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14 Million US Enterprise PCs Up For Grabs

The Impact Of The IBM PC Business Sale On US IT Buyers

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EXECUTIVE SUMMARY

Laying speculation to rest, IBM announced that it will sell its PC division to Chinese manufacturer Lenovo for about \$1.75 billion in cash, equity, and assumed debt, but maintain an 18.9% stake in a new joint venture headed by IBM's Stephen Ward. While this deal will have broad strategic implications for IBM in the US IT market, we wondered what impact the deal would have on US companies currently using or planning to purchase IBM PC hardware. Our research indicates that IBM lags behind both Dell and HP as the primary enterprise PC supplier and that almost half of IBM's prospects are more willing to buy from another vendor than either of their main competitors. Our research also indicates that potential IBM defectors are split evenly between Dell and HP, giving HP an opportunity to build on recent momentum to pick up market share.

IBM today confirmed that it would sell its PC business to Chinese manufacturer Lenovo.¹ The deal calls for:


- **Lenovo to acquire IBM's PC assets for \$1.75 billion.** Lenovo Group and IBM announced an agreement under which Lenovo will acquire IBM's Personal Computing Division for \$1.25 billion in cash and equity and about \$0.5 billion in debt. According the press release, the deal brings "IBM's leading enterprise-class PC technologies to the consumer market," and gives "Lenovo global market reach beyond China and Asia." The deal is expected to close in the second quarter of 2005, and both companies will operate independently at least until the transaction closes.
- **A long-term strategic alliance with Stephen Ward as CEO of the new company.** IBM will have an 18.9% stake in a new joint venture that will be led by Stephen Ward, the current senior vice president and general manager of IBM Personal Systems Group. The new company will have its worldwide headquarters in New York, with principal operations in Beijing and Raleigh, N.C. About 10,000 current IBM employees in China and the US will become employees of Lenovo.
- **Lenovo will be the preferred PC supplier to IBM.** With this deal, Lenovo will become the preferred supplier of PCs to IBM, and it gains the right to use the IBM's ThinkPad laptop and ThinkCentre desktop brands. Lenovo will also gain a distribution and sales network covering 160 countries to help fulfill its vision of expanding outside its core Chinese market. At the same time, IBM will become the preferred services and financing supplier to Lenovo and gain access to the rapidly growing Chinese IT market.

US IT Buyers Will Think Twice About ThinkPad and ThinkCentre

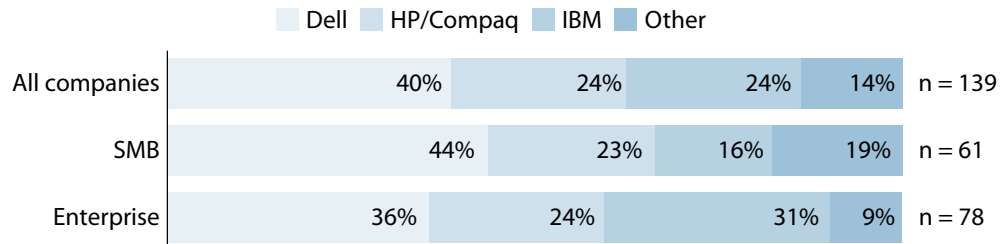
With a deal now in place, many potential IBM PC buyers will rethink their plans. We wondered which of the remaining PC vendors would have the most to gain in the corporate PC market. To find out where IBM's PC customers are likely to go from here, we looked at data from two recent Forrester surveys. The first, conducted in July 2004, surveyed firms about their current primary PC suppliers. The second study asked enterprises with plans to replace or upgrade PCs in 2005 which vendors they would most strongly consider buying from.² The data showed that:


- **IBM's departure puts almost 14 million US corporate PCs up for grabs.** Forrester estimates that there are about 75 million corporate PCs in use today.³ Our survey showed that 70% of workers use desktop PCs, and 16% of firms told us that IBM was their primary desktop supplier — or about 8.4 million IBM ThinkCentre users (see Figure 1).⁴ In the smaller but growing laptop market, 24% of firms surveyed choose IBM laptops — or about 5.4 million ThinkPad users.⁵
- **Almost half of IBM prospects would consider another vendor.** The conventional wisdom says that loyalty to IBM — and ThinkPad notebooks in particular — runs deep, but our data showed the exact opposite. Even before rumors of a sale emerged, our research showed that 48% of the 171 IBM prospects in our sample would consider purchasing PCs from a vendor other than IBM in 2005. In contrast, only 29% of 305 Dell prospects and 41% of 208 HP prospects would consider using either one of the other two major players (see Figure 2).⁶
- **HP has the most to gain from the sale.** Among the 48% of IBM prospects considering either Dell or HP, 43% would also consider Dell, 39% would also consider HP, and 18% would consider all three. On a unit basis, our data suggests that Dell and HP will split any potential IBM defectors evenly. An even split would increase HP's market share on a percentage basis and build on recent momentum gains in the enterprise market. In our November 2004 study, 31% of enterprises said they plan to consider HP — up from 24% in April 2004 — while Dell consideration slipped one percentage point to 56%.⁷

Figure 1 More Firms Use Dell, Not HP Or IBM, As Their Primary PC Supplier

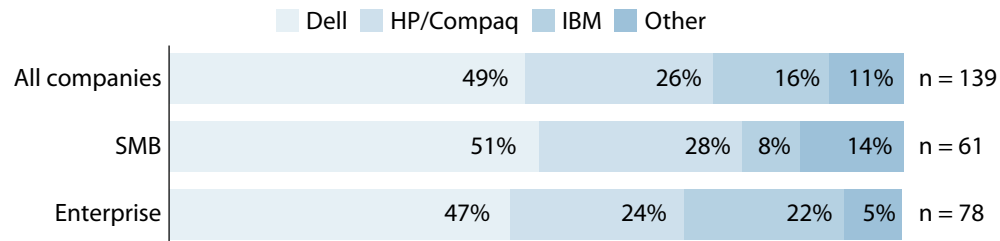
 A spreadsheet with additional data is available online.

1-1 "Which vendor is your primary supplier for laptops?"



 91% of enterprises use Dell, HP, or IBM as the primary supplier of laptops, but 12% of SMBs choose Toshiba (7%), Fujitsu (2%), Sony (2%), or Gateway (2%).

1-2 "Which vendor is your primary supplier for desktops?"

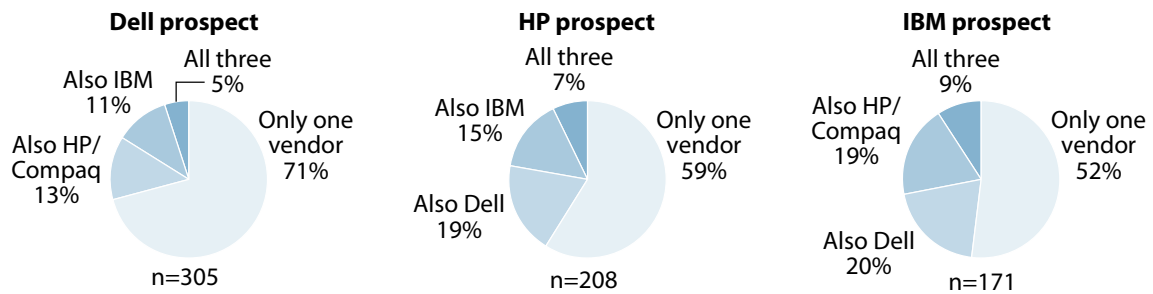


Base: North American companies (percentages may not total 100 because of rounding)

Source: Forrester Research, Inc.

Figure 2 IBM Prospects Are Most Likely To Consider Other Vendors

"Which vendor(s) will you consider for PCs in 2005?"



Base: 632 IT decision-makers at North American and European enterprises planning to purchase PCs in 2005
 Source: Forrester's Business Technographics November 2004 North American and European Benchmark Study

Source: Forrester Research, Inc.

RECOMMENDATIONS

TAKE IBM OUT OF PC REFRESH RFPS FOR NOW

US buyers considering IBM as a best-and-final candidate in PC refresh negotiations need to be aware of the risks associated with the strategy. Although IBM retains a significant stake in the new company, the degree to which IBM will control or influence long-term product and quality remains to be seen. Forrester also expects both HP and Dell to offer enticing trade-up deals to IBM's existing customers.

USING THE DATA

Business Technographics® provides Forrester clients with a rich data asset to be tapped for action-oriented market intelligence. By looking under the hood of the data in this document, technology solution providers can receive answers to questions like:

- What are the industry-by-industry purchase plans for my offerings?
- Which segments have the highest propensity to buy from me rather than from my competitors?
- How do firmographic variables, such as job role and company size, affect buying behavior?

All data is industry-coded and profiled by variables like company size and geography. To understand how your firm can access this data asset through our Technographics Data & Services offering, email businesstechnographics@forrester.com.

ENDNOTES

- ¹ IBM is reportedly in talks to sell its PC business to Chinese manufacturer Lenovo. See the December 3, 2004, Quick Take “IBM Should Sell Its PC Division.”
- ² Forrester asked 1,368 IT decision-makers at North American and European enterprises about their 2005 IT budgets and technology purchase plans. See Forrester’s Business Technographics November 2004 North American And European Benchmark Study.
- ³ In 2005, the US work force will be about 150 million, according to the US Bureau of Labor Statistics. To approximate the number of business PCs in use in the US, we assume a ratio of about five PCs for every 10 workers — or 75 million PCs. In our survey, 46% of US firms told us that they refresh their desktop PC every three years, and about 31% told us every four years. Fifty-

three percent told us that they refresh laptops every three years, and 22% told us every four years. See the November 19, 2004, Quick Take “The Corporate PC Refresh Cycle Quickens.”

- ⁴ The survey, conducted in July 2004, asked 139 IT decision-makers responsible for PC procurement about their current primary suppliers for laptop and desktop PCs. The data showed that 63% of firms still buy desktop PC s for more than three-quarters of their users, with 49% choosing Dell as their primary supplier, 24% pointing to HP, and 16% choosing IBM. In laptops, 40% chose Dell, HP and IBM each garnered 24%. See the August 9, 2004, Trends “The State Of The Corporate PC.”
- ⁵ Both enterprises (1,000 or more employees) and SMBs (six to 999 employees) name Dell as their primary supplier for both desktops and laptops.
- ⁶ IBM prospects in North America and Europe are more likely than HP or Dell prospects to consider using other vendors in 2005.
- ⁷ Forrester asked North American enterprises which vendor(s) they will consider most for general business use PCs in early 2004 and again, looking at 2005 PC purchases. We found that HP/Compaq gained traction among enterprise buyers over the course of 2004. See Forrester’s Business Technographics November 2004 North American and European Benchmark Study and Forrester’s Business Technographics® April 2004 North American Benchmark Study.