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Market Research

SMB Outlook: Notebooks Fuel Overdue Upgrade Cycle

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Letter to the Editors 



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Executive Summary

Computer OEMs looking to sell to the global small and medium-sized business (SMB) market, take heart: the number of worldwide SMBs grows significantly every year. Startups are nearly 100% likely to buy a new PC, says a noted analyst at AMI-Partners Inc., a New York market research firm that focuses on the SMB space. And fellow analysts at market research firms International Data Corp., Gartner Inc. and AMI-Partners agree this is the year many already-established **SMBs will replace their aging desktop machines with notebook PCs.**

The reason: SMBs have hung onto their PCs as long as possible, but they can't go much more than four years without buying a new machine. Because many SMBs last upgraded their PCs in advance of Y2K, **the time to upgrade has come.**

"This year, there is strong demand to replenish their PCs. **Many SMBs have not had new PCs since the end of Y2K.** With the economy looking brighter, and laptop prices falling, now is the time to refresh their technology infrastructure," says Arjun Mehra, analyst at AMI-Partners. "They want to take advantage of new operating systems and applications such as [Microsoft® Windows® XP](#)  and [Office XP](#) .

Mid-sized enterprises (those with between 100 and 999 employees) have stretched PC lifecycles to an average of four years, with one-fifth hanging on to their PCs for five years, according to Jim Browning, vice president and SMB research director for Gartner, in Stamford, Conn. As these companies change out these aging machines this year, **notebooks will be the replacement of choice.**

PC Shipments Take Off Worldwide...

[Worldwide PC shipment outlook by market segment](#)

Research Firm	Market Segment	Unit Shipments 2003 (millions)	Unit Shipments Forecast 2007 or 2008 (millions)	CAGR
Gartner	Worldwide total business PC shipments*	106.8	142.0 (2007)	7.9% (2002-2007)
IDC	Worldwide total business PC shipments *	98.1	122.1 (2008)	4.5% (2003-2008)
AMI-Partners	Worldwide total SMB PC shipments **	59.9	101.6 (2008)	11.2% (2003-2008)

[U.S. PC shipment outlook by market segment](#)

...With a Big Boost from the U.S. SMB Market

Gartner	U.S. total business PC shipments*	38.6	41.9 (2007)	3.7% (2002-2007)
IDC	U.S. total business PC shipments *	32.7	40.1 (2008)	4.2% (2003-2008)
AMI-Partners	U.S. total SMB PC shipments **	15.4	22.4 (2008)	7.8% (2003-2008)

* Includes businesses of all sizes

** Includes businesses with 1-999 employees

Sources: Gartner; IDC; AMI-Partners

"We're seeing an uptick in mid-market firms willing to pay the premium for laptops. **That premium has shrunk from \$1,000 a few years ago to about \$700 now,**" says Browning. SOHOs, along with these mid-size businesses, are embracing the convenience and freedom afforded by notebooks and nearly ubiquitous embedded Wi-Fi capability.

By all appearances, notebook PCs are rapidly taking over the desktop --- at SMBs, large business and in homes. The three analyst firms all indicate **notebook sales have reached healthy double-digit growth rates worldwide**, while desktop growth rates in the largest markets are in the single digits and expected to decline over the long term. Indeed, portable PC growth is the headline news of the entire industry.

"With laptop prices where they are, they will overtake desktops. **The explosion in wireless will drive that further,**" predicts Mehra of AMI-Partners.

SMBs Lap Up Laptops

Notebook PC unit shipments, actual and forecast

Market Segment	Unit Shipments 2003 (millions)	Unit Shipments 2008 (millions)	CAGR 2003-2008
Worldwide total SMB** laptop shipments	10.8	21.7	14.9%
U.S. total SMB laptop shipments**	3.6	6.6	13.1%

** Includes businesses with 1-999 employees

Source: AMI-Partners, 2004

The advent of semi-mobile notebooks (i.e., heavy machines with desktop processors) ignited widespread adoption in the SMB market over the last year or so. **"The appeal was desktop replacement machines,"** says Gartner's Browning. "Now, as the small- to mid-size businesses take the access requirements of mobile users more seriously and match the appropriate functionality to the appropriate user class, they will be willing to trade up to the more expensive laptops. This will drive SMB PC sales this year."

Global and Regional Outlook

Globally, the outlook for all business PC sales is good, says Loren Loverde, analyst at IDC, in Framingham, Mass. IDC estimates **PC shipments to all businesses worldwide will grow 13% this year**, faster than home at 10.2% or the public sector at 8.9%. Loverde expects PC shipments to SMBs will grow slightly slower than those to businesses overall (IDC does not break out this number separately). That's because this sector was not as inclined as large businesses to delay technology purchasing during the downturn. Since some SMBs started upgrading their PCs a year to 18 months ago, their PC uptake rate will be a bit slower than that for businesses overall.

Regionally, **Western Europe, Eastern Europe and Middle East/Africa look strongest** in terms of growth in PC shipments through the end of the year, according to IDC forecasts. "This is driven by strong adoption of portable PCs and the strong Euro," says Loverde.

Regional Business PC Outlook

Business PC shipments in millions of units

2002	2007	CAGR 2002-2007
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North America	38.6	46.8	3.9%
Japan/Asia Pacific	21.7	31.9	8.0%
Western Europe	20.1	29.6	8.1%
Rest of the World	16.7	33.5	14.9%
Total	97.1	141.8	7.9%

Source: Gartner, 2003

The outlook for the U.S. and Asia/Pacific regions is bright with IDC growth estimates just above 10%. Gartner numbers are somewhat behind this level, with 2002-2007 CAGR for Japan/Asia/Pacific estimated at 8%. **AMI's Mehra agrees the U.S. and Europe are the hot PC markets at present.** "I would also add China. Eastern Europe and African countries are buying a lot of PCs but there is much less emphasis on mobility," he says.

PC Spending Picks Up

SMB worldwide spending forecast for buying or upgrading PCs

Year	Total Worldwide SMB PC Spending (\$ USD, in billions)	U.S. PC Spending Component (\$ USD, in billions)
2003	\$80.7	\$21.8
2005	\$100.1	\$26
2008	\$122.9	\$28.9

Source: AMI-Partners, 2003

Strength in Numbers

OEMs have awakened to the enormous potential of the SMB market. "SMBs are a huge portion of the worldwide PC market. They are driving sales here," says Mehra of AMI-Partners. By its nature, there is a lot of churn in the SMB space, but there is also a lot of growth. As recently as two or three years ago, **OEMs largely overlooked this segment**, adds Mehra, because they didn't understand the sheer size of the SMB market.

That's not the case anymore. Says Mehra: "**OEMs now have strong business plans and methodologies for targeting this space.** They are also working to establish strong channel partner relationships because they know they can't reach every smaller business."

SMBs rank service and support third on their list of PC purchase priorities (behind price and performance), according to IDC. This is not surprising, since most **SMBs do not have large (or sometimes any) internal IT support staffs.**

To provide the special service SMBs require, **OEMs will rely on their channel partners.** Providing incentive pricing to channel partners will cut profits, but is worth it in the near term as it will strengthen the relationships and deliver the necessary service and support to customers. Once the channel partner relationships are solidly established, it may be time to revisit pricing to the channel and provide other incentives besides just discounts, says Mehra, as they will prove detrimental to long-term profit.

SMBs: A Monster Market Outside of the U.S.

Companies with at least one computer and from 1-999 employees

	2002 (millions)	2005 (millions)	2008 (millions)
All worldwide companies	48.4	56.5	69.3
U.S. companies	7.3	7.6	8.1

Source: AMI-Partners, 2004

The tiniest companies in the SMB mix -- those ranging from home-based sole proprietors up to firms with 10 employees -- present a lively market in and of themselves, especially in the U.S. "Small offices and home offices make a significant contribution to the U.S. economy," says Merle Sandler, SOHO analyst for IDC. **The high volatility in this market segment accrues to the computer vendor's advantage.** "The selling opportunity is actually greater than the net increase in the

number of firms," says Sandler. PCs are now standard equipment at nearly 85% of U.S. SOHOs.

Big Potential in the Number of Small U.S. Companies

Number of U.S. small offices and home-based businesses (SOHO)

	2002 (millions)	2007 (millions)	CAGR 2002-2007
Income-generating home offices	13.0	14.2	1.8%
Small offices (< 10 employees)	6.08	6.51	1.4%
Total	19.16	20.71	1.6%

Source: IDC, 2003

Sales Predicated on Price

As with the wider business and home PC market, **much rides on price in the SMB space**. The AMI and Gartner analysts agree this segment cannot afford to spend much more than \$1,000 USD on a desktop PC. "If you want them to buy in bulk, you have to be very careful with this market. They're not going to spend big dollars on an average unit," says Mehra of AMI. Gartner research supports this: Mid-sized businesses expect to pay about \$1,000 for a desktop machine and \$1,650 for a laptop this year, according to Browning.


SMBs Balance the Desktop/Notebook Mix

Average number of PCs being managed by U.S. SMBs, by company size

	1-19 employees	20-99 employees	100-499 employees	500-999 employees
Desktop PCs	5	34	216	709
Laptop PCs	1	5	25	84


Source: Gartner, 2003

SMBs have slashed their technology spending in recent years along with the general business population, and they are going to be cautious in ramping up their spending. With that understood, Gartner's Browning believes **SMBs are willing to spend an extra \$500 USD to \$700 USD to purchase laptops** as opposed to desktops. "They deem laptops as more critical devices than desktops so they're willing to spend more," says Browning.

Interestingly, **brand name and reputation are apparently still important to SMB laptop buyers**. On the other hand, PC vendors are finding it more difficult to differentiate their desktop offerings, according to Browning. 


About International Data Corp.



IDC is the premier global market intelligence and advisory firm in the information technology and telecommunications industries. It analyzes and predicts technology trends so that companies can make strategic, fact-based decisions on IT purchases and business strategy. For more information, go to www.idc.com .

About Gartner Inc.



Gartner Inc. is a research and advisory firm that helps more than 10,000 clients leverage technology to achieve business success. Founded in 1979, Gartner is headquartered in Stamford, Conn., and has over 3,800 associates, including approximately 1,000 research analysts and consultants, in more than 75 locations worldwide. For more information, visit www.gartner.com .

About AMI-Partners Inc.



Access Markets International-Partners Inc. (AMI-Partners) is a leading consulting firm specializing in IT, Internet, Telecom and business services market intelligence, trends

and strategy with a strong focus on global small and medium business (SMB) enterprises. Established in 1996, AMI-Partners is headquartered in New York City. For more information, visit www.ami-partners.com.

About the Author

Lauren Gibbons Paul has more than 15 years of experience as a writer and editor for leading business and technology publications, including *eWEEK*, *CIO*, *Managing Automation* and *Network World*. She has also done research assignments for a number of well-known analyst firms.

Methodology

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