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## HP-Compaq merger could create customer backlash

Benjamin Pimentel, Chronicle Staff Writer

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One of the biggest headaches Hewlett-Packard could face in buying Compaq is deciding which of the tech giants' wide array of computer products to keep and which ones to discard.

The new company will have to sort through the numerous lines of PCs, notebooks and handheld devices that each company now makes.

But one of the most critical arenas is servers, the big business computers that connect other computers in a network. Together, HP and Compaq make more than a dozen kinds of these machines, many of them based on proprietary processors and operating systems. Analysts agree that the merged company wouldn't be able to keep selling all of them.

In fact, even before the announcement of the merger plan, each company was already planning to streamline its server lineup. If the deal goes through, more changes are inevitable.

But getting rid of some of these machines won't be easy because many of them have loyal users and customers. For example, when HP said three weeks ago that it was phasing out the HP 3000, an aging workhorse still used by many corporations for such tasks as managing inventories, payrolls and keeping track of customer transactions, the reaction was swift and severe.

"They divorced us," said Craig Solomon, founder of IT Consulting Consortium in Albany, Ore., who has become a strong critic of HP Chief Executive Officer Carly Fiorina. "I totally distrust HP. Anything I liked about Carly is totally gone. . . . It's no longer Hewlett-Packard. It's Fiorinaland, and I don't want to have anything to do with it anymore."

The Palo Alto company has denied that its decision to phase out the server in five years had anything to do with the merger. The company has said that it will not make any product road map public until the merger is approved by federal antitrust regulators.

Winston Prather, general manager of HP's commercial systems division, said the decision to kill the HP 3000 was part of an industrywide trend away from proprietary server systems to designs based on industry standards such as the Unix operating system and Intel processors.

"I'm sure there are customers who don't like this -- and we don't like this either," he said. "It's just the state of the industry."

Analysts agree, noting that the HP 3000, which was introduced in 1972, is no longer a big moneymaker for the company.

Christine Martino, HP's marketing manager for the HP 3000, said the machine's users are "a tiny fraction" of HP customers, although some analysts say the number could be in the tens of thousands.

HP has promised to help them migrate to other systems during the phaseout period, even offering discounts and incentives for them to shift to other HP platforms.

But some observers said HP didn't do enough to make the transition painless for customers known for their intense devotion to the machine. And the customer response may offer a glimpse of what could happen as HP merges with Compaq.

If the merger is approved, HP may also have to deal with followers of Compaq's own proprietary server systems.

The HP-Compaq deal faces a key test tomorrow when the agreement comes up for discussion before the David and Lucile Packard Foundation board. The foundation, named after HP co-founder David Packard, is one of the company's biggest shareholders.

Yesterday, Walter Hewlett, son of HP co-founder William Hewlett and an HP board member opposed to the deal, argued that the merger would cut into the company's projected profits next year. In a filing with the Securities and Exchange Commission, Hewlett said HP's earnings per share will drop by 34 percent instead of 9.1 percent based on estimates before the deal was announced in September.

To be sure, the HP 3000 customers form an extraordinary tribe.

"I can't think of anybody else whose user group is so vocal," said Larry Storer, associate publisher of Serverworld, a trade magazine.

And the reason is the HP 3000 is an incredibly reliable machine, said Steve Cooper, president of Allegro Consultants, who has worked on the machine since the 1970s.

"This is a pretty solid machine," he said. "It has an incredibly solid and reliable database management system."

When HP announced plans to modify the system in 1990, users at an HP expo in Boston booed HP executives, circulated a petition and forced them to back down -- an episode users now recall as the "Boston Tea Party."

Six years later, during an HP expo in Anaheim (Orange County), customers rented a helicopter to display a huge banner in support of the HP 3000.

And last year, to protest what they perceived as HP management's neglect of the HP 3000, they began raising money for a newspaper ad criticizing company executives. The plan was called off after the company publicly reaffirmed the server's importance.

"There's this fanatical, religious element to it," said Jon Power, CEO and founder of Sector 7, an Austin, Texas, firm that helps companies make the transition from one computer system to another.

Wirt Admar, an HP 3000 advocate, said that when customers heard about the plan to discontinue the machine, "it simply sucked their breath away."

Another customer, Rex Barker, vice president of PayMaxx, a Tennessee payroll services company, said he understood HP's decision, but said it was poorly timed, especially with HP struggling to defend its controversial bid to buy Compaq.

"It makes them look like the Keystone Cops," he said. "They look like they're struggling and everything they touch is turning into fool's gold."

HP's Martino argued that while she appreciates the devotion, "you can't keep a business going just by that passion, if it's not in your customers' best interest."

She also stressed that many HP 3000 customers understand the decision and are willing to work with the company to move to another HP system.

HP is one of top sellers of servers in the world, and the company says merging with Compaq, another industry leader, would make it even more competitive against such companies as IBM and Sun.

This week, HP presented a new ultra-thin server based on open industry standards.

David Block, chief operating officer of Nobix, a Pleasanton software company that uses HP 3000 machines and helps businesses migrate from that system, defended HP, saying it had given customers "a lot of opportunities to make the switch."

But by antagonizing some customers, analysts say, HP has given its competitors an opening and contributed to the confusion surrounding the merger.

"They just handed IBM and Sun a user base of 30,000 on a plate," Power said,

citing his own estimate of the number of HP 3000 users.

His own company hopes to cash in by helping them shift to other systems, including those supported by IBM and Sun -- a business opportunity worth between \$2 billion and \$3 billion through the next five years, Power said.

Asked if he thought the HP-Compaq merger was a good idea, he quipped, "Oh yeah!" apparently referring to the business opportunities the deal would create for companies like his.

David Carlucci, IBM's general manager for the Americas, said HP's dilemma over the HP 3000 is the "kind of disruptive factor we want to capitalize on."

"It's a significant market opportunity for us," he said.

Martino acknowledged that competitors may be taking advantage of the change,

adding, "We are not naive enough to think that Sun and IBM are not going to call these customers. We know it will open up an opportunity for them."

Jean Jacques Ozil, who manages HP's marketing divisions for net servers, was optimistic that they would be able to persuade HP 3000 customers to switch to another HP system.

"They've been our customers for the last 20, 30 years," he said. "I think we have a pretty decent chance of keeping them happy."

Some customers aren't that sure. Barker said his company may not replace its HP 3000 servers with another set of HP machines.

"Right now, truthfully, it's out in the open," he said. "There was a time when we would not even consider anything other than HP. But those days are gone."

*E-mail Benjamin Pimentel at [bpimentel@sfgate.com](mailto:bpimentel@sfgate.com).*

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