in 2005 – now world’s largest photo-sharing site, with > 40m members and >1B images
- Shutterfly does IPO in 2006 @\$15/sh – now \$34



# HP and Open Innovation: #3: HALO

- In 2003, Dreamworks asked HP for assistance in rendering for Shrek 2. CEO Katzenberg announced move to 2 full-length animated films/yr. CPUs needed to “finish” scale up by factor of 10 in last 90 days. HP created rendering service, wherein Dreamworks “borrowed” CPUs
- Separately, HALO technology introduced to HP – internal to Dreamworks – for communications between animators
- Dreamworks not interested in taking to market, but realizes Metcalfe Law (network effect) might work
- HP licenses technology, announces HALO Dec 2005, has now installed > 100 studios
- Cisco announces “telepresence” in 2006





# HP and Open Innovation: #4: Large Services Customer “Co-Innovates”

- In 2003, one year after HP-Compaq merger, HP trying to establish reputation as IT outsourcing provider, competing with EDS and IBM Global Services. Wins mega-deal, with terms negotiated at CEO level
- HP Labs asked to provide “innovation services”
- BUT, as part of IT services agreement, customer owns all IP
- Furthermore, agreement administered by IT dept, not CTO
- Result: nearly dozen projects started in 2004, but none have resulted in product. HP has tried to open discussions with other customers in same industry customer has asserted IP ownership rights.

