

Purchasing Insights — Personal Computers

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PCs Overview

PCs are a significant IT Hardware commodity, purchased across enterprises and industries. We have identified several best practices and sourcing strategies to meet organizational needs and manage costs.

Product Offering

There are 7 main product categories in the PC offering. See Figure 1 below for the product areas and examples.

Figure 1. PC Product Categories

Commodities for Contract	Example(s)
Laptops	Performance Laptop (E6440), Dell Latitude Performance Laptop (E5470)
Desktops	Performance Desktop (Optiplex 9020 MT); Performance Desktop (Optiplex 9020 SFF)
Workstations	Dell Precision Tower 3420, Dell Precision Tower 3620 MT
Monitors	Flat panel display, LED monitor, Touch Display Monitor
Thin Clients / Zero Clients	Dell Wyse – 5000 series AiO 5212 2 GB Flash
Tablets	Microsoft Surface Pro 4, Dell Latitude 12 Rugged Tablet 7202
Accessories	Docking solutions, external hard drive, laptop battery, keyboard, memory, mouse, speakers, video cables

Competitive Landscape

Figure 2 provides an overview of the major manufacturers in the PC market, many of whom are familiar names.

Figure 2. Q1 2016 Global PC Shipments and Market Share

OEM	Shipments (M)	Market Share (%)	41.7M shipments; ~70% market share
Lenovo	12.2	20.1	
HP	11.6	19.2	
Dell	9.0	14.9	
Apple	4.5	7.4	
ASUS	4.4	7.2	
Others	18.9	31.2	
Total	60.6	100	

Apple overtook ASUS in market share due to solid growth in North America. Competitors did not experience the same growth in the North American market.

Market Overview and Industry Trends

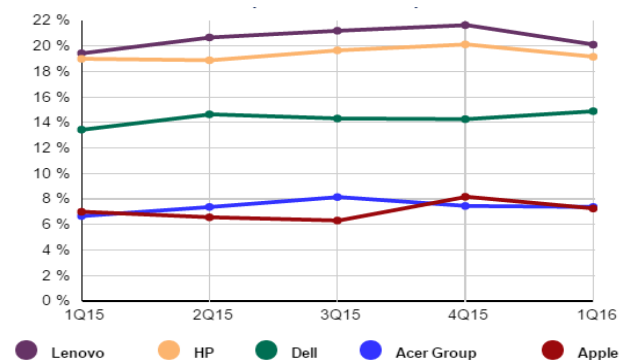
In Q1 2016, global shipments decreased ~11.5% YOY, while shipments to the United States fell ~5.8% YOY to 13.6M.

Weak expectations for the first half of 2016 were driven by:

1. Volatility in stocks, commodities, currencies, and
2. Windows 10 enterprise upgrades in pilot phase

Apple and Dell both outperformed the global market. See In the U.S., Dell edged out HP for the first time since Q3 2009, with a market share of 25.6% compared to HP's 25.3%. Dell's performance was propelled by shipments of notebook PCs.

Figure 3. Top Worldwide PC Vendor Market Share (in units)



Despite a slow start to the year in the U.S., Windows 10 transitions and an increase of K-12 Chromebook usage will likely lead to a moderate recovery.

It should also be noted that the PC market is a mature market with phases of declining shipments occurring periodically.

State of Competition

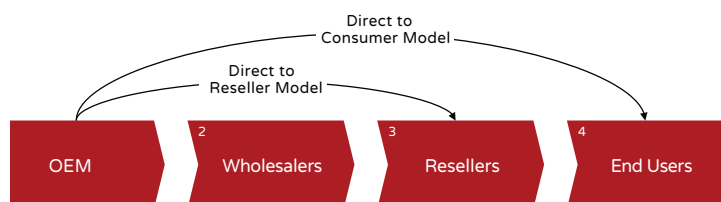
The PC market is extremely competitive and consolidated. As OEMs vie for market share and shipment volume, buyers have enhanced leverage to negotiate pricing. The competitiveness of the market is driven by:

- High buyer bargaining power
- High pressure from substitutes
- Comparable products among major vendors

Distribution Value Chain

Key players in this market are OEMs and resellers. Most organizations buy directly from lower priced OEMs. However, buying from resellers is common when they provide value-added services that offset their increased prices. While most OEMs are large organizations, an opportunity to utilize small businesses exists within the reseller market.

Figure 4. PC Value Chain Models



PC Distribution Value Chain, continued

Example OEMs: Lenovo, Hewlett Packard, Dell

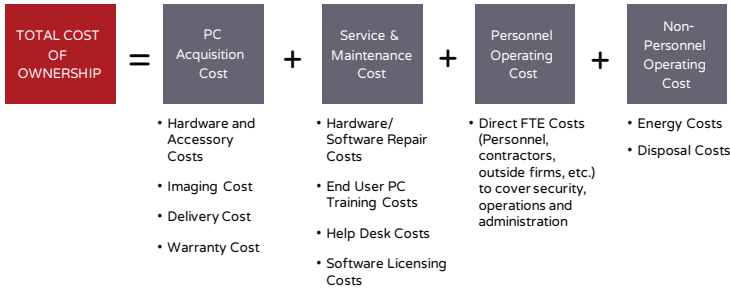
Example Wholesalers: Tech Data, Synnex

Example Resellers: CDWG, Red River

Example End-Users: Fortune 1000, Government/ Education, Small-Medium Businesses, Personal Users

PC Cost Drivers

Figure 5. Total Cost of Ownership Main Cost Drivers



Focus initial efforts on PC Acquisition Cost, which makes up the bulk of the costs and will provide the greatest opportunity. Remaining three cost drivers can be addressed secondarily.

Savings and Procurement Strategies

There are a variety of levers that can be utilized to drive PC savings, which are categorized into two main buckets: (1) demand management and (2) smart contracting. Demand management reduces costs by assessing requirements, managing demand, and distinguishing between “desired” and “needed” PC capabilities. In practice, this means:

- **Aligning User Segments with PC Configurations** – aligning functional needs with the appropriate PC configurations can result in significant savings
- **Optimizing refresh cycles** – balance device purchase costs with warranty, maintenance, and support costs
- **Right-sizing the product mix** – eliminate overbuying by ensuring that users are receiving the “right” product for their business need

Smart contracting involves:

- **Consolidating contracts** – maximize buying power leverage and eliminating acquisition inefficiencies associated with redundant contracts
- **Aggregating requirements** – decrease cross- organizational complexity and enable future help desk / support synergies
- **Optimizing competitive cycles** – balance annual PC market price decreases with acquisition costs

Beyond the levers for strategically sourcing PCs, organizations can make adjustments to their buying practices that also help to realize cost savings.

A few organizational guidelines are:

- **Establish Standard 4 Year Refresh Cycle** – the optimal PC refresh rate is 3 to 4 years; delaying a PC refresh may reduce acquisition costs, but older PCs are more expensive to maintain, driving up the total cost of ownership (TCO)
- **Limit Warranties to 3 Years** – typical PC failure rates are such that purchasing warranties for >3 years is not economical and often do not provide a cost benefit for the organization
- **Standardizing Configurations** – minimize IT management complexity and consolidate volume

Strategic Questions to Consider

In addition to practicing the various strategies outlined, it is also a best practice to consider the following questions:

- How many configurations are needed?
- What is the ideal set of hardware configurations for your organization?
- What contract vehicle does your organization prefer?
- Can small businesses be utilized?
- How can the ordering process be streamlined?
- What tech. trends may affect the way PCs are procured?
- What is the ideal refresh rate for your organization?

Overall, to improve PC procurement and optimize resources, primary focus should be on Total Cost of Ownership and demand management strategies.

Sources: Censeo expertise; “PC Shipment Decline Continued in First Quarter as Expected, with Hopes for Improvement Depending on Commercial Replacements & Economic Stability, According to IDC”. Web. April 11, 2016; Kharpal, Arjun. The PC market has had its worst year ever. CNBC. Web. 13 Jan 2016

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