

Netbooks reshape the PC industry

– Telcos across EMEA and APAC rush to sell 3G netbooks

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For immediate release**

- 13.5 million netbooks were sold worldwide in H1 2009
- More than 50 telcos have begun selling netbooks
- HP has the most telco deals overall, but Samsung has risen quickly with the NC10
- Many established PC vendors have moved too slowly, including Sony, Toshiba, Fujitsu and Lenovo
- Netbooks are three times as likely as notebooks to be used in public places
- €100-€199 is the sweet spot for subsidy-driven netbooks

H1 2009 research highlights

The PC industry is undergoing a more dramatic transformation than seen at any time in the last 15 years. The netbook category was invented as recently as 18 months ago by the likes of Asus and Acer and is the only PC segment enjoying growth this year. The impact of netbooks has been profound. It has forced Microsoft to fend off a threat from Linux by reducing its operating system prices and to continue promoting its aging XP brand. Netbooks have dramatically lowered industry price points, attracting new categories of consumer buyers. Furthermore, hard-pressed PC vendors have been forced to cut their operating costs to have any chance of turning a profit. The biggest change of all has been the success the telcos have had in selling subsidised 3G netbooks, emulating the mobile phone business model. The market shares of PC vendors are changing rapidly on the back of their willingness to commit to the netbook category and their agility in chasing these new, substantial telco deals.

Tim Coulling, Canalys research analyst, said, “Our latest research reveals that, in August, across Europe, the four PC vendors with the most telco deals were Samsung, Asus, HP and Acer. The real surprise has been how quickly the Korean vendors have moved to leverage their mobile phone businesses, selling netbooks to telcos – LG’s netbooks have become prominent in the major countries too. Samsung has achieved great reviews for its NC10 netbook, primarily because of its keyboard and extended battery life. Suddenly, Samsung is a force to be reckoned with in the PC industry – it already has deals with more than half of the telcos currently selling netbooks. Meanwhile, traditional notebook category leaders – including Lenovo, Fujitsu, Sony and Toshiba – have been slow to recognise how quickly the market is changing around them and as a group they have signed fewer than 10 operators.”

As well as being an important sales channel, the operators are playing a pivotal marketing role for the netbook. The telcos have massive retail and marketing coverage, so suddenly netbooks are being promoted in newspapers, billboards and storefronts with a prominence never before given to PCs. Vendors that are not

present in the telco channel are missing out on valuable promotional opportunities. Netbooks and smart phones are finally justifying the telcos' massive infrastructure investments in mobile broadband. They are seeing data revenues rise quickly to offset falling prices for their voice services, and the business case for investments in LTE are starting to look more promising.

Canalys research suggests that many netbooks are being sold as additional devices, rather than as replacements for notebook PCs. A Canalys survey of over 3,000 European consumers during August 2009 revealed that netbooks were three times as likely as notebooks to be used in cafés, public parks or on trains. More than 45% of netbook owners said that they took the device on vacation with them.

Daryl Chiam, senior analyst, continued, "The telco channel took around six months longer to develop in APAC than in EMEA, but activity has accelerated, especially in North Asia. We observed more than double the number of netbook deals in telcos in August as we did in June. The local vendors are moving fast in their home countries, so Asus and Acer lead in Taiwan, Samsung and LG have the deals in Korea, while Lenovo, Haier and Tsinghua Tongfang are active in China. Sony, Toshiba and Sharp have all arranged deals in Japan. HP's superior coverage gives it the most deals overall across the APAC region. We expect to see a rush of new deals across South East Asia and Oceania toward the end of this year."

In August, in both EMEA and APAC, the preferred range for subsidised netbook prices was €100-€199 (\$145-\$290). Monthly contracts are more common in Europe, whereas in APAC pre-pay is preferred, both through embedded 3G and dongle options. Consequently, the subsidies on offer from the telcos are around €60 (\$97) higher in Europe than in Asia.

Apple has resisted the temptation to follow other PC vendors into the telcos, despite the fact that its phenomenally successful iPhone has given it these relationships. Its selling proposition and price points for the Mac fit better with its own Apple retail stores, its stores-within-stores, and its Premium Resellers and other partners. Nokia, the smart phone leader, has, on the other hand, moved quickly to launch its Windows-based Booklet. It has the best telco coverage of any vendor, but it will be a surprise if it can succeed with price points that are substantially higher than the competition.

Microsoft's launch of Windows 7 next month is likely to provide a further boost to the PC market, the consumer side of which has held up surprisingly well during the summer months. Expect the distinctions between smart phones, netbooks and notebooks to become increasingly unclear over the next year as the screen sizes and performance of netbooks increase while new operating systems and processors are launched. Mobile devices, in all their different forms, have been the bright points within the technology industry in this difficult year. The competition and opportunities created between these platforms will be discussed at the

Canalys Mobility Forum, taking place on November 17, near London's Heathrow. Full details are available at canalysmobilityforum.com.

About the services

The shipment estimates and research results discussed in this release come from the Canalys Netbook Analysis and Consumer Mobility Analysis services. Canalys offers services looking at the markets by country in Asia Pacific, North and Latin America and EMEA, as well as providing global market overviews and survey-based analysis of consumer and enterprise attitudes and preferences toward mobile applications, devices and services.

About Canalys

Canalys specialises in delivering high quality market data, analysis and advice to the world's leading technology vendors. It is recognised as a key provider of continuous advisory services and confidential custom projects for marketing managers and strategists within blue-chip IT, telecoms, navigation and consumer electronics companies. It has unrivalled expertise in routes to market for all kinds of high technology products and services and provides worldwide market data and trends analysis.

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