

Windows XP Won't Rescue PC Sales

Consumers, not corporations, will buy Windows XP first. The PC industry likely won't get the sales boost that many hoped XP would bring.

Event: On 25 October 2001, Microsoft officially launched its newest operating system (OS), Windows XP. Microsoft and its partners will likely spend \$500 million on advertising and promotion.

First Take: Consumers will likely pick up Windows XP faster than enterprises will, and the introduction will do little to realize the PC industry's hopes that it will lift sales dramatically. Gartner believes the marketing hype surrounding the launch will not do enough to lift PC sales noticeably in 4Q01. Structural problems — most importantly market saturation and economic conditions — will determine growth rates to a greater extent. Gartner Dataquest forecasts that worldwide PC shipments in 4Q01 will likely decline by 13.2 percent compared to 4Q00. For 2001, worldwide PC shipments will likely decline by 6.6 percent compared to 2000.

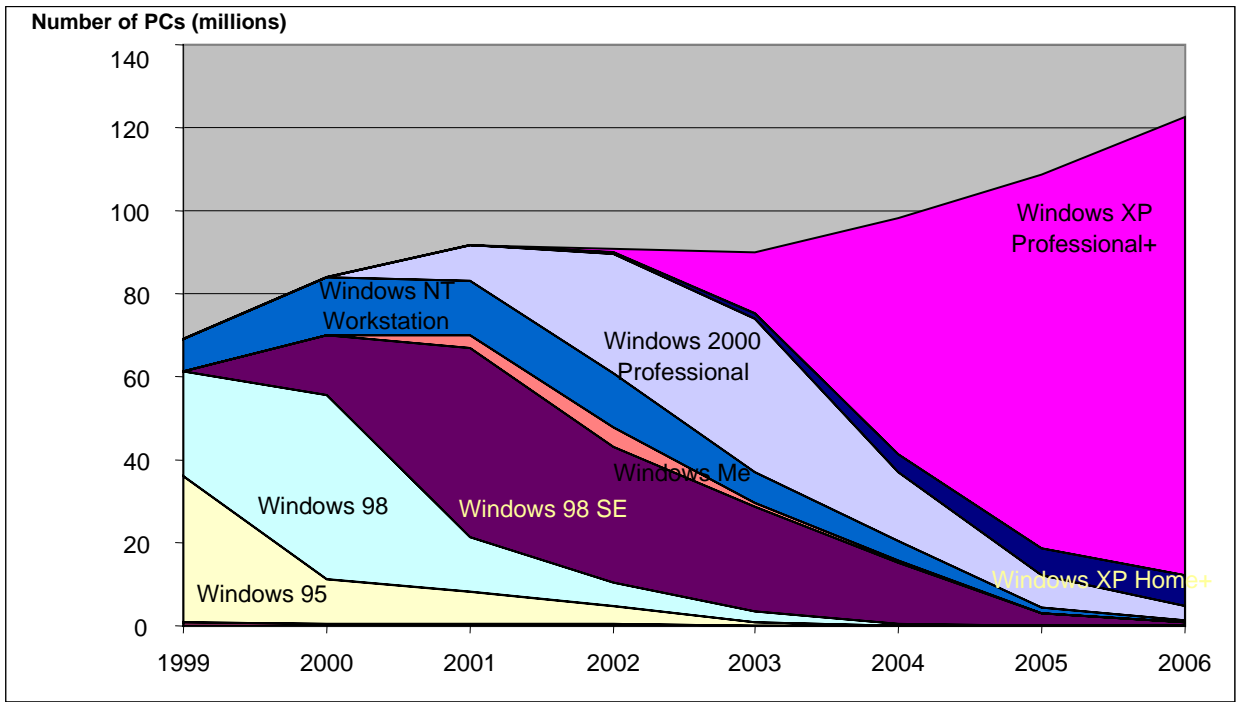
Commercial Uptake

- Windows XP Professional will likely have little uptake in new commercial PCs in 2001 because of testing and preparation cycles, but a modest uptake will occur in 2002, reaching 16 percent of new commercial PCs (see Figure 1 and Figure 2).
- Windows 2000 Professional will lead in 2002, being loaded on 41 percent of new business PCs.
- Many enterprises still not prepared for Windows 2000 technology will continue to use Windows 9x and NT Workstation v.4.0 on new PCs, with 41 percent of new commercial PCs running legacy OSs in 2002.
- Although Windows 2000 technology (which takes in Windows XP) will reach half of the commercial PC installed base by the end of 2003, most will continue to use Windows 9x through 2002 (57 percent, down from 80 percent of the installed base in 2000).

Figure 1

Commercial Uptake of New PCs

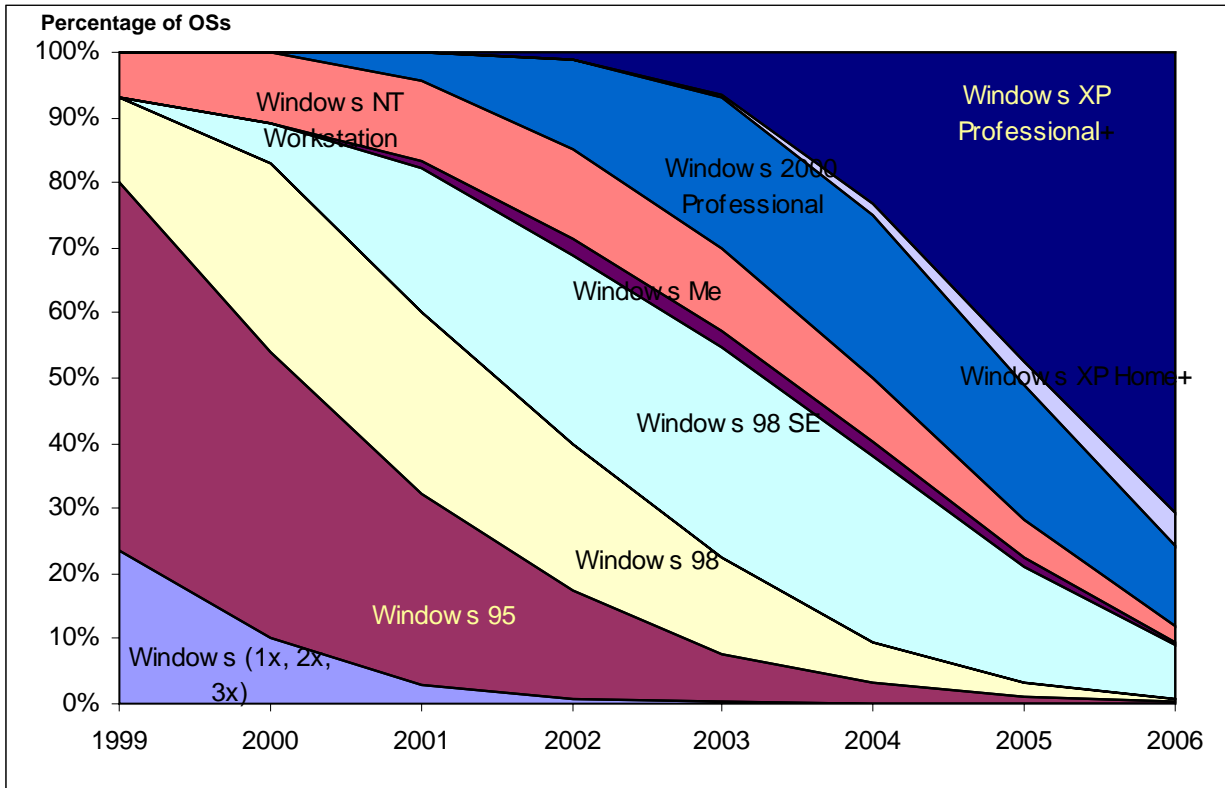
Gartner



Source: Gartner Research

Figure 2

Commercial Installed Base

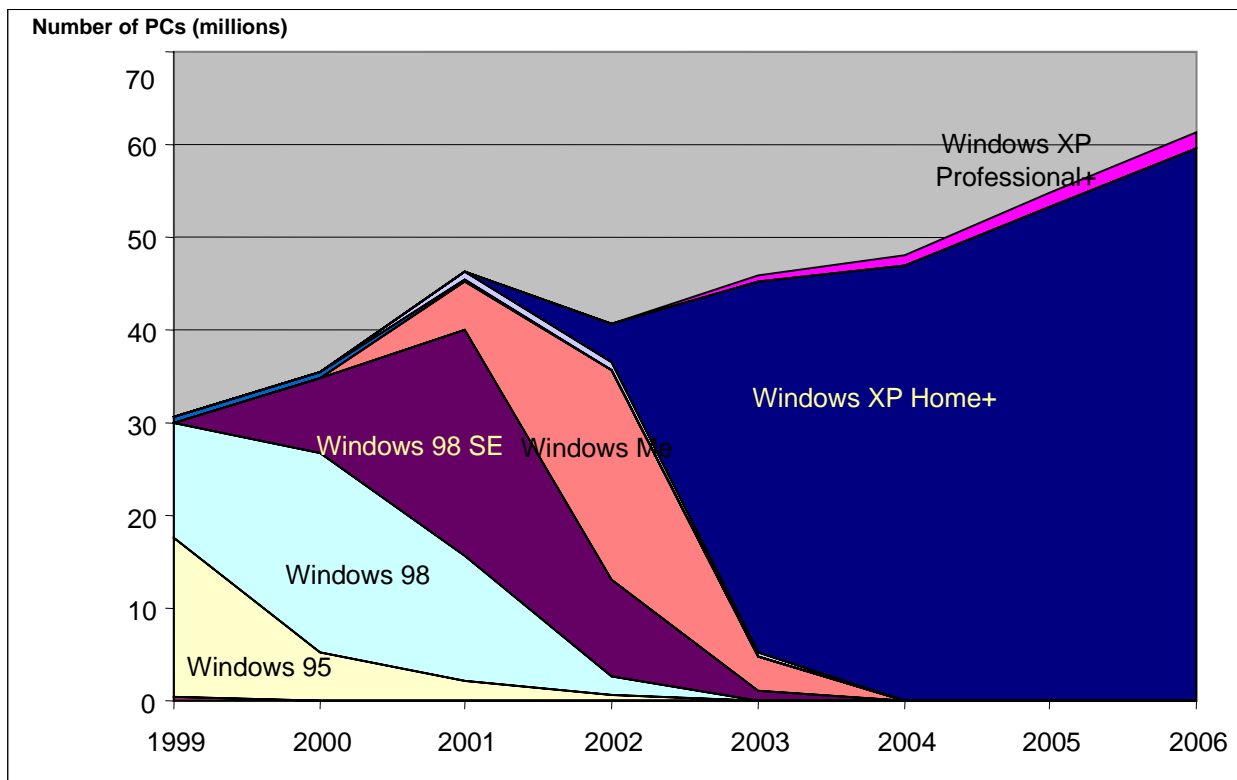


Consumer Uptake

- XP Home will have some modest success in 4Q01, but sales will be hurt by PCs stuck in the channel and by some generic PC vendors continuing to ship older OSs. Windows XP will not overcome the economic slowdown and be able to spur new PC sales (see Figure 3 and Figure 4).
- The consumer PC installed base will be heavily weighted toward Windows 9x through 2002. Windows XP technology will only reach parity in 2003 but will eventually take the lead in the consumer PC installed base in 2004.

Figure 3

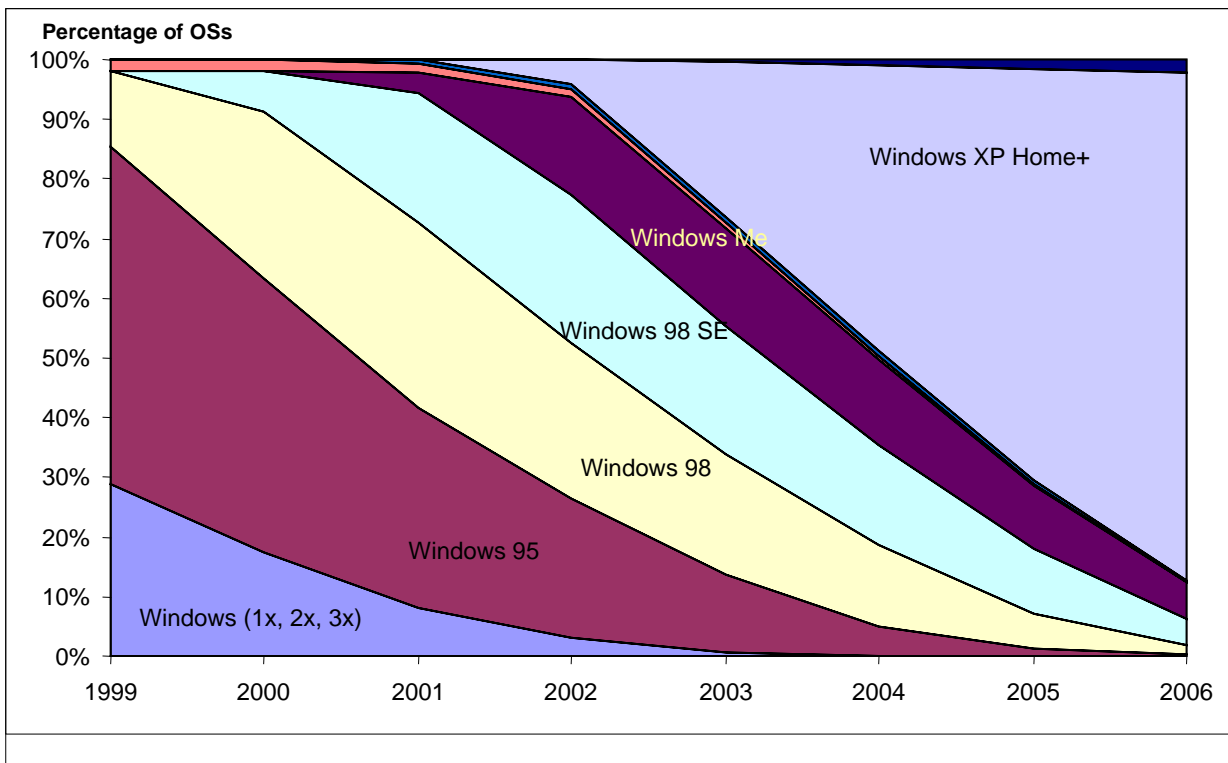
Consumer Uptake of New PCs



Source: Gartner Research

Figure 4

Consumer Installed Base



Source: Gartner Research

Gartner recommends the following:

- Enterprises should deploy all new PCs with Windows 2000 or Windows XP as soon as possible. They should not install legacy OSs on new PCs.
- Enterprises that have started deploying, testing or planning around Windows 2000 Professional should continue to do so but should plan to switch to Windows XP Professional for new PCs in mid 2002 or early 2003. This approach enables the new PCs to deploy a client OS that Microsoft will support through the life of the PC. Microsoft could extend the lifecycle of Windows 2000 Professional, but it has committed to supporting it only until 1Q04.
- Enterprises that have not made significant investments in Windows 2000 should consider skipping it and deploying Windows XP Professional, provided they can train staff and ensure application compatibility.
- Most enterprises will gain little return on investment (ROI) by upgrading Windows 2000 machines to Windows XP. They should make certain of some ROI before upgrading. In addition, any PCs likely to be around for less than a year should generally never be upgraded. Instead, they should be replaced during normal refresh cycles with a new PC and new OS.

Analytical Sources: Michael Silver, End-User Computing, and Charles Smulders, Hardware Platforms Worldwide