

Watching Rome Burn: PC Empires Threatened by Extending Life Cycles

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The PC industry is facing a crisis. Slowing growth is being precipitated by saturation, excessive performance and more recently the U.S.-led economic downturn. So far, the industry has chosen to cut prices to drive demand and not to face up to the realities of the situation, but this is not a long-term strategy.

ANALYSIS

The PC industry is facing a crisis. Saturation in key segments of the U.S. and European markets is slowing growth, economic conditions are compounding the problem and excessive performance on even low-end machines is leading users to question their need to upgrade so frequently. Faced with these market conditions, the industry has chosen to cut prices to try and maintain demand, resulting in a vicious price war. The result is an industry revenue and profit picture that is much worse than even the unit growth numbers. To ensure longer-term growth, the industry must explore new approaches.

This situation, while exacerbated by the current economic malaise, had been predicted for some time. Take the number of PCs shipped to each market in the past five years, assume even an aggressive life cycle and match that against the number of possible seats, and it's easy to understand the problem (see the Gartner Dataquest Market Analysis "U.S. PC Market Saturation: Impact of Life Cycle Scenarios," HARD-WW-DP-0090).

The industry is faced with three choices. One, focus on less saturated markets such as Central and Eastern Europe, Asia/Pacific and Latin America. Two, bring to market new categories of products such as small form factor (SFF) PCs, which encourage users to upgrade as or more frequently than in the past. Three, do nothing, and watch the empires burn.

International expansion is clearly one route, but these markets represent less than 25 percent of total shipments. These regions will become more important, but their growth is unlikely to be enough to fill the growth gap created in Europe and the United States.

SFF products for saturated markets appear to offer an important solution to the issue. Examples of this category of products already exist in the form of Compaq iPAQ desktop and Hewlett-Packard's e-PC and are distinguished from their mainstream desktop brethren by weighing less than 11 pounds, having no expansion slots and no internal floppy drive. However, since their launch more than two years ago, both products have fared poorly in the market (see the Gartner Dataquest Market Analysis "Small Form Factor PCs: Not Living Up to Expectations," HARD-WW-DP-0075).

A combination of vendor reluctance to truly support these products, muddying of the competitive waters by non-SFF competitors, falling mainstream PC prices and end-user buying conservatism have resulted in a lack of awareness in the user base. In a recent Gartner Dataquest survey of 377 U.S. IT managers, the most common reason (91 percent of respondents) for SFF PCs having appeal was that they take up less space (see the Gartner Dataquest End-User Analysis "Small Form Factor PCs Remain Misunderstood," HARD-WW-DP-0087). This is despite there being strong evidence that a SFF solution provides significant total cost of ownership savings (see the Gartner Research Note "SFF Legacy-Reduced PCs Deliver Big TCO Savings," T-12-8621).

Gartner Dataquest considers there to be high probability that average professional desktop PC life cycles will extend to four years by 2005. A recommendation to users to consider implementing this is published in conjunction with this Spotlight (see the Gartner Research Note "Desktop PC Life: Four Years for the Mainstream," T-13-8045).

A recent Gartner Dataquest survey showed that, in the first quarter of 2001, the average professional length of the PC life cycle in the United States was 3.44 years. Even assuming this remains static, the U.S. professional market will become in effect saturated by the end of 2002. Leasing offers some opportunity to maintain existing life cycles but is making slow progress (see Gartner Dataquest End-User Analysis "PC Leasing: Slow but Steady Growth," HARD-WW-DP-0088).

The industry needs to act, through providing innovative products that stimulate renewed interest in the PC platform. The alternative is to continue on the same road, which for many will mean watching their PC empire go up in flames.

Features

"U.S. PC Market Saturation: Impact of Life Cycle Scenarios" (HARD-WW-DP-0090). Explains the PC market predicament in the United States. **By Kiyomi Nagakura, George Shiffler and Charles Smulders**

"Small Form Factor PCs: Not Living Up to Expectations" (HARD-WW-DP-0075). Analysis of why the new PC format has flopped so far. **By Brian Gammage**

"Small Form Factor PCs Remain Misunderstood" (HARD-WW-DP-0087). Space isn't the only thing SFF PCs save — money is another. **By Todd Kort**

"PC Leasing: Slow but Steady Growth" (HARD-WW-DP-0088) PC leasing schemes are catching on slowly. **By Todd Kort**

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