

TOP 3 PREDICTIONS FOR DEVICES IN 2022

Device demand to decelerate in 2022

TECHNOLOGY BUSINESS RESEARCH 2022 *PREDICTIONS* IS A SPECIAL SERIES EXAMINING MARKET TRENDS AND BUSINESS CHANGES IN KEY MARKETS.

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▼ DEVICES MARKET WILL SEE GROWTH RETURN TO PRE-PANDEMIC LEVELS THROUGHOUT 2022




Many thought the initial surge in devices demand would quickly fade after the start of the COVID-19 pandemic, but that has not been the case. Revenue growth across the ecosystem, especially in PCs and tablets, has been much higher in recent quarters than traditional single-digit growth. However, this current elevation is unsustainable.

Over the past two years, the devices market has seen a major industry shift in supply and demand that has reshaped the ecosystem and has led to strong and consistent growth from most device vendors. It began with factory closures that hurt early 2020 supply chains and revenue growth, followed by a major spike in demand for devices used to entertain, work and learn from home during the pandemic. A shortage of components has led to this demand being unmet as of the end of 2021, leaving TBR to question whether vendors will be able to maintain revenue growth, unit sales and average unit revenues in the long term.

TBR expects a drop in demand and revenue growth by the end of 2022 due to these unsustainable conditions; however, other factors will emerge to help stabilize the devices market at pre-pandemic levels. These trends include continued revenue growth, albeit at a decelerated, low-single-digit pace rather than the 20%-plus year-to-year growth seen since mid-2020, as well as vendors' releases of Windows 11 PCs and additional 5G device enhancements to drive refreshes in the coming year.

▼ PREDICTIONS

PC MARKET GROWTH UNSUSTAINABLE, WILL RETURN TO SINGLE DIGITS IN 2022

-  **Trend:** PC demand remains elevated amid the transition to hybrid working and learning environments and the ongoing component supply constraints.
-  **Driver:** While there are PC growth drivers to potentially offset the upcoming PC revenue growth decline, including the Windows 11 release, TBR believes the combination of decreasing component supply levels and declining consumer demand will flatten PC growth by 2023.
-  **Result:** Demand for PCs will drop off by the end of 2022 as supply shortages cease. Revenue growth will return to flat to low-single digits, on par with pre-pandemic growth rates.

During the pandemic, country lockdowns led to an increase in the average number of PCs and related devices per household. The total addressable market (TAM) for PCs spiked to 340 million to 350 million units globally, and vendors additionally saw extreme growth in tablets and other smart devices. This TAM is not expected to decline.

From a PC segments perspective, TBR expects the commercial market to see an increase in revenue and unit sales through mid-2022. The consumer market is likely to decelerate to flat or low growth over the same time period as users have acquired the devices needed for entertainment, school and work. The exception to this will be gaming PCs, which are predicted to continue to rapidly grow. Both desktop and notebook models continue to sell well, with the latter seeing an increased focus from the major gaming PC vendors through new product launches in 2021.




TBR believes component shortages will be less of a factor in the devices market around mid-2022, enabling supply to finally begin catching up to demand. Toward the end of 2022, vendors will need to start shifting their pricing strategies to maintain growth due to the increase in available PCs. This will result in lower average unit revenue and will partially erode PC profitability. Due to the expected growth in commercial PCs during the year, TBR believes premium models will continue to sell well, helping to partially offset the pricing changes.

Notebooks will continue to comprise the majority of PC unit sales, though both workstations and desktops will grow revenue and unit sales year-to-year in 2022 due to higher demand from the commercial market and a favorable comparison to 2021. Vendors will continue to develop new PC updates that cater to the hybrid working environment.

One trend that will help offset lower market demand is the release of Windows 11. This 3Q21 release is not expected to have an immediate impact on unit sales, as TBR believes large businesses tend to wait approximately one year after a major release to allow time to review the release and for any bugs to be fixed. Therefore, 2023 is likely to see an increase in commercial PC sales as enterprises and SMBs adopt new Windows 11 fleets. TBR also believes companies are more likely to purchase new devices rather than update to Windows 11 on existing inventory.

Additionally, between 2023 and 2024 TBR expects to see PC growth stemming from refresh cycles that began at the onset of the pandemic, as the average PC life cycle will be three to four years. This will help maintain PC growth throughout the next few years in the low- to mid-single digits, however, at a lower growth rate than in 2021 as the TAM will not have changed significantly since 2021.

TABLET MARKET REVENUE GROWTH SET TO DECELERATE IN 2022




-  **Trend:** The increase in the number of screens per person has elevated short-term tablet growth.
-  **Driver:** Tablet demand and adoption have skyrocketed throughout the pandemic to meet user needs around remote working, learning and playing. Supply chain issues are also keeping demand elevated and impacting vendors' ability to meet supply requirements.
-  **Result:** Tablet revenue and unit sales will decelerate year-to-year heading into 2022, ahead of PC market deceleration.

TBR expects tablet revenue growth and unit sales to decelerate ahead of the PC market over the next few quarters due to a mix of demand and as consumers and businesses find other methods to outfit themselves for the new working and playing environment. However, the deceleration in growth will not return to pre-pandemic levels, when many vendors saw declining year-to-year tablet revenue, due to how vendors are dealing with market demand and how component shortages impact the market.

The number of devices or screens per household has quickly increased throughout the pandemic, with most consumers obtaining at least one screen per person. Tablets have become popular for children, and remote learning and certain work-related tasks have elevated demand. This led to many vendors seeing strong double- or even triple-digit tablet revenue growth through the end of 2020 and in early 2021. The addition of attachable keyboards to vendors' tablet offerings is a key driver in maintaining segment growth long term as the keyboards greatly increase the functionality and usability of the tablets. Aside from PCs, tablets have likely been the most sought-after devices to help overcome personal and professional changes stemming from the pandemic.

Overall tablet demand is not as high as PC demand, which we believe will impact unit sales in 2022, though ongoing component constraints continue to impact the market. Apple, for example, expects iPad tablet sales to decline in 4Q21 due to supply constraints, which will lead to an overall decline in segment revenue in the quarter as Apple has the largest share of the tablet market. This will likely push some sales into 1H22, so TBR expects revenue to continue growing year-to-year in early 2022 before flattening out.

DAAS WILL LEAD ALL PC SERVICES IN REVENUE GROWTH THROUGH 2022

-  **Trend:** “As a Service,” specifically Device as a Service (DaaS), has become a more viable and attractive alternative to purchasing traditional PC fleets as many companies continue to shift from a capex-focused to an opex-focused business model.
-  **Driver:** The pandemic has accelerated the demand for “as a Service” solutions, especially around the SMB market, though adoption by large enterprises continues to increase.
-  **Result:** DaaS will remain a rapidly growing business for all major PC vendors, and comparable offerings across the companies will result in fierce competition and close market share among leaders. The “as a Service” market will continue to lead the PC-related services business in revenue growth over the next two years.

The DaaS market saw rapid growth in 2021 as the need for hybrid work equipment has led to increased demand for “as a Service” offerings. The leaders in the DaaS market are the three core PC vendors: HP Inc., Dell Technologies and Lenovo. TBR expects each of these vendors will maintain strong double-digit revenue growth in the DaaS market in the coming years.

There has been a rebound in commercial PC growth over the past two quarters, and this is expected to continue through mid-2022. This is also contributing to rising attach services rates as commercial PCs typically see higher attach rates compared to lower-end consumer models. Despite this increase, TBR expects DaaS to remain the fastest-growing PC services segment in the foreseeable future, as the big three PC vendors jostle for market leadership in a competitive market. TBR’s recently published *Hardware Subscription Services Market Landscape* cites total DaaS vendor revenue growing at a 26% CAGR through 2024, with even higher year-to-year growth rates in the next couple of years.

The SMB market is a particularly fast-growing segment for DaaS vendors, with many vendors adjusting or expanding their offerings to target these businesses during the pandemic. Dell Technologies and Lenovo both made SMB-specific DaaS plans during 2020 to meet hybrid or remote working needs, while Apple launched its first true DaaS offering in 3Q21, specifically targeting the SMB market with offerings for as little as a single DaaS seat.

In addition to the predicted revenue growth for “as a Service,” TBR expects new portfolio additions and announcements in 2022 to enhance each vendor’s offerings. These may include security-focused announcements or updates to existing plans and offerings to better target the evolving hybrid working landscape. Other vendor announcements might include new or updated software and solutions to differentiate “as a Service” offerings from the competition.

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