Market Analysis

Preliminary 1Q03 PC Results: Slightly Better Than Expected

Abstract: Worldwide PC unit shipments grew 5.5 percent in the first quarter of 2003 compared with a year ago, with the Americas region outperforming expectations.

By Charles Smulders, Mika Kitagawa, Brian Gammage, Ranjit Atwal, Luis Anavitarte, Lillian Tay and Kanae Maita

Strategic Market Statements

Worldwide PC unit shipments grew 5.5 percent in the first quarter of 2003 compared with a year ago, equivalent to an 8.6 percent decline on a sequential basis — economic factors continue to be the most important influence on growth patterns.

The U.S. market performed ahead of expectations in the first quarter of 2003, increasing 7.7 percent year over year, equivalent to an 8.6 percent decline sequentially.

Notebook sales and stronger-than-anticipated consumer demand spurred U.S. PC market growth.

Europe, the Middle East and Africa (EMEA) and Japan performed in line with expectations, while Latin America exhibited stronger-than-expected growth, and Asia/Pacific performed slightly below expectations.

Dell regained the No. 1 position from Hewlett-Packard in the worldwide market, executing strongly in the United Kingdom, France, Germany, Japan and the United States.

HP's results were impacted in part by the seasonally stronger professional market sales of the first quarter of the year and supply chain issues in Europe.

On a worldwide basis, the market felt some impact from the outbreak of hostilities in Iraq in the second half of March, following generally better-than-expected performances in January and February.

Mobile PC growth continues to outpace desktop growth as Tablet PCs and the launch of Intel's Centrino mobile platform continue to bring attention to the mobile PC platform but were not major demand factors during the first quarter.

Aggressive price-cutting was an important factor in driving demand during the first quarter of 2003.
Recommendations

Worldwide PC market growth exceeded expectations during the first quarter of 2003, but considerable uncertainty remains. The war in Iraq may give way to fundamental economic issues in determining the outlook for most regions. Gartner Dataquest continues to recommend a strong emphasis on scenario-based planning during 2003. Our forecast calls for worldwide unit growth of 6.6 percent in 2003.

The mobile PC continues to be the bright spot across all regions. Vendors should anticipate more growth in this area but clearly understand the distinct dynamics of the private and professional segments.

1Q03 Worldwide Results

Table 1 shows preliminary first quarter of 2003 results for the worldwide PC market.

Table 1
Preliminary Worldwide PC Vendor Unit Shipment Estimates, 1Q03 (Thousands of Units)

<table>
<thead>
<tr>
<th>Vendor</th>
<th>1Q03</th>
<th>Growth (%)</th>
<th>Share (%)</th>
<th>1Q02</th>
<th>Growth (%)</th>
<th>Share (%)</th>
<th>4Q02</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dell Computer</td>
<td>5,828.4</td>
<td>24.4</td>
<td>16.9</td>
<td>4,687.0</td>
<td>14.3</td>
<td>5,895.0</td>
<td>15.6</td>
<td>-1.1</td>
</tr>
<tr>
<td>Hewlett-Packard</td>
<td>5,375.9</td>
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<td>15.6</td>
<td>5,700.4</td>
<td>17.4</td>
<td>6,099.7</td>
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<td>IBM</td>
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<td>1,751.0</td>
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<td>2,175.6</td>
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<td>Toshiba</td>
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<td>1,041.0</td>
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<tr>
<td>NEC</td>
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<td>3.4</td>
<td>1,268.3</td>
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<tr>
<td>Others</td>
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<td>18,229.1</td>
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<td>21,142.8</td>
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<td>Total</td>
<td>34,470.1</td>
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<td>100.0</td>
<td>37,705.3</td>
<td>100.0</td>
<td>-8.6</td>
</tr>
</tbody>
</table>

Notes: Data include deskbased PCs, mobile PCs and Intel Architecture (IA)-32 servers. If combining Fujitsu and Fujitsu Siemens, the combined shipments would be a 4.4 percent market share for the first quarter of 2003, equivalent to fourth place in the worldwide PC market. HP and Compaq are reported as one company. Source: Gartner Dataquest (April 2003)

Results Slightly Outpace Expectations

In the first quarter of 2003, the worldwide PC market grew 5.5 percent in unit terms compared with a year ago. This was the third consecutive quarter of year-over-year growth. Sequentially, the market declined 8.6 percent, in line with normal seasonal patterns.

Regionally, the U.S. market performed ahead of expectations in the first quarter of 2003, increasing 7.7 percent on a year-over-year unit basis, equivalent to an 8.6 percent decline sequentially. EMEA and Japan performed in line with expectations, while Latin America exhibited stronger-than-expected growth. Asia/Pacific was slightly below expectations.
In the fourth quarter of 2002 report, Gartner Dataquest said the market was bumping along the bottom. Although the first quarter of 2003 results were generally better than anticipated, worries concerning the future remain. Uncertainty and concerns associated with the war in Iraq did not significantly affect the market during the first quarter of 2003, as the war started at the end of that quarter. The consensus forecast calls for a slowdown in the last two weeks of March after a generally better-than-expected January and February. These two weeks are critical given that they occur at the end of the calendar quarter; however, with HP and Dell having fiscal quarters different from the calendar quarter, the effects are lessened. The war in Iraq may have some effect on the second quarter of 2003 results, but with the major fighting apparently over, the focus will turn to the worldwide economy and the structural and economic policy issues of each region. These are significant hurdles.

**Dell Retakes No. 1 Position From HP**

The fight for the top spot continues. In the first quarter of 2003 the winner was Dell, pushed by successful execution in several target countries, including the United Kingdom, France, Germany and Japan. Dell also saw consistent growth in its U.S. home territory. Dell took more aggressive pricing actions in the middle of the quarter to continue to drive demand. Seasonally stronger professional market sales in the first quarter of 2003 impacted HP in the United States, and supply chain issues impacted it in Europe. The merger continues to be a work in progress, but we see progress being made in many areas. Third-positioned IBM grew at the market rate on a year-over-year basis. Notebook sales were key in this performance. On a regional basis Europe, Asia/Pacific and Latin America performed well, but the company continues to find the U.S. market challenging.

**New Mobile Technologies Drive Awareness**

Tablet PCs and the launch of Intel’s Centrino mobile platform continued to bring attention to the mobile PC platform but were not major factors in shipments during the quarter. Centrino initially focused on the corporate market. In addition to budget issues, it will take time for companies to qualify Centrino within their IT environments. The Centrino marketing campaign, however, is raising general awareness of the benefits of mobile form factors.

**United States**

Table 2 shows preliminary PC shipment estimates for the first quarter of 2003 in the United States.
The U.S. market continued to show gradual improvement, increasing 7.7 percent year over year, equivalent to an 8.6 percent sequential decline. Uncertainty and concern over the war in Iraq did not significantly affect the market during the first quarter of 2003, as the war started at the end of the quarter. The consensus forecast was for a slowdown in the last two weeks of March after a generally better-than-expected January and February. With the major fighting now apparently over, the focus will turn to U.S. economic issues such as the budget deficit.

The unexpectedly strong consumer market was a surprise given the low consumer confidence ratings that were published throughout the first quarter of 2003. After the holiday season, the first quarter is typically a quieter quarter for consumer sales and, furthermore, fourth quarter of 2002 holiday sales were weaker than expected. Deskbased PCs sold surprisingly well. A highly competitive pricing environment characterized the market. Vendors that focused on low-end models to draw attention to their brand typically won sales. Following the trend of the past several quarters, consumer mobile PC sales grew faster than deskbased sales, led by deskbased-CPU-based machines, which have become a big part of mobile PC sales at U.S. retail outlets.

The U.S. corporate market showed slow but slightly better-than-expected progress. In the current budget environment, large and midsize enterprises continue to be very selective in replacing machines, despite an aging installed base. The small and midsize business (SMB) sector continues to grow steadily. Public sectors, including the government and education markets, were in a slow sales season and so are not expected to show strong growth for the first quarter of 2003. Budget-tightening concerns are impacting the local and state government and education markets. In the education market, this will affect the shipments in coming quarters because the second and third quarters are traditionally the highest sales quarters.

By form factor across all vertical markets, mobile PCs were the bright spot, outpacing deskbased PCs. In addition to continuing system price declines, marketing efforts such as Intel’s Centrino’s launch will draw more attention to the value in mobile PCs. Gartner Dataquest expects that...
mobile PC growth will continue to exceed the growth of deskbased PC throughout the year.

Dell kept the top position with 23.9 percent year-over-year growth, accounting for more than 30 percent of total U.S. market. HP kept the second position; however, its market share declined, in part because of seasonal factors. Toshiba ranked within the top five U.S. vendors this quarter, ousting eMachines from the top five ranking. Toshiba’s success was a result of strong growth in consumer mobile PCs as well as better-than-expected corporate mobile PC sales. Toshiba’s achievement is notable, as the company has earned its top five position through selling only mobile PCs. In the U.S. market, mobile PCs accounted for 20 percent of the total PC market.

Regional Drill-Down

Table 3 shows the preliminary first quarter of 2002 results for the worldwide market by region.

Table 3
Preliminary Worldwide PC Unit Shipment Estimates by Region, 1Q03 (Thousands of Units)

<table>
<thead>
<tr>
<th>Region</th>
<th>1Q03</th>
<th>Growth (%)</th>
<th>1Q02-1Q03</th>
<th>Share (%)</th>
<th>1Q03</th>
<th>Share (%)</th>
<th>1Q02-1Q03</th>
<th>Share (%)</th>
<th>1Q02-1Q02</th>
<th>Share (%)</th>
<th>1Q02-1Q03</th>
<th>Growth (%)</th>
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<td>United States</td>
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<td>7.4</td>
<td>2,795.3</td>
<td>7.4</td>
<td>28.6</td>
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<td>2,034.5</td>
<td>5.4</td>
<td>2,034.5</td>
<td>5.4</td>
<td>2,034.5</td>
<td>5.4</td>
<td>-8.5</td>
</tr>
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<td>Canada</td>
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<td>1,116.9</td>
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<td>3.0</td>
<td>1,116.9</td>
<td>3.0</td>
<td>-4.7</td>
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<tr>
<td>Total</td>
<td>34,470.1</td>
<td>5.5</td>
<td>100.0</td>
<td>32,676.9</td>
<td>100.0</td>
<td>37,705.3</td>
<td>100.0</td>
<td>37,705.3</td>
<td>100.0</td>
<td>37,705.3</td>
<td>100.0</td>
<td>-8.6</td>
</tr>
</tbody>
</table>

Notes: Data include deskbased PCs, mobile PCs and IA-32 servers. HP and Compaq are reported as one company.
Source: Gartner Dataquest (April 2003)

Europe, Middle East and Africa

Gartner Dataquest’s preliminary estimates for the EMEA PC market show modest shipment growth of 6 percent during the first quarter of 2003. Continued strong growth in demand for mobile PCs and a modest increase in corporate PC purchases drove this growth. The overall EMEA PC market performed slightly above expectations, but this result masks a sharp decline in consumer demand for PCs during the final weeks of the quarter. The slowdown carried into April and is expected to negatively impact the region’s PC market during the second quarter. However, Gartner Dataquest does not expect to adjust its overall outlook for 2003 and forecasts shipment growth to remain in the 6 percent to 7 percent range across the year.

Key observations are as follows:
The positive overall performance masked a deteriorating trend across the quarter, with demand for consumer PCs tailing off sharply during late February and March. This slowdown hit local PC vendors hardest, with many reporting difficult trading conditions. Most retailers responded early to the slowdown in consumer demand and have avoided building up product inventories.

Corporate PC demand continues to show modest growth, indicating that PCs are still being replaced as needed. Gartner Dataquest views this as further confirmation that no rapid upswing in PC demand and no strong replacement cycle will occur during 2003 and 2004.

Demand for mobile PCs grew strongly across all customer groups, driven by falling prices and vendor initiatives to clean inventories in preparation for the launch of new products.

Component inventory levels are running at higher-than-usual levels, especially in distribution. Falling demand for components from local PC vendors drove this increase.

Acer once again recorded the region’s highest growth, consolidating its No. 4 position in the market. Acer continued to expand its distribution network and benefited from transitions in its mobile and desktop product lines.

Dell benefited the most from stronger corporate demand for PCs, recording growth of more than three times the market average.

HP’s performance was impacted by a number of supply chain issues that disrupted logistics and delivery of key volume products.

Table 4 shows EMEA unit shipment estimates.

### Table 4
Preliminary EMEA PC Vendor Unit Shipment Estimates, 1Q03 (Thousands of Units)

<table>
<thead>
<tr>
<th>Vendor</th>
<th>1Q03</th>
<th>Growth (%)</th>
<th>Share (%)</th>
<th>1Q02</th>
<th>Share (%)</th>
<th>4Q02</th>
<th>Share (%)</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hewlett-Packard</td>
<td>2,074</td>
<td>-3.2</td>
<td>19.3</td>
<td>2,143</td>
<td>21.1</td>
<td>2,243</td>
<td>17.2</td>
<td>-7.5</td>
</tr>
<tr>
<td>Dell Computer</td>
<td>1,211</td>
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<td>995</td>
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<td>1,197</td>
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<td>1.2</td>
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<td>Fujitsu Siemens</td>
<td>820</td>
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<td>779</td>
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<td>939</td>
<td>7.2</td>
<td>-12.7</td>
</tr>
<tr>
<td>Acer</td>
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<td>684</td>
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<td>-24.1</td>
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<td>IBM</td>
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<tr>
<td>Others</td>
<td>5,635</td>
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<td>52.4</td>
<td>5,379</td>
<td>52.9</td>
<td>7,275</td>
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<td>-22.8</td>
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<tr>
<td>Total</td>
<td>10,763</td>
<td>5.9</td>
<td>100.0</td>
<td>10,159</td>
<td>100.0</td>
<td>13,011</td>
<td>100.0</td>
<td>-17.3</td>
</tr>
</tbody>
</table>

Note: Data include deskbased PCs, mobile PCs and IA-32 servers.
Source: Gartner Dataquest (April 16, 2003)

### Asia/Pacific

Preliminary estimates show yearly growth of 4 percent for the Asia/Pacific PC market during the first quarter of 2003. Though the demand for PC was cautious due to the general weak economic situation and the Iraq war, most of the countries managed to exhibit positive or flat growth with the exception of South Korea. Stronger demand for mobile
PCs drove the overall Asia/Pacific market. Deskbased PCs are expected to show flat growth.

Preliminary estimates for South Korea indicate an exceptionally weak quarter. North Korea's nuclear standoff and a major financial scandal have negatively affected the local economy. These events have created an overly cautious purchasing climate, especially in the business sector, thereby affecting the entire PC market.

India, Australia and Taiwan are poised to deliver double-digit growth, driven by end-of-quarter spending in India for many companies and the government, increased PC replacement purchases in Australia and Taiwan, and the continuation of deliveries to a large government procurement project.

SARS will have a limited impact on PC demand for the first quarter because the outbreak occurred toward the end of the quarter. Hong Kong and Singapore are expected to receive the brunt of the SARS-related slowdown in the second quarter.

**Japan**

The first quarter marks the end of Japan's fiscal year, a time when the professional PC market can expect strong demand. This year, it was felt that PC demand might be limited because of tight corporate IT budgets or spending freezes for the 2002 fiscal year. However, some major vendors saw user demand increase unexpectedly from the end of February, spurring better-than-expected sales performance for the first quarter of 2003. In its March 2003 forecast, Gartner Dataquest estimated that unit shipments in the first quarter of 2003 in the professional market would decrease slightly from a year ago, but the preliminary figure shows a mid-single-digit increase for this segment. On the other hand, according to retail channels, sales have clearly declined from a year ago. Consumers dominate the retail market in Japan. SMB volume is relatively small. Retail channel sales results indicate that SMBs continued to be bearish in their outlook during the first quarter of 2003.

Preliminary results for the total Japanese PC market in the first quarter of 2003 point to a slightly negative performance from a year ago. This is in line with our March 2003 forecast.

**Latin America**

Preliminary estimates point to 5.5 percent growth in Latin America in the first quarter of 2003 compared with a year ago. This is an encouraging result, although the period is compared with a weak first quarter of 2002. Argentina's economic collapse, and the resulting appearance of a substantial secondary PC market from bankrupt companies selling assets, made for an extremely weak first quarter of 2002. The Brazilian currency devaluation and growing uncertainty in that nation over the presidential
elections also slowed investments in PC equipment in the first quarter of 2002.

On a preliminary basis, the winners in the first quarter of 2003 were Dell, and white-box manufacturers. Dell continues to penetrate important professional accounts in the region, and local nonbranded system builders are profiting from a highly price-sensitive region, mainly in the consumer segment. The growth of nonbranded systems is also starting to affect the sales of local branded vendors.

Argentina’s PC industry is showing moderate signs of recovery. Brazil, while still not in its best shape, is in better condition than in 2002. But overall, PC buyers in the region continue to experience a sensitive economic environment. Some countries suffer from recessions, and all would benefit from a world economic recovery. SMBs continue to postpone equipment renewal. In countries such as Peru, used PCs are being imported, affecting new sales and slowing the adoption of the latest PC technology. Mexico, the second-largest PC market, will start importing used PCs on 1 January 2004 if current legislation is not modified. Used machines are basically competing with white-box manufacturers in the consumer segment.

Preliminary figures show notebook sales up 8 percent over a year ago in Latin America. This is the result of lower prices and the continued implementation of wireless infrastructure, which makes the notebook PC a more attractive form factor. The growth of Wi-Fi, also called wireless fidelity, and "hot spots," particularly in Brazil and Mexico, should help improve sales of the latest wireless-capable notebooks.

**Key Factors Influencing Demand**

**Drivers**

PC market drivers include the following:

- Broadband deployment
- Wireless LAN deployment in home and public hot spots
- Desktop-to-mobile transition
Transportable PCs — Desktop-CPU-based mobiles
Wireless awareness — Centrino campaigns
LCD monitors
Accelerated price declines

**Inhibitors**
PC market inhibitors include the following:

- Economic weakness — Structural problems and economic policies
- Uncertainty surrounding the war in Iraq
- Market saturation in the United States and Western Europe
- Life cycle extension
- Lack of compelling killer applications
- DVD standard wars
- Budget competition from other devices
- SARS

**Key Issue**
Who are the key players in each computing hardware platform market, and what are their rankings?
This document has been published to the following Marketplace codes:

HARD-WW-DP-0492