

## **Press Release**

### **Indian PC market growth falls for two consecutive quarters: Expected to crash to half in the year 2001**

- **Growth rate slumps from 72% in Q1 to 55% in Q4.**
- **Indian brands face tougher times.**
- **Consumer and SME segments losing steam.**
- **Assemblers gain at the cost of Indian brands.**
- **MNC's manage to retain 24% market share.**
- **Growth rates will halve in 2001.**

**New Delhi, 7th March 2001:** Indian PC industry growth rates will come down by over half in the year 2001, according to the "Fourth Skoch PC Industry Analysis", an annual report released by Skoch Consultancy Services, New Delhi based IT industry analysts. According to the report, the PC industry has been showing signs of slowdown since the third quarter of 2000. Although the industry grew at 67% during the year 2000, as predicted by "Third Skoch PC Industry Analysis", released in early 2000, first and second quarter mainly contributed to the growth before hitting a roadblock later during the year.

Releasing the report, Sameer Kochhar, Managing Director, Skoch Consultancy Services Pvt Ltd, said, "The year 2000 started on a promising note, but the slowdown in consumer and SME purchases strangulated the growth. This will obviously result in aftershocks in the year 2001, where we expect the growth rates to halve."

Overall market size is estimated at 1.7 million PCs valued at Rs. 7331 crores in 2000 up from 1.02 million valued at Rs. 4540 crores in 1999 recording a 67% growth in number terms and a 61.5% growth in value terms.

The installed base crossed 5.7 million mark as compared to 4 million last year taking the penetration up to 5.7 PCs per 1000 Indians; still the lowest in Asia Pacific. While the year 2000 has been good overall, the outlook for the year 2001 is bleak. "The buying trend in the category A and category B towns clearly suggests that the PC penetration in consumer and SME segments is quite high. So not many new customers are being added. The only hope for expansion is in C category towns where poor infrastructure and logistics pose a problem. Therefore, Consumer and SME growth rates will continue to fall," explains Kochhar.

While the share of MNC brands remained at 24% inspite of a 9% reduction in the average price of a PC, the assemblers share increased from 56% to 58.6% without any significant price drops. This was at the expense of Indian brands whose share dipped from 20% to 17.6% inspite of average prices falling by 2%.

Among the MNC brands, Dell posted a growth of 217% per cent by capturing a whopping 50% market share in the duty free segment, HP growth rate followed at 110%, IBM at 75% and Compaq managed to match the market growth at 67%. Rest of the MNC brands grew substantially slower than the market growth.

MNC price drops despite a weaker rupee helped them maintain their market share. During this period, most of the MNCs also repositioned their cheaper commercial PCs as Home PCs to attract consumers looking for more value for money. This strategy has paid back especially for HP and Compaq with both Brio and Deskpro commercial PCs moving into homes.

GID and assemblers continue to rule the market. Assembler PC prices remained consistent yet it managed to increase market share showing a continuing consumer affinity for the grey market. The margins in the grey market have also been under pressure. The service levels in the grey market, traditionally a strong point have also started falling due to a rapid increase in installation base.

The Consumer, PC market consisting of first time users, small business and home segments which fueled the growth during 1999, witnessed a drop in growth rates from 108% during 1999 to 75 % in 2000, showing the high penetration levels in markets currently being covered and a lack of significant drop in entry level price points. The attempts of introducing two generation old PCs at sub 15000 rupee level also did not make much of a dent in overall figures.

Government sector recorded an increase in the growth rate in 2000. While during 1999 the government purchases fell by 21% compared to 1998, they grew by 43% during 2000 compared to 1999. "The reason for negative growth during 1999 could be attributed to political uncertainty and unforeseen circumstances, but it bounced back to healthier levels last year," added Kochhar.

Corporate sector also grew at 36% last year compared to 5% during 1999. "The reason for this growth can be seen in natural replacement cycles for many corporates. During 1999, many corporates focused their resources on Y2K compliance, hence the deferment of fresh investments in hardware up-gradation and buying patterns. This was reversed last year leading to the growth," said Kochhar.

#### **Trends and forecast for the year 2001:**

The growth rate is expected to be lower than 35%.

Consumer and SME buying to slowdown further. They will still retain higher growth rates compared to other segments and would remain highest volume buyers in 2001.

MNC prices to fall further due to an impending price war in the US.

Assembler prices also may fall due to inventory pile-ups in China and Taiwan.

Indian brands unlikely to be able to keep pace with the falling prices.

Government and enterprise corporate buying to remain buoyant, although not in line with the budgetary pronouncements of increased government buying. Most of the projects announced for computerization by the Finance Minister are already underway for several years now.

The overall share of the Indian brands in the market is expected to fall further. They will continue to survive in the government/PSU/banks and financial services sectors this year.

Duty free segment will continue to post marginal increase in growth rates.

The Retail outlets selling PCs will go up substantially although most of them are unlikely to break even on PC sales alone.

Almost all hardware export opportunities will be lost to China and other countries.

Table 1.3

#### **About Skoch:**

Skoch Consultancy Services Pvt Ltd is a leading strategy and management consultancy firm specializing in the IT and Telecom industries. Skoch works with several Fortune 500 companies in over 5 countries.

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