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PCs: THE ELVES ARE WORKING OVERTIME Strong demand for computers should bring holiday cheer to the tech industry

Jim Kerstetter, with Cliff Edwards and Peter Burrows, in San Mateo, Calif., and bureau reports. Business Week. New York: Nov 10, 2003. , Iss. 3857; pg. 50

Author(s): Jim Kerstetter, with Cliff Edwards and Peter Burrows, in San Mateo, Calif., and bureau reports
Section: *News: Analysis & Commentary: HIGH TECH*
Publication title: Business Week. New York: Nov 10, 2003. , Iss. 3857; pg. 50
Source Type: Periodical
ISSN/ISBN: 07398395
ProQuest document ID: 439248971
Text Word Count 703
Article URL: http://gateway.proquest.com/openurl?ctx_ver=z39.88-2003&res_id=xri:pqd&rft_val_fmt=ori:fmt:kev:mtx:journal&genre=article&rft_id=xri:pqd:did=000000439248971&svc_dat=xri:pqi:fmt=tex t&req_dat=xri:pqi:clntid=9269

Full Text (703 words)

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TOM FRITZ, PRESIDENT of Micro Electronics Inc., had to look twice when he first saw the numbers. In the most recent survey at the Columbus (Ohio) company's 20 stores, fully 50% of its customers, both individuals and small-business people, said they planned to replace their personal computers in the next 6 to 12 months. "The last time we saw this kind of interest was in the late 1990s," says Fritz.

Suddenly, personal computers are hot items again. Why? Consumer interest in new devices such as MP3 music players, digital cameras, and DVD players is increasingly putting PCs at the center of home digital-entertainment systems. At the same time, demand for wireless access to the Internet, or Wi-Fi, is catapulting sales of notebook PCs to growth rates topping 28% -- four times the rate for desktop machines. Coupled with Intel Corp.'s recent surprisingly strong results from selling chips for all kinds of electronic devices, it's a tantalizing sign that consumers could accelerate a tepid technology recovery that has left corporate buyers largely on the sidelines.

The shift marks the first time in at least five years that PCs are leading the way. Unit sales worldwide grew a strong 16% in the third quarter over the previous year -- the most since 1999 -- and are expected to hit 17% in the fourth quarter, according to Bear, Stearns & Co. and market researcher IDC. The growth is expected to continue next year, with unit sales projected to rise 15% above the 2003 level. "Consumers are starting to look at PCs as a utility they believe they need to have in their household," says Rich Hall, manager of business development at Odyssey LP, a San Francisco researcher.

IT'S A DIGITAL LIFE

PC MAKERS AND THEIR suppliers aren't completely out of the woods. Even with unit sales rising, Bear Stearns predicts revenues will increase just 1%, since prices are dropping. That means only the most efficient companies can turn a profit. "Pricing is still pretty tough. That's not going to change very much," says Steven Milunovich, an analyst at Merrill, Lynch & Co. Corporate spending is also expected to stay flat well into next year, so PC makers will have to cater to increasingly price-savvy consumers.

The good news for many players in tech, from component makers to retailers, is that consumers are finally buying

into the notion of a digital life anchored by the PC. Digital camera sales are expected to jump 38% this year, to 13 million units, for instance, and they usually require a PC to make prints and e-mail images. "Since the spring of this year, there has just been a pent-up demand," says George Danko, senior vice-president for consumer electronics and home essentials at retailer Best Buy Co.

That bodes well for PC manufacturers. Analysts expect market leader Dell Inc. to post a 15.4% sales rise in its current fiscal quarter from last year, Co., whose PC business lost more than \$300 million last year, believe the business will edge into the black this year. That's leaving laggards such as Fujitsu and Toshiba further behind.

Suppliers of components for PCs and other digital devices should also benefit. After Intel reported good results in the third quarter, analysts now expect sales to rise 18% and profits to shoot up 81% in the fourth quarter from last year's level. "It's more than just seasonal," says Chief Financial Officer Andy Bryant. Likewise, Seagate Technology is expected to post a 12% sales increase this quarter, partly in response to doubling sales of disk drives to makers of videogame players and video recorders. Says John Engel, senior vice-president at Gateway, which will soon offer a PC package with a digital camera and photo printer: "It's about much more than the PC." If consumers agree, the tech industry may enjoy its first merry Christmas in years.

(available online)

The PC Comeback

Growth of year-over-year unit sales is accelerating

Q4_____Q1_____Q2_____Q3_____Q4

2002_____2003_____2003_____2003_____2003

4%_____3%_____10%_____16%_____17%*

* Estimate

Data: IDC, Bear Stearns & Co.

[Illustration]

Photo: Photograph: Photograph: OUT OF THE RED? HP is dreaming of a profitable Christmas for PCs PHOTOGRAPH BY AXEL KOESTER

Credit: Jim Kerstetter, with Cliff Edwards and Peter Burrows, in San Mateo, Calif., and bureau reports

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