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Saturation Analysis: New PC Markets Primed for Growth

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Letter to the Editors

The developed world is largely tapped out as a market for new PC users. In the United States, Canada, France, Italy, Germany, the United Kingdom and Japan -- seven of the world's Group of Eight leading economies -- both business users and consumers who desire to use a PC already have one.

"The developed world is saturated for the most part," says Roger Kay, vice president of client computing for International Data Corp., a market research firm in Framingham, Mass. Growth-minded OEMs are no doubt already focusing on **developing regions such as Russia, China, India and Brazil** and should continue to do so. "These are deeply under-penetrated areas. These are highly populous countries that are not terribly developed. As their infrastructure improves, they will see high growth" in PC purchases, says Kay.

But there are other places to look. Certain areas ravaged by war, unfavorable political conditions and natural disaster, such as Iraq, Iran and Indonesia, are also poised for rapid growth in the next three to five years. "There are **hundreds of millions of people in the Middle East but they don't have many PCs**. They're poor but they're not as poor as some nations. Once their infrastructure gets shored up, they will start buying," says Kay.

According to IDC data, the "rest of the world" segment will experience the strongest compound annual growth rate (CAGR) in worldwide PC shipments between 2003 and 2008, with CAGR of 10%.

Developing Regions Coming on Strong

Worldwide consumer and business PC shipments by region, 2003-2008

	2003 Shipments (millions)	2008 Shipments (millions)	2003-2008 CAGR, Shipments	2003 Shipment Value $USD (billions)	2008 Shipment Value $USD (billions)	2003-2008 CAGR, Shipment Value
United States	52.7	77.2	7.9%	$56.4	$62.1	2.0%
Western Europe	35.9	56.9	9.6%	$49.3	$61.4	4.5%
Asia/Pacific	29.3	54.6	13.3%	$27.8	$41.3	8.3%
Japan	12.8	15.1	3.3%	$21.5	$20.3	-1.1%

Rest of World	23.8	44.2	13.2%	$22.8	$37.1	10.2%
Total	**154.5**	**248.09**	**9.9%**	**$177.9**	**$222.3**	**4.6%**

Source: IDC, Aug. 2004

In terms of untouched market potential, the high-population, low-PC regions stand in sharp contrast to the United States and Canada. **Sixty-three percent of U.S. households have at least one PC** (the average is 1.4, according to IDC). This number represents the U.S. PC penetration level. In terms of individuals who are interested in PCs but who have never bought one, that percentage is quite low.

"Of the remaining 37% that do not have a PC, half of them have no desire to buy a PC and the other half might be too poor to buy one. This adds up to a **U.S. saturation level of 95%** right now. Those who do not yet own a PC are not very likely to buy one," says Kay. Of the developed countries, Japan is at or very close to 100% saturation in the PC market, he adds. Those who are likely to buy a PC have already done so.

Once a market is saturated, **it becomes a replacement market**. For example, the U.S. automobile market is roughly 16 to 20 million units per year. "That represents almost entirely replacement of old cars. The U.S. PC market is very close to that," says Kay.

In Search of First-Time Buyers

The under-penetrated areas such as India, China, Russia, Brazil and the Middle East are good areas of opportunity for creative OEMs. Buyers in these regions are not likely to be able to spend $2,000 USD on a laptop any time soon. But a sub-$500 USD machine is likely to generate interest. Kay recommends that OEMs looking to tap this uncharted territory should **consider partnering with civic organizations** such as ashrams or local government groups to offer inexpensive community PC access. "They could sell a community organization a PC, partner with a provider to offer financing, and then sell access to the devices for micro-payments," says Kay. "That's one way to get PCs into regions where people could not afford to buy one outright."

Pieces of the PC Pie

% of total worldwide consumer and business PC shipment market share by region

	2003	2008
United States	34.0%	31.1%
Western Europe	23.3%	23.0%
Asia/Pacific	19.0%	22.0%
Japan	8.3%	6.1%
ROW	15.4%	17.8%
Total	**100%**	**100%**

Source: IDC, Aug. 2004

OEMs could also **work with infrastructure providers** to speed up the process of installing the necessary technological backbone that forms the base for PC use. "OEMs could partner with utilities, for example, and find ways to help with financing," says Kay. Each area is its own puzzle with its own unique solution.

SMB Outlook

The global PC market for small businesses (SBs) and medium-sized businesses (MBs) is much like the worldwide consumer space. The United States, Western Europe and Japan SB and MB markets are largely saturated, according to Deepinder Sahni, senior vice president of market sizing for AMI-

Partners Inc., a New York market firm specializing in SMB research. "The opportunities lie in **developing regions such as Brazil, China, Russia, the Czech Republic**. Privatization is going on there at a high rate," says Sahni. As small and medium-sized businesses spring up in response, they will need to buy PCs.

Small / Medium Business, Big Worldwide Market

Small* and medium-size** (SMB) PC penetration (firms with 1-999 employees)

	PC Penetration by Year (%)		PC Shipments by Year (millions)	
	2003	2008	2003	2008
SB – U.S.	93%	97%	11.0	16.5
SB – Canada	92%	95%	1.1	1.6
SB – Latin America	40%	49%	2.9	4.5
SB – West Europe	80%	84%	9.1	14.1
SB – East Europe and MEA	22%	37%	3.5	8.3
SB – APAC (excluding Japan)	27%	46%	6.5	13.9
SB – Japan	89%	91%	2.5	3.6
MB (100-999 employees, worldwide)	**100%**	**100%**	**14.3**	**21.3**

* AMI defines SB as firms with 1-99 employees

** AMI defines MBs as firms with 100-999 employees

Source: AMI-Partners, 2004

China and India in particular have huge SB populations, with new ones being added every day. By contrast, Vietnam, Taiwan, the Philippines and Indonesia don't have as high a number of small businesses, adds Sahni.

In the developing regions, **economic prosperity is beginning to move beyond the metropolitan areas**. "It is beginning to reach into the rural areas. Huge corporations such as Unilever and Nestle are driving distribution of their products into rural areas of China and India," says Sahni. As that happens, they will need basic PCs and networks to be able to support their service capabilities. "They will need PCs at a minimum," he says.

In these areas, so-called "white box" PC makers are seeing much success thanks to their ability to provide a lower-cost product. "It could be a **small local guy assembling PCs**," says Sahni. The poorest regions will adopt desktop machines prior to laptops due to their comparative lower cost. "Mobility will become more important than it is now in the next few years," he says.

U.S. Small Business Buying Power

Total U.S. small business and medium business annual PC hardware spending

	2003 $USD (billions)	2008 $USD (billions)	2003-2008 % CAGR
Small business market*	$15.8	$23.1	7.9%
Medium business market**	$6.3	$8.6	6.3%

* AMI defines SB as firms with 1-99 employees

** AMI defines MBs as firms with 100-999 employees

Source: AMI-Partners, 2004

Not surprisingly, the largest global computer makers have already staked their claim in developing regions such as China and India. **The question is whether this *terra incognita* will prove profitable in a reasonable timeframe**, says Sahni. "Dell has a supply chain that works but it depends on infrastructure like the Web. HP uses its channels to a great degree. When the middle man has to make money too, it's difficult to get much margin. The cost of delivering to these areas is high."

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, visit www.idc.com.

About AMI-Partners Inc.

Access Markets International-Partners Inc. (AMI-Partners) specializes in actionable market intelligence, strategic consulting, venture capital and go-to-market solutions for the global Small and Medium Business (SMB) Enterprises market. Established in 1996, AMI-Partners is based in New York City. For more information, visit www.ami-partners.com.

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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.

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