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PCs on the way out in Japan

November 5, 2007 - 1:23PM

Masaya Igarashi wants \$US200 headphones for his new iPod Touch, and he's torn between Nintendo's Wii and Sony's PlayStation 3 game consoles. When he has saved up again, he plans to splurge on a digital camera or flat-screen TV.

There's one conspicuous omission from the college student's shopping list: a new computer.

The PC's role in Japanese homes is diminishing, as its once-awesome monopoly on processing power is encroached by gadgets such as smart phones that act like pocket-size computers, advanced internet-connected game consoles, and digital video recorders with terabytes of memory.

"A new PC just isn't high on my priority list right now," said Igarashi, who was shopping at a Bic Camera electronics shop in central Tokyo and said his three-year-old desktop was "good for now."

"For the cost, I'd rather buy something else," he said.

Japan's PC market is already shrinking, leading analysts to wonder whether Japan will become the first major market to see a decline in personal computer use some 25 years after it revolutionized household electronics - and whether this could be the picture of things to come in other countries.

"The household PC market is losing momentum to other electronics like flat-panel TVs and mobile phones," said Masahiro Katayama, research group head at market survey firm IDC.

Overall PC shipments in Japan have fallen for five consecutive quarters, the first ever drawn-out decline in PC sales in a key market, according to IDC. The trend shows no signs of letting up: In the second quarter of 2007, desktops fell 4.8 percent and laptops 3.1 percent.

NEC's and Sony's sales have been falling since 2006 in Japan. Hitachi Ltd. said Oct. 22 it will pull out of the household computer business entirely in an effort to refocus its sprawling operations.

"Consumers aren't impressed anymore with bigger hard drives or faster processors. That's not as exciting as a bigger TV," Katayama said. "And in Japan, kids now grow up using mobile phones, not PCs. The future of PCs isn't bright."

PC makers beg to differ, and they're aggressively marketing their products in the countries where they're seeing the most sales growth places where residents have never had a PC. The industry is responding in two other ways: reminding detractors that computers are still essential in linking the digital universe and

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releasing several laptops priced below \$300 this holiday shopping season.

And, though Sales in the U.S. are slowing too, booming demand in the industrializing world is expected to buoy worldwide PC shipments 11 percent to an all-time high of 286 million in 2007. And, outside Japan, Asia is a key growth area, with second-quarter sales jumping 21.9 percent this year.

Hitachi had already stopped making PCs for individual consumers since releasing this year's summer models, although the Tokyo-based manufacturer will keep making some computers for corporate clients. Personal computers already accounted for less than 1 percent of Hitachi's annual sales.

It's clear why consumers are shunning PCs.

Millions download music directly to their mobiles, and many more use their handsets for online shopping and to play games. Digital cameras connect directly to printers and high-definition TVs for viewing photos, bypassing PCs altogether. Movies now download straight to TVs.

More than 50 percent of Japanese send e-mail and browse the internet from their mobile phones, according to a 2006 survey by the Ministry of Internal Affairs. The same survey found that 30 percent of people with e-mail on their phones used PC-based e-mail less, including 4 percent who said they had stopped sending e-mails from PCs completely.

The fastest growing social networking site here, Mobagay Town, is designed exclusively for cell phones. Other networking sites like mixi, Facebook and MySpace can all be accessed and updated from handsets, as can the video-sharing site YouTube.

And while a lot of the decline is in household PCs, businesses are also waiting longer to replace their computers partly because recent advances in PC technology are only incremental, analysts say.

At a consumer electronics event in Tokyo in October, the mostly unpopular stalls showcasing new PCs contrasted sharply with the crowded displays of flat-panel TVs.

"There's no denying PCs are losing their spunk in Japanese consumers' eyes," said Hiroyuki Ishii, a sales official at Japan's top PC maker, NEC Corp. "There seems to be less and less things only a PC can do," Ishii said. "The PC's value will fade unless the PC can offer some breakthrough functions."

The slide has made PC manufacturers desperate to maintain their presence in Japanese homes. Recent desktop PCs look more like audiovisual equipment or even colorful art objects than computers.

Sony Corp.'s desktop computers have folded up to become clocks, and its latest version even hangs on the wall. Laptops in a new Sony line are adorned with illustrations from hip designers like ZAnPon. NEC is trying to make its PCs' cooling fans quieter to address a common complaint from customers, it says.

Still, sluggish sales weigh on manufacturers.

NEC's annual PC shipments in Japan shrank 6.2 percent to 2.72 million units in 2006, though overall earnings have been buoyed by mobile phone and networking solutions operations. The trend continued in the first quarter of fiscal 2007 then there was a 14 percent decline from a year earlier.

Sony's PC shipments for Japan shrank 10 percent in 2006 from a year earlier. But it isn't about to throw in the towel yet.

"We feel we've reached a new stage in PC development, where consumers are looking for user-friendly machines to complement other electronics," said Hiroko Nakamura, a Sony official in Tokyo.

Sony's latest PCs, for example, come with a powerful program that can take photos and video clips and automatically edit them into a slideshow set to music.

Even Cupertino, Calif.-based Apple Inc., whose computer sales and market share are surging in the U.S., has seen Macintosh unit sales in Japan slip 5 percent year-on-year in the first nine months of 2007.

There are other reasons Japan is the first market to see PCs shrink, some analysts say.

"We think of Japanese as workaholics, but many don't take work home," said Damian Thong, a technology analyst at Macquarie Bank in Japan. "Once they leave the office, they're often content with tapping e-mails or downloading music on their phones," he said.

As Hitachi's shuttering of its household PC business demonstrates, making PCs has become less attractive. IBM Corp. also left the PC business in 2005, selling its computer unit to China's Lenovo Group Ltd.

But NEC's Ishii is persisting.

"We have to get the message out there that PCs are on top in terms of computing power," he said. "They always will be."

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