CUPERTINO, Calif. -- Hewlett-Packard Co. is riding high today as the world's undisputed leader of personal-computer sales, but that's not how Todd Bradley found things when he joined the company in 2005.

Dell Inc. was the top PC maker that year, when H-P Chief Executive Mark Hurd hired Mr. Bradley to run the company's PC business. H-P's PC operations were barely profitable, morale was foundering and some investors were suggesting H-P get out of PCs altogether.

H-P owes that remarkable turnaround to something Mr. Bradley concluded within weeks of arriving at the Palo Alto, Calif., company: H-P was fighting on the wrong battlefield. H-P was concentrating its resources to fight Dell where Dell was strong, in direct sales over the Internet and phone. Instead, he decided, H-P should focus on its strength, retail stores, where Dell had no presence at all. H-P was neglecting that advantage, Mr. Bradley found as he visited retailers and H-P factories, hearing complaints about late or incomplete deliveries. He worked hard to fix the logistical snafus and build better relations with the retailers, helping H-P surpass Dell in world sales late last year for the first time since 2003.

Now, Dell is trying to fight H-P on H-P's field of strength. On May 24, Dell inked its first major deal to sell through a retailer -- Wal-Mart Stores Inc. -- since the company pulled out of stores in 1993, and said the deal was just the first step of a broader retail push. Dell said it would offer two desktop PCs in more than 3,500 Wal-Mart and Sam's Club stores starting June 10. (See related article1.)

Dell's move into stores shows how swiftly strategies can evolve in the PC business these days. Amid relentless competition and fast-changing consumer tastes, PC makers have had to learn to rapidly shift their distribution strategies. Dell's latest tack could spell trouble for H-P, as retail shelf space is tight and retailers often like to play vendors off each other to get better margins for themselves. H-P also faces U.S. marketing pushes from other retail-PC rivals such as Sony Corp., Gateway Inc. and Acer Inc.
Still, Mr. Bradley has carved out a big advantage by emphasizing store sales just as PC growth was moving from corporate desktops to personal laptops which consumers like to test out in person. The 48-year-old executive previously helped lift another technology company out of the doldrums by surfing a market trend: As chief executive of palmOne Inc., he moved the company's emphasis from its widely copied Palm data devices to smart phones just as those sales took off.

For H-P, Mr. Bradley laid out a 100-day road map to help make the company's deliveries to stores reliable again. He cozied up more to retailers and pushed attention-getting products such as touch-screen PCs that would show well in store displays and command a premium price. He pushed to design exclusive PCs for specific retailers -- like fashion designers making exclusive lines of clothing -- to help stores differentiate the computers they sell from those of their competitors.

H-P commands about 45% of PC sales in U.S. stores and has increased its leading share in the growing laptop business in the past two years, according to NPD Group Inc. Last year H-P rose 50 spots on a list Circuit City Stores Inc. keeps of its 100 most reliable vendors, grabbing the top spot among PC makers. "Our relationship [with H-P] has improved significantly since 2005," says John Kelly, a Circuit City senior vice president.

H-P's operating margins on its PCs rose to 4.8% in its fiscal second quarter from 3.6% a year earlier. Dell's margin, while still bigger than that of H-P, dipped slightly to 6.5% in its fiscal first quarter from 6.7% a year earlier. H-P's stock has doubled in the past two years while Dell's is down about 32% over the same period.

All of this has forced Round Rock, Texas-based Dell into an unfamiliar underdog role. In the first quarter, H-P's global PC market share jumped to 17.6% from 14.9% a year ago, while Dell's share slipped to 13.9% from 16.4%, according to market researcher Gartner Inc.

A spokesman for Dell, Bob Pearson, said the company would be aggressively taking on H-P and other competitors in every sales venue. "The bell for round two is about to ring and it will be heard directly and indirectly...in all distribution channels," he said in an email. On Thursday, Dell announced its first layoffs since 2001 in its effort to increase profits.

For years, H-P tried to copy Dell's approach. Under former CEO Carly Fiorina, H-P slashed its PC prices, but that landed it with deep losses. Then it hacked at its own costs by laying off thousands of workers in order to compete with Dell's low-cost structure.

That's how Mr. Bradley found things when H-P's new CEO, Mr. Hurd, hired him in June 2005 to fix the PC operations. Mr. Bradley, the first senior executive that Mr. Hurd recruited from outside, was known at palmOne as detail-oriented and a stickler for efficiency -- a reputation Mr. Hurd shares.

In some ways, Mr. Bradley faced a similar situation at palmOne. There, he helped sort through too many confusing models of similar products, and trimmed bloated inventory in the company's supply chain, according to people who worked with him. PalmOne had just come off

![Monitoring Sales](image-url)
of several good years during the tech bubble where demand was high and the company faced little competition. After the bubble burst, Mr. Bradley helped cut costs.

The executive also likes to have fun: He's known widely around palmOne for setting up a cubicle mini-golf game around the office, helping to get people from different departments talking to each other. He's so engaged in the San Francisco Giants and local theater that he tried commuting around 45 miles to H-P's PC-group offices in Cupertino from a condo in San Francisco's trendy SoMa district, but recently gave up the long trip and bought a house closer by in Palo Alto.

Mr. Bradley began refocusing on retail within weeks of joining H-P. In October, Mr. Bradley toured H-P's manufacturing sites in Europe and Asia. He found the factories had multiple hubs for collecting components, and that manufacturing, engineering and operations teams didn't communicate frequently enough. The resulting logistics problems made H-P often deliver late or partial PC orders to stores, Mr. Bradley concluded.

He learned the PC group had no marketing of its own -- the profitable printer division had charge of consumer marketing and advertising for PCs, a relic of the company's structure under Ms. Fiorina. So Mr. Bradley started forming his own marketing group. Meanwhile, he saw internal H-P research showed 58% of PC buyers had no preference for whether they bought computers online or in stores. Mr. Bradley decided H-P needed to convince more shoppers that retail was the better choice.

PCs "aren't just a commodity that you run out and buy on the Internet," he says. "People are going to want to touch it and feel it and understand how it connects." Mr. Bradley approved a new PC ad campaign aimed at consumers. Unlike previous H-P ads that simply listed a PC's technical product features next to the product's price, the new "The Computer is Personal Again" campaign featured celebrities such as hip-hop mogul Jay-Z and fashion designer Vera Wang talking about what they use their computers for.

Dell had thrived largely by shipping desktop computers with customized components, which clients can choose from its Web site. But that process was often confusing for individual consumers, who represented the potential growth in the market. Meanwhile, a drive toward bigger and more powerful laptops in place of desktops made features such as weight, size, keyboard feel and screen brightness just as important in making purchases as many internal components. According to NPD Group, 61% of PCs sold to consumers in the first quarter were bought in a store, up from nearly 54% two years ago.

In January 2006, Mr. Bradley met with Mr. Hurd and H-P's board to lay out a broad plan that included increased marketing of the H-P brand within retail outlets, pumping new PCs with fresh designs -- such as imprinted decorations -- into stores, and getting deliveries to clients on time by cleaning up the supply chain.

Last year H-P spent 55% of its U.S. marketing funds on merchandising and promotions in stores, up from 40% in 2005. The company's online advertisements now always include a message to "visit your local retailer," something it had done inconsistently in the past.

Meanwhile, Mr. Bradley revamped H-P's PC product lineup. Though the company spends $3.5 billion on research and development projects a year, little of that was leading to products for
Mr. Bradley's group. So in November 2005, Mr. Bradley brought in the chief technology officer of H-P's wireless business, Phil McKinney, to identify promising projects in H-P labs and get them into retail stores.

Mr. McKinney found a model that combined a CPU and monitor into one unit, somewhat like recent Apple Inc. designs. He also adapted some new touch-screen software from H-P labs for the machine, making a one-piece unit meant to be used in family rooms or kitchens as a PC with a touch-screen calendar and message board. H-P says demand for the "TouchSmart PC" has surpassed its internal sales forecasts since it was introduced in January, and it sells at $1,800, about three times the average desktop PC price. The company declined to release sales figures.

When Best Buy Co. approached H-P about making a new notebook exclusively for the Richfield, Minn., store chain last year, Mr. Bradley jumped at the offer. H-P design engineers began working closely with Best Buy, and the two companies ultimately created a white-and-silver notebook computer -- the soft colors aimed at attracting female customers, Best Buy says. Best Buy featured the machine, priced at $1,100, on the cover of its Sunday newspaper inserts, and says it ended up as one of its top-selling notebooks priced above $1,000 during the 2006 holiday season. "H-P dedicated a good amount of resources," says Jason Bonfig, a Best Buy executive in charge of notebooks.

At H-P, as at palmOne, Mr. Bradley instituted weekly progress reports to track operations and find fixes. For instance, he demanded weekly rundowns of notebook-computer deliveries to U.S. stores down to the hour they arrived. The reports allowed Mr. Bradley to see where bottlenecks were -- and whom to blame. He set up a weekly call between employees ordering parts and employees taking PC orders, and updated the software that helps the company forecast supply and demand globally so the company could speed up or slow down manufacturing of certain models.

Mr. Bradley pushed to find ways to consolidate H-P's PC manufacturing plants. By closing seven plants, leaving 23, H-P reduced the time and cost of building PCs, helping to improve its operating margins, the company says. The rate of on-time deliveries rose 30% in the company's 2006 fiscal year ended Oct. 31, 2006, the company says, but declined to give details.

Steven Giblin, merchandise manager for J&R Music & Computer World in New York, says he previously never knew when H-P's deliveries would show up at his stores and what would be in them. Now an H-P representative calls him weekly to exchange information on J&R's sales and H-P's available products, and to adjust orders. J&R gets H-P's deliveries punctually, he adds. They've done a "pretty good job in communicating," Mr. Giblin says.

Mr. Bradley's shifting of the battlefield has been met with some resistance. When he launched the "personal" PC ad campaign, he got phone calls and emails from alarmed H-P employees who complained that the message was too focused on consumer PCs, ignoring the corporate business. One engineer griped the campaign was too loud for H-P's conservative image, says a marketing executive.

Mr. Bradley says he shrugged off the criticism. "I wasn't holding an election," says the executive.

For direct PC sales, where Dell remains dominant, Mr. Bradley reviewed customer survey data
that showed H-P had too many PC models on its Web site, and reduced the number to 10 from 15. In January H-P cut the time it takes to reach a sales rep by phone to 22 seconds from 50 seconds. H-P increased its share of direct PC sales world-wide to 12.3% in the first quarter from 9.2% a year ago, according to Gartner. Dell's share dipped to 43.6% from 47.8%.

Mr. Bradley is now pushing his teams to work with retailers to display H-P products such as wireless TVs alongside its PCs, to show the devices working together and stimulate more sales. Mr. Bradley also is meeting with retailers and resellers in India and China in an effort to expand H-P's retail shelf space outside of the U.S.

Dell hasn't stayed on the sidelines. Dell launched its own ad campaign to remind consumers of the benefits of customizing computers. In July, Dell also opened its first retail store in a Dallas mall, acknowledging that some customers prefer to see the PCs before buying. Dell has described performance of the Dallas store as "good," but declined to elaborate. In April, it scrapped plans to open an additional store in New York. A spokesman said the company has no current plans to open other stores.

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