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HP's New TouchSmart Strikes A Chord

The All-In-One Touchscreen PC Embodies An "Age Of Style" Product Strategy

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EXECUTIVE SUMMARY

HP's new TouchSmart stands apart from its earlier, limited-release cousin with better features, new software, and a lower price point. Employing an innovative touchscreen interface, the TouchSmart is reminiscent of Apple's iPhone. It also shares some strategic characteristics with Nintendo's successful Wii game console. Consumer product strategists can learn a great deal from the TouchSmart as a case study in designing PCs for the "Age of Style." The TouchSmart will appeal to high-income consumers but will face stiff competition from Apple's iMac. Consumer product strategists at PC vendors and at Microsoft should embrace several Age of Style principles to improve their chances of taking the lead in touchscreen PCs.

HP LIVES UP TO ITS PROMISE TO INNOVATE WITH TOUCHSMART

Forrester declared the beginning of the "Age of Style" for consumer PCs in 2007. Style and visual design has altered the nature of the consumer PC market. Employing compelling design creates strong product differentiation and can help PC makers escape the trap of commoditization. The best consumer product strategists today employ Age of Style principles to develop, market, and sell their products in the face of strong competing designs. HP's recent product release represents a case study in Age of Style product strategy best practices.

On June 10, 2008, HP released the second generation of its touchscreen, all-in-one model, the TouchSmart.¹ The original TouchSmart was something of an experiment; HP has acknowledged that the original was effectively a "novelty" product.² The new TouchSmart improves upon its predecessor with:

- **A bigger screen but a smaller footprint.** The new TouchSmart upgrades to a 22-inch screen (from 19 inches), creating more viewable (and touchable) surface space. Significantly, the new TouchSmart is lighter and requires a much smaller footprint than the truly gargantuan original TouchSmart. This means consumers will find it easier to install the TouchSmart in public areas of the home like kitchens, hallways, and living rooms — as the designers intended.
- **Better technical specifications.** The new TouchSmart incorporates the Intel Core 2 Duo (upgraded from an AMD Turion Dual-Core chip) as well as greater hard disk storage space (500 GB instead of 320 GB). These technical improvements give a boost to media performance for video, music, and photos — the applications for which the TouchSmart is particularly well designed.

- **An overhauled software experience.** While innovative in incorporating touchscreen technology, the original TouchSmart did not integrate the touch user interface (UI) into every application with proprietary software — making it difficult to use with some programs. With the new TouchSmart, HP has created intermediary applications like TouchSmart Music with fan view, which creates a touch-friendly overlay for music streamed from iTunes or Windows Media Player. (The navigation is comparable to Apple's Cover Flow in iTunes 7 or on the iPhone). HP's new software ensures that users can access core media applications via an interface designed specifically for touch — thereby upgrading the experience for users.
- **A lower price point.** The original TouchSmart retailed for \$1,849 at Best Buy, meaning it would only appeal to the top 10% of US online consumers at best.³ The new TouchSmart will come in \$1,299 and \$1,499 configurations — extending the theoretical addressable market to 24% of US online consumers.⁴ While never meant to be a budget PC, these new price points greatly expand the prospects of the TouchSmart.

The New TouchSmart Takes Style And Design Cues From Apple's iPhone And Nintendo's Wii

Consumer product strategists in the PC industry might naturally compare the new TouchSmart with Apple's iPhone: It's a stylish device aimed at upscale consumers that uses touch to simplify navigation and create a recognizable "wow" factor. This comparison is surely merited — if obvious. More interestingly, though, the TouchSmart should be compared with the Nintendo Wii (see Figure 1). Forrester does not expect the TouchSmart to enjoy the runaway success of the Wii — a \$1,299 PC won't find its way into as many homes as a \$250 game console. Nevertheless, consumer product strategists can learn some lessons about product design strategy from the comparison. Both the Wii and the new TouchSmart:

- **Employ a distinctive user interface.** The fun of the Wii derives from its motion-based UI, which consumers find intuitive and fun. The TouchSmart, employing the very basic UI of "point and touch with your finger," aims to capture the same spirit. And just as the Wii's unusual UI sets it apart from the Xbox 360 and PlayStation 3 (PS3), the TouchSmart's UI distinguishes it from competing all-in-one PCs like the iMac, Dell XPS One, or Sony VAIO LT series.
- **Encourage collaboration.** The Wii found a way into the hearts of older consumers and became a favorite in nursing homes because its games encourage group participation. HP has similar goals with the TouchSmart: Designed to be placed in high-traffic areas of the home, consumers can use it as a central communications tool for leaving digital notes. Household members (including children) can also gather around to watch videos or to flip through photos, both of which are facilitated by the touchscreen interface. Making collaboration easier for consumers can create viral marketing potential.
- **Boast consumer electronics cachet.** The Wii's chronic stock shortages derive from its status as a "must-have" for consumer electronics buffs — over two separate Christmas seasons, no less. The

TouchSmart has the opportunity to create buzz and cachet for HP — which would be welcome in the age of the Apple PR juggernaut. It's also a nice item for consumers to use as decoration in their homes — rather like owning a fancy HDTV.

Figure 1 HP's New TouchSmart Aims To Become The Nintendo Wii Of PCs

The TouchSmart employs a radical user interface (touchscreen) and is designed for use in public areas of the home, which encourages collaborative household usage.



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Source: Forrester Research, Inc.

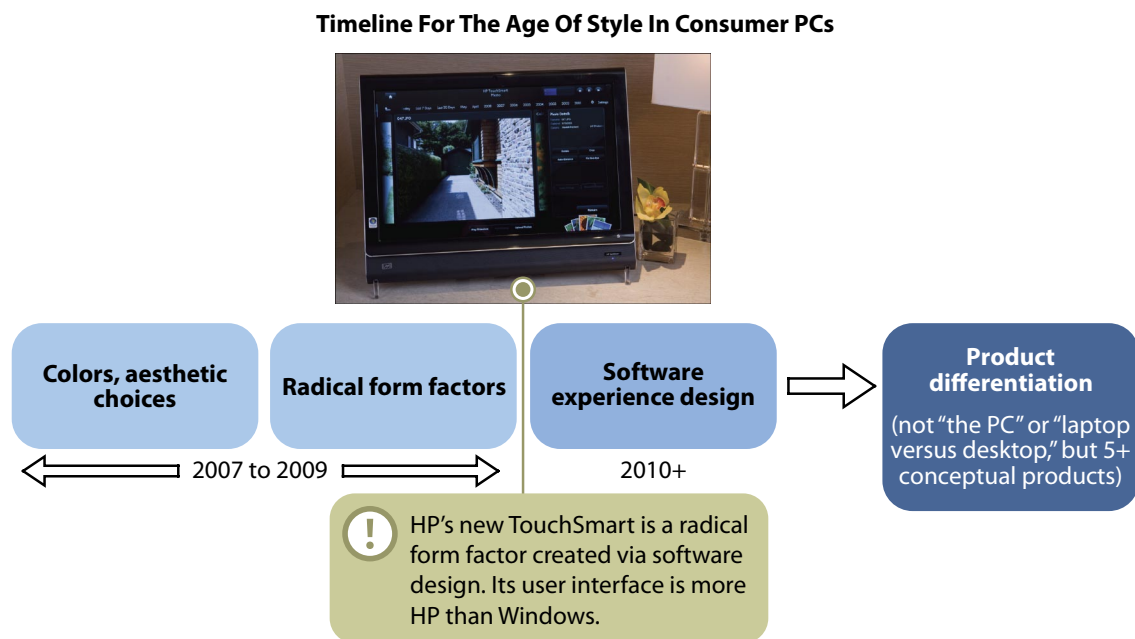
HP's Consumer Product Strategists Follow A Quintessential Age Of Style Strategy

Forrester declared the beginning of the Age of Style for consumer PCs in 2007.⁵ Consumer product strategists competing against HP should take note of the Age of Style best practices demonstrated by the TouchSmart, which possesses:

- **Setting-based design.** With its elegant, slim profile and unique UI, HP has designed the TouchSmart for public, high-traffic areas of the home like the kitchen, hallway, and living room. Consumer product strategists should employ setting-based design to expand the appeal of specific models within today's multi-PC households.
- **Aesthetic appeal.** Color, materials, and other aesthetic choices remain a critical component of product development in the Age of Style (see Figure 2). Consumer product strategists should remember that aesthetic considerations create instant appeal in stores, which have become increasingly competitive venues for style and visual design since the entry of Dell into retail.

- **A distinctive software experience.** The ultimate stage of the Age of Style comes in software experience: PC firms must craft user experiences that will make the software — rather than just the hardware — appealing to consumers. Consumer product strategists should take note of the software environment of the TouchSmart, which is linked to the touchscreen UI. It's an excellent early example of value-adding software that can differentiate HP from being “just another Windows OS PC maker.”

Figure 2 HP Moves Design To The Software Experience Phase



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Source: Forrester Research, Inc.

THE TOUCHSMART COMPETES WITH THE MAC FOR HIGH-END CONSUMERS

Despite its strategic parallels with the Nintendo Wii, the TouchSmart won't reach the Wii's mass audience of consumers because of its price point. It will instead appeal to high-income consumers, who:

- **Are more likely to use online video.** Consumers who earn more than \$75,000 sit in the sweet-spot for PC-based video consumption (see Figure 3). The TouchSmart's multimedia functions will appeal to all “mediaphiles,” but video in particular distinguishes it from competing all-in-one models.
- **Are less price-sensitive.** Those earning \$75,000-plus are willing to pay more than \$1,000 for a new PC — a prerequisite for this \$1,299 to \$1,499 product.

Companies like Lenovo, Sony, and Toshiba covet high-income earners as PC buyers because of their willingness to spend more on a new PC than the average consumer. It's thus a deeply competitive market in which to sell a product. From the list of competitors, the TouchSmart will face particular competition from Apple's Macintosh because:

- **The iMac all-in-one starts at \$1,199.** The entry-level model is cheaper than the entry-level TouchSmart by \$100 — a big-enough difference in PC pricing terms, even for the less price-sensitive segment of PC buyers.
- **Target customers have a lot of Mac exposure.** Mac ownership correlates positively with household income (see Figure 4). TouchSmart's addressable audience is a prime Macintosh market as well, with Mac ownership in the past five years reaching 9% penetration among consumers earning more than \$100,000 compared with 6% of all consumers.

Figure 3 Consumers Earning More Than \$75,000 Are A Prime Market For The TouchSmart

“What types of online video have you watched in the past month?”
“How much would you be willing to pay for a new PC including monitor)?”

Income group	Percent who have watched some form of online video (past month)	Price willing to pay for a new PC	Sample size
Less than \$37,500	57%	\$768	1,215
\$37,500 to \$54,999	62%	\$875	960
\$55,000 to \$74,999	63%	\$966	728
\$75,000 to \$99,999	70%	\$1,077	900
\$100,000 or more	64%	\$1,186	1,058
All online consumers	64%	\$968	5,297

Base: 5,297 US online consumers

Source: North American Technographics® Consumer Technology Online Survey, Q4 2007

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Source: Forrester Research, Inc.

Figure 4 The TouchSmart Faces Most Competition From The Mac

“Have you used a Mac computer in the past five years?”
“Have you owned a Mac computer in the past five years?”

Mac behavior: past five years

Income group	Used a Mac	Owned a Mac	Currently own a Mac*
Less than \$37,500	16%	4%	2%
\$37,500 to \$54,999	16%	3%	3%
\$55,000 to \$74,999	19%	5%	3%
\$75,000 to \$99,999	23%	7%	4%
\$100,000 or more	30%	9%	7%
All online consumers	21%	6%	4%

Base: 4,668 US online consumers who do **not** own a Mac
 *Base: 4,764 US consumers aware of the brand of their home computer.

Source: North American Technographics® Consumer Technology Online Survey, Q4 2007

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Source: Forrester Research, Inc.

RECOMMENDATIONS

EMBRACE AGE OF STYLE PRINCIPLES TO DIFFERENTIATE PC PRODUCTS

Consumers associate touchscreen technology with innovation — as in, for example, the movie *Minority Report*, the TV show *Star Trek: The Next Generation*, and, of course, the iPhone — even though it’s becoming very common (for example, on ATM machines and Garmin GPS devices). With the TouchSmart, HP has produced a PC model that fully reflects the Age of Style product strategies, combining this compelling UI with sleek styling and a unique software layer. Consumer product strategists must both defend against this move and embrace some underlying strategic lessons to best compete with HP’s latest PC product:

- **Apple, Dell, Sony, and other vendors of all-in-ones should multiply their UIs.** To make the TouchSmart’s UI seem less distinctive, Dell and Sony should bring to market their own touchscreen models before the release of Windows 7, which will have built-in multitouch support. Multitouch — as opposed to the TouchSmart’s single touch — would be the best solution. Given the lengthy development time for such a move, however, these PC makers should offer alternative input methods like remote controls as quickly as possible; the TouchSmart already does this. For consumer PC strategists at these firms, letting the TouchSmart stand out in the minds of consumers will hurt market share.

- **Microsoft should push ahead with Windows 7 multitouch and Surface.** Microsoft erred in publicizing the touch features of Windows 7 some 18 months before the expected launch of the OS, and Surface seems like a great concept that remains vaporware in practice. Microsoft product strategists need to accelerate their efforts to bring touchscreen to the market in one form or another. Otherwise, Apple (with the iPhone) and HP (with the TouchSmart) will be the names that move the touchscreen experience forward, not Microsoft.
- **Apple should steal the whole show with a touchscreen PC.** Whether it's fair or not, Apple products receive media coverage disproportionate to their market share. An Apple touchscreen computer that built upon the many virtues of the iPhone interface could steal the show and upstage HP and Microsoft — if Apple can bring one to market before the touchscreen becomes commonplace. Apple should seize its opportunity quickly.
- **Windows PC makers should develop distinct software experiences.** PC OEMs in the Windows ecosystem will increasingly seek to differentiate themselves via software development — the final frontier of product differentiation in the Age of Style. No, we don't mean clunky, duplicative add-ons — like yet another calendaring program or yet another security solution. Rather, consumer product strategists at PC firms should learn a lesson from HP: Link software innovation to the intended user audience and to other features — in this case, the touchscreen UI — that differentiate your product to create unique consumer user experiences.

ENDNOTES

- ¹ The original TouchSmart, released in 2007, was a precursor to the current release. The new TouchSmart has a larger screen, a smaller footprint, and a lower price point. Source: "HP Redefines Home Computing, Putting the Digital Lifestyle at People's Fingertips with New TouchSmart PCs", HP Press Release, June 10, 2008 (<http://www.hp.com/hpinfo/newsroom/press/2008/080610xb.html>).
- ² Forrester believed the original TouchSmart was at the vanguard of the Age of Style. See the June 25, 2007, "[The Age Of Style In Consumer PCs](#)" report. [41631] HP described the original TouchSmart as an experiment and a novelty, but the learnings gained from the initial form factor greatly helped in the development of the new TouchSmart. Source: Justin Scheck, "H-P Targets Mac With Thin Laptop," *The Wall Street Journal*, June 10, 2008 (http://online.wsj.com/article/SB121306359717259689.html?mod=googlenews_wsj).
- ³ According to Forrester's North American Technographics® Consumer Technology Online Survey, Q4 2007, only 10% of US online consumers say they are willing to pay \$1,750 or more for a new PC including a monitor.
- ⁴ The \$1,299 model is about 30% less expensive than the original TouchSmart. Overall, 24% of US online consumers say they are willing to pay \$1,250 or more for a new PC including a monitor. Source: Forrester's North American Technographics Consumer Technology Online Survey, Q4 2007.

- ⁵ The consumer PC industry is entering the Age of Style, a time in which radical form factor innovations, increased aesthetic diversity, and consumer choice and personalization will determine which models, and which PC vendors, win or lose. Although style hasn't yet become as important for PCs as for products like automobiles, consumers exhibit a latent demand for stylish PCs and are willing to pay a style premium. The growing importance of style will alter the competitive landscape along the axes of branding, consumer segmentation, product development, and multi-PC households. Strategists at PC vendors that don't have a design strategy now are already behind the eight ball. By 2012, innovations in design will yield multiple new product categories and form factors tailored to specific applications and rooms in consumers' households. See the June 25, 2007, "[The Age Of Style In Consumer PCs](#)," report.