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The Enterprise PC: Not Quite Dead Yet...

The PC is dead. That's what some pundits have been saying as the market for tablets has been expanding dramatically. But Intel begs to differ. It just released an advisory increasing its expected quarterly and yearly revenues and gross margins, and said, "The change in outlook is driven mostly by strong demand for business PCs." So perhaps the PC market isn't quite dead yet, to quote Monty Python.

What's going on here? In reality, the majority of enterprise users, although many have acquired tablets, still need to create complex documents, spreadsheets, presentations, and enter significant data into ERP, CRM etc. While some have decided to do so on their tablets, most have decided that these "non-optimized for complex creation stations" don't offer the ease of use and resources they need. For many (perhaps most) it's still easier to use a PC, and generally a notebook, to do the complex tasks still required of them. For these users, tablets are supplemental devices, not PC replacements. In fact, very few business users that have acquired tablets have given up their PC. And we're seeing a slow down in the demand for tablets in business settings.

Of course, there is another factor affecting this uptick, and that is that over the past few years, enterprises have been hesitant to upgrade their installed base. This has been due to various macroeconomic factors like lack of growth and limited hiring (or even shrinking worker base). It's also been affected by the reluctance of enterprises to be early adopters of a new OS (Windows 8). But many of these factors are now changing. The economic picture is improving, and many companies are now cautiously hiring again. And many enterprises that were hesitant to upgrade now have an aging, or in some cases obsolete (e.g., Windows XP) fleet of PCs that need to be upgraded. In fact the average age of these PCs are now 3-4 years old – past retirement age in PC years. With the easing of economic uncertainty, companies are starting to buy again, and the renewal cycle is coming into full swing. And with the easing reluctance to move to Windows 8 (with recent improvements from Microsoft), users are now more comfortable with their new systems (although it's fair to say that there is still a healthy market in new PCs running Windows 7).

There is also another factor involved here, and that is the new form factors for mobile PCs that are approaching the size, weight and versatility of tablets. The 2 in 1 form factors and Ultrabooks are now becoming both more affordable and "sexy" enough to get users interested. And while the best of breed of these machines are still on the pricey side (\$800+), a definite disadvantage in the consumer market, enterprise users are more focused on quality and usefulness, and are willing to

spend a little more to get the extra utility (hence why Intel in particular is seeing a uptick in chips it sells into these machines).

So what can we expect? I expect to see a general uptick in mobile PCs geared towards the enterprise users continue for at least the next 2-3 quarters and likely beyond that. It won't be as dramatic as we've seen in the past, but it will be steady and substantial. This will have major positive impact on Intel (and yes, on other chip suppliers like AMD), and on OEMs focused on business users, like Dell, HP, and Lenovo. I further expect 20%-25% of business users to adopt the 2 in 1 devices over the next 1-2 years, in some cases replacing their existing tablets (which they will then likely hand down to their families). This will raise the average price per machine into the \$700-\$1000 range for typical business users, giving all of the vendors a boost. And it will have a positive impact on Microsoft OS revenues and additional software upgrades.

It's pretty clear that the PC market in enterprises is not dead. It certainly has/is changing to a more mobile oriented approach, and tablets (and smartphones) will continue to have a major impact on apps and user interactions. But for those enterprise workers looking for optimized platforms to do complex tasks, it's hard to beat the versatility and performance of a PC. And that's why the PC is going to see an upswing after its relative draught.

***Commentary written by Jack Gold, Principal Analyst.
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