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Home Office vs. Small Business: A Closer Look

By Lauren Gibbons Paul
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Market Analysis

The smallest companies in the corporate panoply -- U.S. small office/home office (SOHO) and small businesses -- offer a **big but stable market opportunity for OEMs** selling PCs and peripherals to them. According to the latest International Data Corp. (IDC) research, multi-function printers (MFPs), notebook PCs and wireless networking gear are selling well into these markets, as elsewhere. And the number of businesses of this size is on the rebound after the 2001-2003 recession, further increasing the opportunity.

"The **market potential is huge**," says Merle Sandler, senior research analyst focused on the small/medium business and home office markets for IDC, in Framingham, Mass. "There are roughly 8 million small businesses (with 1-99 employees) and 30 million home offices in the U.S.," says Sandler, co-author of IDC's "U.S. Home Office Forecast 2005-2009" (to be published this month) and "Small Business Forecast 2005-2009" (published in March). IDC includes income-generating home offices (where at least one person in the household operates a business full- or part-time) and corporate home offices (encompassing telecommuters and those who work in the evening or on weekends) in its overall home office segment.

Big Numbers in Small Business

Number of U.S. small businesses (SBs) and home offices, 2004-2008

	2004	2008	CAGR 2003-2008
Income-Generating Home Offices*	13.5 million	14.5 million	1.8%
Small Businesses**	7.9 million	8.4 million	1.6%

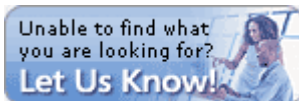
* With at least one person operating a business full- or part-time

** With 1-99 employees

Source: IDC, 2004, 2005

The number of income-generating households in the U.S. will grow from 13.2 million in 2003 to an estimated 14.5 million by 2008, a compound annual growth rate of 1.9%, according to IDC. Though hardly torrid, this growth rate is peppier than IDC had anticipated. During the downturn of 2001-2003, growth in the number of income-generating households fell off the charts. But growth has returned, with approximately **400,000 new home offices and 100,000 new small businesses** appearing in the U.S. each year.

Indeed, **the volatility of these segments makes them attractive** to computer companies, since it is likely that a principal would buy at least one new PC or notebook PC when starting up a new business or transitioning from one business to another. Not weighed down for the most part by bureaucracy, these businesses tend to buy whatever technology they need when they need it.



"**They make decisions much more quickly.** They don't have to wait until the next fiscal year. They just go and do it," says Sandler.

Rise of Replacement Cycles

Though PC penetration has not reached 100% in either segment, the SOHO and SB spaces are for the most part saturated, highlighting **the importance of PC replacement cycles** going forward. IDC does not expect penetration levels to dramatically increase throughout the forecast period.

On the other hand, home office operators are particularly likely to buy additional machines, especially when sharing a high-speed broadband Internet connection via a wireless or other type of network among family members.

"You might buy an extra PC for the kids,"

says Sandler. In that context, the SOHO principal is more likely to buy a desktop unit than a laptop. "They're still cheaper than laptops." For their part, many small business owners, along with their large business peers, are turning to notebook PCs when they need to replace a machine, according to IDC.

At the Saturation Point

Percentage of PC penetration in U.S. income-generating home offices and small businesses

	2004	2008
Income-Generating Home Offices*	83.9%	88.1%
Small Businesses**	87.8%	91.3%

* With at least one person operating a business full- or part-time

** With 1-99 employees

Source: IDC, 2004, 2005

MFPs Coming on Strong

The **rise in MFP adoption**, among home offices and small businesses, is one of the most noteworthy trends of the year. Models that include a fax, color printer, copier and scanner in one box at prices of about \$250 to \$350 USD are growing in popularity in the SOHO market, for several reasons.

"MFP prices have dropped so dramatically," says Sandler. "In addition, home offices like them because of the space savings. There's much more functionality" including advanced features for printing and manipulating photos.

Whereas SOHOs would often have a multifunction unit in addition to a "workhorse" printer (usually an ink jet model), now they are relying on MFPs for all of their printing, scanning and copying needs.

The rise in MFP shipments (IDC expects growth rates to run about 10% annually) will come at the expense of printer shipments. **Standalone ink jet printers in particular will suffer.** Shipments of laser printers will not see as much erosion, according to Sandler, mostly because the smallest companies have not embraced laser printers as much due to the price differential that still exists between laser and ink jet.

Mad for MFPs

Percentage of multi-function printer penetration in U.S. PC-owning work-at-home (WAH) households and small businesses

	2004	2008
MFP Penetration of Work at Home PC-Owning Households	31.9%	37.0%
MFP Penetration of PC-Owning Small Businesses	74.5%	80.2%


Source: IDC, 2004, 2005

Market Forces


Factors that will affect the U.S. home office and small business markets

Factor	Effect
Home office numbers will begin to grow after several years of retreat caused by the economic downturn.	The number of U.S. home offices will increase by about 400,000 annually.
Growth in MFP penetration (both the SOHO and small business segments) will be driven by lower prices and growing popularity of digital imaging. MFPs will increasingly be used to replace, not supplement, printers.	Printer and scanner sales will be affected by the growing popularity of MFPs.
Small business births and deaths will continue at traditional levels.	The number of U.S. small businesses will increase by about 100,000 annually.
PC replacement cycles will continue to drive unit shipments of PCs rather than actual growth in penetration. First-time buyers will be increasingly scarce.	Shipments of notebook PCs will grow at the cost of shipments of desktop PCs.

Source: IDC, 2004, 2005

Small businesses and home-based businesses make up for their diminutive size with their technology savvy. Small businesses' IT spending growth slightly outpaces the IT spending growth at their large-firm counterparts. **Owners of this size of business will not hesitate to spend money** -- on a storage solution, a network or new peripheral -- if they believe the investment is justified. 

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 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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