Gartner

Research

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Thriving Secondary PC Market Puts Old PCs to Good Use

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A new model traces the flow of used PCs throughout the world and calculates the size of this potentially lucrative market. In parts of the world where new PCs are not affordable by many, demand for used PCs is strong and growing.

ANALYSIS

There's a whole other PC market out there — a secondary PC market — with its own set of rules of participation and provision. The secondary PC market comprises computers that have been used for more than three months by primary/initial users and then passed on to another party or stored. There are multiple fates for a PC once it leaves its initial user, including being reused, landfilled, recycled or donated. One in every 12 PCs in use worldwide is a secondary PC. Because of the enormous demand for inexpensive PCs, particularly in emerging regions, reusable secondary PCs represent a lucrative opportunity for specialized intermediaries and resellers, not to speak of large PC vendors who should look at this market as a financially attractive alternative to recycling used PCs.

But the market is far from straightforward, and until now, little research has been done on it. This set of reports addresses that, providing clients with an analysis of:

- The size of the worldwide secondary PC market
- Its potential for growth
- Drivers and inhibitors of that growth
- The biggest supplier countries for reused secondary PCs
- The largest consumer countries for reused secondary PCs
- The participants in the secondary PC market (for example, original equipment manufacturer (OEM), lessor, reseller, broker and recycler)
- The ultimate fates awaiting secondary PCs (for example, refurbishment, storage, recycling and landfill)
- Regulations and other inhibitors to doing business in this market

Secondary market shipments do not come at the expense of worldwide primary PC shipments because reuse is often short term and a relevant option only when money for new PCs isn't available. In fact, the secondary market may instead seed the market for new PCs. In addition, falling prices of new PCs in more-mature PC markets have reduced the attractiveness of secondary PCs. However the volume of PCs being replaced continues to grow and cannot be ignored by the PC industry from either a competitive or an environmental standpoint.

Sizing the Secondary PC Market: The Gartner Methodology

Calculating the size of the secondary PC market is extremely complex as it is a highly fragmented market. Gartner has created a methodology that employs industry participant roles and the flow of PCs from the primary market as two key factors (see "Market Focus: Worldwide Secondary PC Market Sizing Methodology, 2005" by Meike Escherich and Charles Smulders). Other factors and methods include the various ultimate fates of PCs and a secondary-market model that traces and calculates the flow of secondary PC products after use by the primary/initial user. This model is multitiered, allowing secondary PC shipments to be traced from the primary user to the next recipient and, if applicable, through other intermediaries until it reaches its final fate. Gartner divides each geographical region/country into four separate segments: professional desktops, professional notebooks, home desktops and home notebooks. Each segment is treated separately in the analysis because of differences in average primary lifetime and specification.

Based on replacement figures from its PC forecast model, Gartner can calculate the size of the total secondary market in a given year and geographical area as: *current year shipments + previous year shipments + imports (where applicable)*. Based on this analysis, Gartner estimates that for every two new PCs shipped to mature markets in 2005, one PC will be resold in the secondary market.

The Demand Side

For many people, new PCs can be too expensive, creating a demand for refurbished PCs, primarily in regions such as Eastern Europe, the Middle East and Africa (MEA), Latin America and parts of Asia/Pacific.

This demand is likely to grow as pressure increases on developing countries to accept used PCs as a viable technology solution, despite concerns that the countries exporting these secondary PCs are doing little more than dumping their e-waste.

The demand for secondary PCs will increase during the next several years in the home and professional markets, sparked by replacement activity, longer system life, major new-seat opportunities in low-cost regions and a number of other factors. Gartner projects the worldwide number of 55 million secondary PCs being reused in the market in 2004 to grow steadily to reach nearly double this volume by 2009 (see "Thirst for Technology Drives Used PC Demand in Emerging Markets" by Meike Escherich and Amy Teng).

The Supply Side

As the installed base of primary PCs grows, the opportunity for selling secondary PCs increases. The market is highly opportunistic but is limited by the economics of refurbishment and user preference. More than 75 percent of PCs replaced out of the worldwide installed base in supply countries are 4 years old or less, yet only 36 percent continue to be used. Refurbishing PCs is more economical if the original machines are identical and buyers see greater value in identical products for total cost of ownership reasons. Brand is also an important factor. Large accounts and government are the major sources for secondary PCs because they are able to match both requirements.

There are other challenges. The secondary PC market is a highly fragmented market, with tens of thousands of players already — and it is hampered by the difficulty of transferring operating system licenses, piracy and competition from falling primary PC prices in the more-mature PC markets. Import tariffs and high transportation costs restrict export volumes flowing from mature markets (Western Europe, the United States, Japan and Australia) to emerging markets. Only one in six PCs dedicated for reuse finds its way from supplier countries into developing markets.

Also, growing concerns over the environmental impact of end-of-life machines (which end up in landfills and increase e-waste) are reflected in increasing recycling legislation. As recycling legislation becomes more common, organizations and consumers will have greater incentive to sell used PCs. In "supply" or "export" areas, such as Western Europe and the United States, recycling legislation will continue to augment secondary market activity, as these laws favor reuse over destruction.

(see "Mature Regions Fuel Supply of Used PCs" by Meike Escherich, Joy Shao and Kanae Maita).

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