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## Windows 7 Could Help PC, Chip Sectors Rebound

The PC and chip sectors are hoping that Windows 7 will speed up recovery.

Agam Shah, IDG News Service

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The global economy may not be robust, but the PC and chip sectors are hoping to gain some ground with the help of Microsoft's Windows 7 OS, which will start shipping on Thursday.

After widespread disappointment with Windows Vista, there is a lot of interest in Windows 7 as consumers and enterprises look to upgrade aging hardware and software, analysts said. Demand for PCs with the OS could spike in the first few weeks, and the OS could play a role in driving professional PC purchases next year as budgets grow and enterprises look to upgrade IT infrastructure.



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"There is obviously interest in the beginning, so you see a potential spike in demand in the first month or so. Then it goes back to a normal mode whereby the market is driven by natural refreshes, which tends to be on the corporate side," said David Daoud, research manager with market research firm IDC.

The OS's effect as a major factor in PC purchases could dry out after a month or two, Daoud said. However, it could play a minor role in buying decisions during the holiday season, when PC shipments generally go up. IDC expects PC shipments during the fourth quarter to go up in a "mid-single-digit" percentage range, Daoud said.

Some consumers are delaying PC purchases until after the Windows 7 launch to avoid Vista and the hassle of upgrading, analysts said. Windows Vista, which started shipping late in 2006, was mashed by critics as a bloated OS with slow boot times, device driver incompatibilities and other problems. PC makers in June offered free Windows 7 upgrades to customers who bought PCs pre-installed with Vista, but some customers may decide to wait.

The real effect of Windows 7 on PC shipments may be felt in 2010, when enterprises start upgrading client PCs, analysts said. Some customers view Windows 7 as a major OS upgrade and will take advantage of it to roll out new hardware. The last major

PC refresh cycle for those companies was earlier in the decade with Windows XP, which was released in 2001.

"We tested things and discovered problems with Vista early on," said Steve Rausch, director of information services at Gibson General Hospital in Princeton, Indiana. "We had issues with it. We couldn't get it to work with our applications," he said. Rejecting Vista ended up costing the hospital money, because it had to pay about US\$20 per PC to downgrade to Windows XP.

The new OS makes the decision to buy new hardware easier, as Windows 7 is "not a hindrance as Vista was," Rausch said. The hospital has started rolling out Windows 7 PCs on a per-needed basis, and a large-scale rollout may not happen until more money is available.

"I would like to see that happen in 12 months, but that's being pretty aggressive," Rausch said.

Group One, an options trading firm in San Francisco, is already rolling out Windows 7 systems powered by Intel's latest Nehalem microprocessors, said Terence Judkins, managing director of systems. Windows 7 offers better support for the latest hardware than did previous Windows operating systems.

"When Microsoft offered the Release to Manufacturing to volume license customers in early August, we switched to that not just for new Nehalem machines, but actually for any trading machine" that was being upgraded, Judkins said.

The company has elected to retire the older workstations that do not support Windows 7, Judkins said. "We still have a fair number of XP machines in our environment, but we are no longer imaging any machines with it," Judkins said.

However, before companies start making big investments in Windows 7, there needs to be a security net for them to feel safe spending money, analysts said. There is growing confidence that the economy won't be as bad next year as was previously feared, Advanced Micro Devices' CEO Dirk Meyer said on a conference call last week to discuss his company's financial results.

"The tone of the conversations we are having with CIOs ... has changed in the last three months. Clearly, wallets are starting to [open] up," Meyer said.

Gathering in New York for the Windows 7 launch this week, hardware vendors were also hoping for a sales boost with Windows 7.

The Windows 7 launch "is a great opportunity" to move to a new machine, said Tom Tobul, executive director of marketing for software and peripherals for Lenovo. Tobul was showing off Lenovo's new ThinkPad SL410 and SL510 laptops, which are timed for release with Windows 7 this week. The laptops are priced starting at \$529 and aimed at small and medium-size businesses.

"There's also a huge tail of XP in the market" he said, referring to users who declined to move to Vista. Tobul and other PC company executives stressed that Microsoft brought hardware makers into the testing process early on to avoid the well-publicized problems that hurt Vista.

PC shipments have progressively improved after a big collapse in the fourth quarter of last year, IDC's Daoud said. After three consecutive quarters of declining or flat shipments, IDC last week said global PC shipments grew by 2.3 percent year-over-year, to 78.1 million units, during the third quarter. IDC expects PC shipment growth of about 9 percent in 2010.

Revenue will also stabilize as PC shipments grow, IDC said. IDC estimates PC revenue will drop by 16 percent this year compared to 2008, but in 2010 it expects revenue to be flat or to grow 2 percent to \$210 billion.

The surge in PC shipments will have a positive effect on semiconductor companies, with chip volumes rising as the market fills up with new Windows 7 PCs, said Avi Cohen, managing partner at Avian Securities. Chip makers such as Intel and AMD have ramped up their operations and added capacity in fabrication plants over the past two months.

The impact of Windows 7 on semiconductor companies is indirect, said Tony Massimini, chief of technology at Semico Research. Higher PC sales could improve the state of the semiconductor industry, in which a lot of fabs have been running on low capacity because of economic slowdown, he said. It could also improve sales of ancillary PC products such as printers and

networking equipment, Massimini said.

Nevertheless, some analysts cautioned that the economic recovery is just starting, and enterprises don't have the budget to upgrade PCs overnight.

"The corporations will adopt Windows 7 gradually," perhaps over two to five years, said Yun Kim, a senior research analyst with financial firm Broadpoint Amtech. "That's kind of what we saw with XP."

**(Marc Ferranti in New York contributed to this story.)**

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