Market Analysis

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Notebooks Continue March to PC Dominance

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Letter to the Editors

Notebook computers are coming closer to supplanting the supremacy of desktop models worldwide. "**Notebooks have been slowly taking share from desktops** in the PC client space for more than six years," says Roger Kay, vice president of client computing for International Data Corp., a Framingham, Mass., market research firm. As recently as the late 1990s, only one business PC in five worldwide, or 20% overall, was a notebook. Today, that ratio approaches one in three business machines, or 28.4% notebooks to 66% desktops worldwide, he adds. Notebooks will overtake desktops within three or four years in the United States, though they will remain subordinate to desktops worldwide through 2008, according to IDC.

In recent years, the worldwide portable PC market (which IDC defines as including both notebooks and "ultraportable" PCs with internal hard drives but no other internal fixed media) has been **growing in the low double digits**. That healthy growth rate will continue throughout 2008 in most regions.

The largest developed regions, including North America, Western Europe and Japan, are already **highly saturated in both desktop and notebook PCs**. Japan even saw a small drop in the number of portable PC shipments in the home segment from 2003 to 2004, according to IDC. The Rest of the World region (which covers Canada, Latin America, Eastern Europe and Middle East/Africa) boasted stellar growth rates from 2003 to 2004.

Portable PC Picture

Worldwide consumer and business portable PC shipments by region, 2003 and 2004

	Segment	2003 Shipments (millions)	2003 Value ($USD billions)	2004 Shipments (millions)	2004 Value ($USD billions)	2003-2004 % Growth Shipments
United States	Commercial	8.99	$11.5	10.8	$12.6	20.5%
	Home	4.8	$5.1	5.8	$5.9	20.2%
Western Europe	Commercial	7.3	$12.0	9.1	$14.0	26.2%
	Home	4.3	$6.4	6.1	$8.5	39.7%
Asia/Pacific	Commercial	3.3	$5.3	4.2	$6.4	26.0%
	Home	1.4	$2.2	1.9	$2.9	36.0%

Japan	Commercial	3.3	$5.8	3.7	$6.2	11.8%
	Home	2.9	$4.6	2.9	$4.6	-3.4%
Rest of World	Commercial	2.3	$3.9	3.4	$5.5	48.5%
	Home	.6	$.953	1.0	$1.6	72.6%

Source: IDC, March 2005

The Shrinking Cost of Mobility

Reasons for the shift to the notebook form factor cut across the major geographic regions: The price/performance disparity that used to exist between notebooks and desktops is now virtually non-existent. "The overall performance of client machines -- whether desktop or laptop -- far exceeds today's computing requirements. The price differential is not great anymore, either," says Kay. And with the increasing ubiquity of wireless Internet access, **mobility is prized by consumers and business users alike**. Mobility is a good, mitigated only by price and performance penalties. However, both notebooks and desktops have higher performance than most users require, so the performance penalty isn't that important. And prices of the two form factors are also converging. "If you have the choice and the price is right, why not have the mobility," says Kay.

Professionals had long tolerated the heavy case, short battery life, small screen and lack of Internet connectivity that characterized a typical notebook of just five or so years ago. **Home users began a slow migration to the notebook form factor in the late 1990s**, a move that has now become a full-fledged stream. The rise of 802.11 Wi-Fi wireless routers in the home is not the only driver. "People want to use their computers all over the house. They want to lie on the couch and do something. They want to take the PC into the den and get serious with paperwork. They want to take it into their bedroom and watch a DVD on it," says Kay.

Prices Drop While the Price Gap Narrows

Worldwide PC average system price (ASP) by form factor, 2003-2008

Average system price ($USD)	2003	2008	2003-2008 CAGR (%)
Desktops	$910	$672	-5.9%
Portables	$1,434	$1,032	-5.6%
Total PCs	$1,153	$898	-4.9%

Source: IDC, Dec. 2004

The **price differential between notebooks and desktops continues to shrink**, according to IDC. Prices on flat panels, the most expensive component of both so-equipped desktops and laptops, have dropped precipitously. And since most new desktop machines now use flat panels, the price delta with notebooks is less than ever, says Kay.

Bigger and Better

Where the typical notebook screen used to measure just over 10 inches, a diagonal width of 14 inches is now de rigueur, according to Kay. **Consumers especially are snapping up high-end notebooks with 17-inch wide-aspect screens**, which enhance movie viewing and other multimedia applications. Notebooks aimed at the corporate road warrior have gotten lighter with longer lasting batteries, while some desktop replacement models tip the scales at over seven pounds since they are not intended to be as portable. "Notebooks have gotten both heavier and lighter in the last three to four years, depending on which applications they are for," says Kay.

Market Forces

Factors affecting the portable PC market through 2008

Market Force	Assumption	Impact
Commercial shift to portables	Transition is slowing slightly due to cost concerns and uncertainty regarding security and the ROI of mobile computing. But the transition will continue and remain a key driver in system replacements.	**High.** Portable adoption is a significant market driver, and the commercial market continues to account for the bulk of commercial shipments.
Consumer shift to portables	Consumers will continue to migrate rapidly to portable systems based on reduced cost and the diminishing performance penalty compared to desktops.	**High.** Lower pricing trends, "good enough" computing and the benefits of wireless will continue to support the migration.
Desktops	Overall performance and low prices will continue to appeal to businesses and consumers. Competition from notebooks will limit long-term growth, but desktops will maintain a market majority through 2008.	**Moderate.** Price-sensitive new users and hobbyists will continue to favor desktops. Nevertheless, competition from notebooks will remain strong.

Source: IDC, Dec. 2004

The market's love affair with notebooks does not suggest desktop models will ever disappear. "**Bedrock desktop users won't go away**," says Kay. On the business side, this includes "task" workers whose employers do not want them to move around. "These are the anti-mobility machines. The key is the hardware isn't going to go anywhere," he says.

As for home users, the desktop form factor will continue to be the favorite of hobbyists who build their own systems either for lowest cost or to optimize the platform to run special applications. Hard-core gamers comprise a third group of desktop diehards. "These are the performance geeks who need a big old heat envelope that can take the hottest thing you've got. They're overclocking their machines and can't take any kind of performance hit," says Kay. **Developing regions such as China and India are also much more likely to buy desktop machines than notebooks**, due to extreme price sensitivity.

Worldwide, Kay expects the core desktop user group (both businesses and consumers) will decline to a level of about 30% vs. notebook users' 70% of the total PC pie sometime in the next 10 years or so. Says Kay: "**Everyone understands mobility is where it's at**."

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 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.

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