Compaq

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Compaq Computer Corporation was a company founded in 1982, that developed, sold, and supported computers and related products and services. Compaq produced some of the first IBM PC compatible computers, being the first company to legally reverse-engineer the IBM Personal Computer.[1][2] It rose to become the largest supplier of PC systems during the 1990s before being overtaken by Dell in 2001.[3] Struggling in the aftermath of the dot-com bubble bust, Compaq was acquired for US$25 billion by HP in 2002.[4][5] The Compaq brand remained used by HP for lower-end systems.[6]

The company was formed by Rod Canion, Jim Harris and Bill Murto—former Texas Instruments senior managers. Murto (SVP of Sales) departed Compaq in 1987, while Canion (President and CEO) and Harris (SVP of Engineering) left under a shakeup in 1991, which saw Eckhard Pfeiffer appointed President and CEO. Pfeiffer served through the 1990s. Ben Rosen provided the venture capital financing for the fledgling company and served as chairman of the board for 18 years from 1983 until September 28, 2000, when he retired and was succeeded by Michael Capellas, who served as the last Chairman and CEO until its merger with HP.[7][8]

Prior to its takeover the company was headquartered in a facility in northwest unincorporated Harris County, Texas, that now continues as HP's largest United States facility.

Contents

Compaq Computer Corporation

The 2007–present logo.

Industry	Computer hardware, Computer software, Computer systems, IT consulting, IT services
Fate	acquired by HP in 2002, brand remains in use for lower-end systems
Founded	February 1982
Headquarters	Harris County, Texas, United States
Area served	United States United Kingdom
Key people	**Rod Canion**, Founder, former President and CEO **Jim Harris**, Founder, former SVP Engineering **Bill Murto** Founder, former SVP Sales **Ben Rosen** former Chairman, former interim CEO, original venture capital investor **Eckhard Pfeiffer** former President and CEO **Michael Capellas** last Chairman and CEO
Products	Desktops, Notebooks, Servers, Telecommunications equipment, Software
Subsidiaries	Tandem Computers, Digital

History

Founding

Compaq was founded in February 1982 by Rod Canion, Jim Harris and Bill Murto, three senior managers from semiconductor manufacturer Texas Instruments. The three of them had left due to lack of faith and loss of confidence in TI's management, and initially considered but ultimately decided against starting a chain of Mexican restaurants.[9][10] Each invested $1,000 to form the company, which was founded with the temporary name Gateway Technology. The name "COMPAQ" was said to be derived from "Compatibility and Quality" but this explanation was an afterthought. The name was chosen from many suggested by Ogilvy and Mather; it being the name least rejected. The first Compaq PC was sketched out on a table napkin by Ted Papajohn while dining with the founders in a Houston pie shop.[9][11] Their first venture capital came from Benjamin M. Rosen and Sevin Rosen Funds who helped the fledgling company secure $1.5 million to produce their initial computer.[23] (http://ezinearticles_com/?Compaq-Computer---Joseph-R.-Rod-Canions-Success-Story&id=219879) Overall, the founders managed to raise $25 million from venture capitalists, as this gave stability to the new company as well as providing assurances to the dealers or middlemen.

Early Compaq logo.

Unlike many startups, Compaq differentiated its offerings from the many other IBM clones by not focusing mainly on price, but instead concentrating on new features, such as portability and better graphics displays as well as performance—and all at prices comparable to those of IBM's PCs. In contrast to Dell Computer and Gateway 2000, Compaq hired veteran engineers with an average of 15 years experience, which lent credibility to Compaq's reputation of reliability among customers.[12][13] Due to its partnership with Intel, Compaq was able to maintain a technological lead in the market place as it was the first one to come out with the next generation of each Intel processor.[9]

Under Canion's direction, Compaq sold computers only through dealers to avoid potential competition that a direct sales channel would foster, which helped foster loyalty among resellers. By giving dealers considerable leeway in pricing Compaq's offerings, either a significant markup for more profits or discount for more sales, dealers had a major incentive to advertise Compaq.[12][13]

During its first year of sales (second year of operation), the company sold 53,000 PCs for sales of $111 million, the first start-up to hit the $100 million mark that fast. Compaq went public in 1983 on the NYSE and raised $67 million. In 1986, it enjoyed record sales of $329 million from 150,000 PCs, and being the youngest-ever firm to make the Fortune 500. In 1987, Compaq hit the $1 billion revenue mark, taking the least amount of time to reach that milestone.[24] (http://ezinearticles_com/?Compaq-Computer---Joseph-R.-Rod-Canions-Success-Story&id=219879)[12][12] By 1991, Compaq held the fifth place spot in the PC market with $3 billion in sales that year.[14]

Two key marketing executives in Compaq's early years, Jim D'Arezzo and Sparky Sparks, had come from IBM's PC Group. Other key executives responsible for the company's meteoric growth in the late 80s and early 90s were Ross A. Cooley, another former IBM associate, who served for many years as SVP of GM North America; Michael Swavely, who was the company's chief marketing officer in the early years, and eventually ran the North America organization, later passing along that responsibility to Cooley when Swavely retired. In the United States, Brendan A. "Mac" McLoughlin (another long time IBM executive) led the company's field sales organization after starting up the Western U.S. Area of Operations. These executives, along with other key contributors, including Kevin Ellington, Douglas Johns, Steven Flannigan, and Gary Stimac, helped the company with the IBM Corporation in all personal computer sales categories, after many predicted that none could compete with the behemoth.

The soft-spoken Canion was popular with employees and the culture that he built helped Compaq to attract the best talent. Instead of headquartering the company in a downtown Houston skyscraper, Canion chose a West Coast-style campus surrounded by forests, where every employee had similar offices and no-one (not even the CEO) had a reserved parking spot. At semi-annual meetings, turnout was high as any employee could ask questions to senior managers.[9][12]

In 1987, company co-founder Bill Murto resigned to study at a religious education program at the University of St. Thomas. Murto had helped to organize the company's marketing and authorized-dealer distribution strategy, and held the post of senior vice president of sales since June 1985. Murto was succeeded by Ross A. Cooley, director of corporate sales. Cooley would report to Michael S. Swavely, vice president for marketing, who has been given increased responsibility and the title of vice president for sales and marketing.[15]

Introduction of Compaq Portable

In November 1982 Compaq announced their first product, the Compaq Portable, a portable IBM PC compatible personal computer. It was released in March 1983 at $2995, considerably more affordable than the Canadian Hyperion. The Compaq Portable was one of the progenitors of today's laptop; some called it a "suitcase computer" for its size and the look of its case. It was the second IBM PC compatible, being capable of running all software that would run on an IBM PC. It was a commercial success, selling 53,000 units in its first year and generating $111 million in sales revenue. The Compaq Portable was the first in the range of the Compaq Portable series. Compaq was able to market a legal IBM clone because IBM mostly used "off the shelf" parts for their PC. Furthermore, Microsoft had kept the right to license the operating system to other

Compaq Portable

computer manufacturers. The only part which had to be duplicated was the BIOS, which Compaq did legally by using clean room reverse engineering at a cost of $1 million.[16][17][18]

By October 1983, when Compaq announced the Plus with a 10MB hard drive, *PC Magazine* wrote of "the reputation for compatibility it built with its highly regarded floppy disk portable".[19] Soon clone BIOses from Phoenix Technologies and other companies that also who reverse engineered IBM's design, then sold their version to the PC clone manufacturers, became available.

Compaq DeskPro

On June 28, 1984 Compaq released the Compaq Deskpro, a 16-bit desktop computer using an Intel 8086 microprocessor running at 7.14 MHz. It was considerably faster than an IBM PC and was, like the Compaq Portable, also capable of running IBM software. It was Compaq's first non-portable computer and began the Compaq Deskpro line of computers.

Compaq DeskPro 386

When Compaq introduced the first PC based on Intel's new 80386 microprocessor, the Compaq Deskpro 386, in 1986,[20] it marked the first CPU change to the PC platform that was not initiated by IBM. An IBM-made 386 machine eventually reached the market seven months later, but by that time Compaq was the 386 supplier of choice and IBM had lost its image of technical leadership.

For the first three months after announcement the Deskpro 386 shipped with Windows/386. This was a version of Windows 2.1 adapted for the 80386 processor. Support for the virtual 8086 mode was added by Compaq engineers.

Compaq SystemPro

Compaq's technical leadership and the rivalry with IBM was emphasized when the SystemPro server was launched in late 1989 – this was a true server product with standard support for a second CPU and RAID, but also the first product to feature the EISA bus, designed in reaction to IBM's MCA (MicroChannel Architecture) which was incompatible with the original AT bus.

Although Compaq had made its fortune by being 100 percent IBM-compatible, it decided to continue with the original AT bus instead of licensing IBM's MCA. Compaq's executives calculated that the $80 billion already spent by corporations on IBM-compatible technology would make it difficult for even IBM to force manufacturers to adopt the new MCA design. This was the right call as IBM's new MCA was praised but failed to supplant the AT Bus. Prior to developing EISA, Compaq invested significant resources into reverse engineering MCA. Compaq shelved the idea of cloning MCA and formed an alliance with Hewlett Packard and seven other major manufacturers, known collectively as the "Gang of Nine" to develop EISA.[13]

The 1990s

Ouster of co-founders

Michael S. Swavely, president of Compaq's North American division since May 1989, took a six-month sabbatical in January 1991 (which would eventually become retirement effective on July 12, 1991). Eckhard Pfeiffer, then president of Compaq International, was named to succeed him. Pfeiffer also received the title of Chief Operating Officer, with responsibility for the company's operations on a worldwide basis, so that Canion could devote more time to strategy.[21] Swavely's abrupt departure in January led to rumors of turmoil Compaq's executive suite, including friction between Canion and Swavely, likely as Swavely's rival Pfeiffer had received the number two leadership position. Swavely's U. S. marketing organization was losing ground with only 4% growth for Compaq versus 7% in the market, likely due to short supplies of the LTE 386s from component shortages, rivals that undercut Compaq's prices by as much as 35%, and large customers who did not like Compaq's dealer-only policy.[22] Pfeiffer became President and CEO of Compaq later that year, as a result of a boardroom coup led by board chairman Ben Rosen that forced co-founder Rod Canion to resign as President and CEO.[23]

Aerial map of the Compaq headquarters, now the Hewlett-Packard USA campus in unincorporated Harris County, Texas

Pfeiffer had joined Compaq from Texas Instruments, and established operations from scratch in both Europe and Asia. Pfeiffer was given $20,000 USD [citation needed] to start up Compaq Europe. He started up Compaq's first overseas office in Munich in 1984. By 1990, Compaq Europe was a $2 billion business and number two behind IBM in that region, and foreign sales contributed 54 percent of Compaq's revenues.[24][25] Pfeiffer, while transplanting Compaq's U. S. strategy of dealer-only distribution to Europe, was more selective in signing up dealers than Compaq had been in the U. S. such that European dealers were more qualified to handle its increasingly complex products.[26]

During the 1980s, under Canion's direction Compaq had focused on engineering, research, and quality control, producing high-end high-performance machines with high profit margins that allowed Compaq to continue investing in engineering and next-generation technology. This strategy was successful as Compaq was considered a trusted brand while many other IBM clones were untrusted due to being plagued by poor reliability. However by the end of the eighties many manufacturers had improved their quality and were able to produce inexpensive PCs with off-the-shelf components, incurring none of the R&D costs which allowed them to undercut Compaq's expensive computers.[9] Faced with lower-cost rivals such as Dell Computer, AST Research, and Gateway 2000, Compaq suffered a $71 million loss for that quarter, their first loss as a company, while the stock had dropped by over two-thirds.[27][28] An analyst stated that "Compaq has made a lot of tactical errors in the last year and a half. They were trend-setters; now they are lagging". Canion initially believed that the 1990s recession was responsible for Compaq's declining sales but insisted that they would recover once the economy improved, however Pfeiffer's observation of the European market noted that it was competition as rivals could match Compaq at a fraction of the cost. Under pressure from Compaq's board to control costs as staff was ballooning at their Houston headquarters despite falling U.S. sales, while the number of non-U.S. employees had stayed constant, Compaq made its first-ever layoffs (1400 employees which was 12% of its workforce) while Pfeiffer was promoted to EVP and COO.[9]

Rosen and Canion had disagreed about how to counter the cheaper Asian PC imports, as Canion wanted Compaq to build lower cost PCs with components developed in-house in order to preserve Compaq's reputation for engineering and quality, while Rosen believed that Compaq needed to buy standard components from suppliers and reach the market faster. While Canion developed an 18-month plan to create a line of low-priced computers, Rosen sent his own Compaq engineering team to Comdex without Canion's knowledge and discovered that a low-

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