HP's Business Model

Idea In Short

HP Inc. sells personal computers, printers and related hardware to consumers, businesses and governments, but a meaningful share of its profit comes from what customers buy after the initial purchase. Ink cartridges, toner, subscription print services and equipment financing generate recurring revenue that cushions HP against the thin margins typical of hardware sales. Bill Hewlett and Dave Packard founded the company in a Palo Alto garage in 1939, and it split into HP Inc. and Hewlett Packard Enterprise in 2015, separating personal computing and printing from enterprise technology. In fiscal 2025, HP reported net revenue of 55.3 billion dollars, and the company is now cutting up to 6,000 jobs by 2028 as part of a restructuring built around Artificial Intelligence.

From a garage to two public companies

Bill Hewlett and Dave Packard started HP in a one-car garage in Palo Alto, California, in 1939, initially building precision audio oscillators before expanding into electronic testing equipment during the 1940s.1 The company went public in 1957, entered the computer market with the HP 3000 minicomputer in 1972, and launched its first desktop computer, the HP-85, in 1980. A 2002 merger with Compaq Computer Corporation created one of the largest technology companies in the world at the time, expanding HP's product range and international reach.

> A printer sold at a loss can still be a profitable product, as long as the ink keeps running out.

In 2015, HP split into two separate public companies: HP Inc., which kept the personal computing and printing businesses, and Hewlett Packard Enterprise, which took on servers, storage and enterprise IT services.2 Enrique Lores has served as HP Inc.'s chief executive since 2019, guiding the company through a period of declining PC demand followed by a partial recovery driven by AI-enabled devices.

Hardware first, but not hardware alone

HP's core business remains selling personal computers, laptops, tablets, printers, scanners, workstations and related peripherals to individual consumers, small and medium-sized businesses, large enterprises and government agencies. Product design, engineering and manufacturing feed a global supply chain that produces devices sold both directly through HP's own online store and through authorized retailers and resellers. Hardware margins in personal computing are notoriously thin, since HP competes directly against Dell Technologies, Lenovo and Apple on both price and performance in a market where most buyers treat computers as commodities rather than differentiated products.

Printing follows a different economic logic. HP frequently prices printer hardware close to its manufacturing cost, then earns the bulk of its printing profit from ink cartridges, toner and paper sold over the life of the device. This aftermarket-heavy structure means HP's printing division profitability depends less on how many printers ship in a given quarter and more on how much ink and toner the installed base of existing printers consumes over time.

Building recurring revenue around one-time purchases

HP has layered subscription and financing options on top of its traditional hardware sales to reduce its dependence on one-time transactions. Managed print services bundle hardware, supplies, maintenance and support into a monthly or per-page fee, giving business customers predictable costs while giving HP a multi-year revenue commitment instead of a single purchase.3 HP's Instant Ink subscription applies the same logic to home users, charging a flat monthly fee for a set volume of printed pages rather than requiring customers to buy cartridges individually.

Financing and leasing services extend this recurring-revenue approach further, letting business customers acquire HP hardware through installment plans rather than upfront capital purchases. HP earns interest and fees on these arrangements, and the financing relationship often keeps customers engaged with HP's ecosystem for the length of the lease rather than a single transaction.

Defending the ink business from cheaper cartridges

HP's recurring-supplies model depends on customers buying HP-branded ink and toner rather than cheaper third-party or refilled cartridges, and the company has used firmware updates to enforce that. Its Dynamic Security feature can block non-HP cartridges from working in supported printers, a practice that has drawn consumer lawsuits and regulatory scrutiny in multiple countries over the years. HP has defended the feature as protecting print quality and guarding against counterfeit cartridges, while critics argue it mainly protects the high margins HP earns on genuine ink and toner. The dispute illustrates how central the supplies business is to HP's overall profitability, since a printer sold near cost only pays off if the ink that follows it is HP's own.

Betting on Artificial Intelligence to protect margins

Facing intensifying price competition and a maturing PC replacement cycle, HP has pushed hard into AI-enabled personal computers, devices that include dedicated processing hardware for running Artificial Intelligence features locally rather than relying entirely on cloud processing. AI-enabled PCs accounted for more than 30 percent of HP's shipments in the fourth quarter of fiscal 2025, a signal that the company sees this category as central to differentiating its hardware in a commoditized market.4

That AI push runs alongside a significant internal restructuring. In November 2025, HP announced plans to cut between 4,000 and 6,000 jobs by 2028, affecting product development, internal operations and customer support roles, as the company applies Artificial Intelligence to functions previously handled by people.5 HP estimated the restructuring would cost roughly 650 million dollars to execute while generating about 1 billion dollars in annual run-rate savings by the end of fiscal 2028, a trade-off the company is betting will protect margins as hardware competition continues.

Serving distinct customer segments with different needs

HP's customer base splits into several groups with meaningfully different purchasing patterns. Retail consumers buy laptops, desktops and home printers largely for personal use, prioritizing price and convenience over enterprise-grade features. Small and medium-sized businesses look for a mix of hardware, software and support services that scale without requiring dedicated in-house IT departments. Enterprise and government customers need high-performance computing, security compliance and managed services that can be procured and supported at scale across large organizations, often through long-term contracts negotiated directly with HP's enterprise sales teams rather than retail channels.

Key Partners

Component suppliers providing processors, memory, displays and other hardware parts are essential to HP's manufacturing operations, alongside contract manufacturers that assemble finished devices at scale. Retailers and authorized resellers extend HP's market reach well beyond its direct online and enterprise sales channels. Software partners, including Microsoft for operating systems and various security and productivity software providers, help HP bundle a complete computing experience around its hardware. Financing partners and leasing companies support HP's payment plan offerings for business customers acquiring hardware without large upfront capital outlays.

Key Activities

Research and development drives HP's ongoing product innovation, spanning new hardware designs, AI processing capabilities and improvements to existing product lines. Manufacturing and quality control ensure that HP's devices meet reliability standards across a global production footprint. Marketing and sales activities span digital advertising, retail partnerships, trade shows and direct enterprise sales efforts tailored to different customer segments. Ongoing customer support, technical services and managed print operations round out HP's activity set, since much of the company's recurring revenue depends on sustained service delivery rather than one-time transactions.

Key Resources

HP's manufacturing infrastructure and supply chain relationships represent a substantial physical resource that would be costly for a new entrant to replicate. Patents and intellectual property, particularly around printing technology and ink formulation, protect HP's aftermarket supplies business from low-cost imitation. The HP brand itself, built over eight decades, carries recognition and trust that supports both consumer and enterprise purchasing decisions. HP's global sales and distribution network, spanning direct online sales, retail partnerships and enterprise account teams, gives the company reach that a smaller competitor would struggle to match.

Value Propositions

For consumers, HP offers reliable computing and printing hardware backed by a well-known brand, with increasingly capable AI features built into newer devices. For small and medium-sized businesses, HP provides a combination of hardware, software and managed services designed to reduce the burden of maintaining in-house IT infrastructure. For enterprise and government customers, HP offers high-performance computing, security compliance and dedicated account support suited to complex procurement requirements. Across all segments, HP's subscription and financing options offer predictable costs as an alternative to large upfront purchases.

Customer Relationships

HP maintains relationships through a mix of direct sales, self-service online purchasing and long-term enterprise contracts negotiated with dedicated account teams. Subscription programs like Instant Ink create an ongoing relationship built around recurring billing rather than a single transaction. Technical support and managed services touchpoints, whether through call centers, online chat or on-site enterprise support, sustain the relationship well after the initial hardware purchase. Retail and business customers alike also interact with HP through warranty service and repair programs that extend the customer relationship across the hardware's usable life.

Channels

HP sells directly through its own e-commerce platform and enterprise sales teams, giving it full control over pricing and customer data for a portion of its business. Authorized retailers and resellers, including major electronics chains and office supply stores, extend HP's reach to consumers who prefer in-person shopping. Channel partners and value-added resellers serve enterprise and government customers who require bundled solutions rather than standalone hardware. Online marketplaces provide an additional distribution channel, particularly for accessories and printing supplies where convenience and speed matter more than a consultative sales process.

Customer Segments

Retail customers, including students, home office workers and general consumers, form a large and price-sensitive segment focused on everyday computing and printing needs. Small and medium-sized businesses represent a segment seeking bundled hardware, software and support that scales with limited internal IT resources. Enterprise and corporate customers require high-performance computing, security and infrastructure management at a scale that justifies dedicated account relationships. Government and public sector customers add compliance and procurement requirements specific to federal, state and local agencies, a segment HP serves through specialized contracts and product configurations.

Cost Structure

Manufacturing costs, including components, assembly and quality control, represent a major and largely variable expense tied directly to unit volume. Research and development spending supports HP's push into AI-enabled hardware and new printing technology, a cost the company treats as essential to staying competitive against Dell Technologies, Lenovo and Apple. Marketing, sales and distribution costs span digital advertising, retail partnerships and a global enterprise sales force. Restructuring costs, including the roughly 650 million dollars HP expects to spend executing its 2025 workforce reductions, represent a further near-term expense aimed at lowering the company's long-run cost base.

Revenue Streams

Hardware sales, covering personal computers, laptops, printers and related devices, remain HP's largest single revenue category, even though margins on these products are often thin. Supplies revenue, primarily ink and toner, generates a recurring income stream that is frequently more profitable per unit than the printer hardware itself. Services revenue, including consulting, managed print, technical support and subscription programs like Instant Ink, contributes a growing and more predictable income stream. Financing and licensing revenue, including interest on leasing arrangements and fees from licensing HP's patents and intellectual property, round out the company's revenue base.

- 1HP Founding History
- 2HP Inc. And HPE Split
- 3HP Managed Print Services Model
- 4HP AI PC Shipment Data
- 5HP's 2025 AI-Driven Layoffs

Summary

HP's model works because it does not depend on hardware margins alone. Printers are frequently sold near cost, with ink, toner and managed print contracts generating the recurring revenue that makes the printing business durable even as unit sales of physical printers decline. Personal computers face a similar dynamic, competing on thin margins against Dell Technologies and Lenovo while HP tries to differentiate through AI-enabled devices and services layered on top of the core hardware sale. The workforce reductions announced in 2025 reflect a company betting that automation and Artificial Intelligence can protect margins as competition intensifies. Whether that bet pays off depends on whether HP's printing and services revenue continues to offset the pressure on hardware pricing that has defined the personal computer and printer industries for decades.