

## PROFILE

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### The Economic Impact of Microsoft's Windows 7, EUEZ

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#### IN THIS PROFILE

This profile quantifies the forecasted economic impact that Microsoft's Windows 7 operating system will have from launch in October 2009 to the end of 2010 in a 30-country region we are calling the European Union Economic Zone (EUEZ).<sup>1</sup> The impact is seen in IT employment, revenues to firms in the Microsoft ecosystem, and investment in products and services working with or supporting the new operating system.

The employment, revenue, and investment in local IT ecosystems from Windows 7 will help the IT industry to assist economies in the region in climbing out of the current economic crisis and building toward long-term growth.

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#### EXECUTIVE SUMMARY

Windows 7, Microsoft's follow-on to Windows Vista (launched in 2006), will become commercially available in October 2009. IDC's forecast for Windows 7 shipments shows a brisk uptake: 177 million units to be shipped worldwide by the end of 2010.

For Microsoft, the launch of Window 7 suggests strong growth in client operating systems again. But the impact of Windows 7 will reach far beyond Microsoft, driving revenues and growth for many of the IT companies in the EUEZ that sell hardware, write software, provide IT services, or serve as IT distribution channels. This growth will do its bit to help the region's economies climb out of the current economic crisis.

The IDC research indicates that:

- ☒ By the end of 2010, more than 177 million copies of Windows 7 should be in place worldwide, and more than 50 million in the EUEZ.
- ☒ By the end of 2010, more than 1.5 million people in the EUEZ IT industry and at IT using organizations will be working with Windows 7, 18% of the EUEZ IT workforce. The 100,000-plus IT companies in the EUEZ that produce, sell, or

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<sup>1</sup> See the Definitions and Methodology section for a list of countries

distribute products or services running on Windows 7 will employ more than 600,000 people; another 900,000 will be employed at IT-using firms.

- ☒ For every euro of Microsoft revenue in the EUEZ from launch in October 2009 to the end of 2010 from Windows 7, the ecosystem beyond Microsoft will reap € 19.06. During that period, this ecosystem will sell more than € 70 (\$100) billion in products and services revolving around Windows 7.
- ☒ To achieve those revenues, the companies in the Microsoft EUEZ ecosystem are expected to invest more than € 25 (\$37) billion by the end of 2010 developing, marketing, and supporting products and services built around Windows 7.

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## **BACKGROUND TO THIS STUDY**

Since 2002, IDC has conducted studies on the economic impact of IT, software, and the Microsoft ecosystem and partner community on local economies. This impact comes in the form of job creation, company formation, and increased IT spending. The economic impact and reach of the Microsoft ecosystem, which we call the Microsoft Footprint, have been studied in more than 80 countries since 2004.

In the summer of 2009, IDC extended its Microsoft Footprint research to examine the economic impact of Windows 7.

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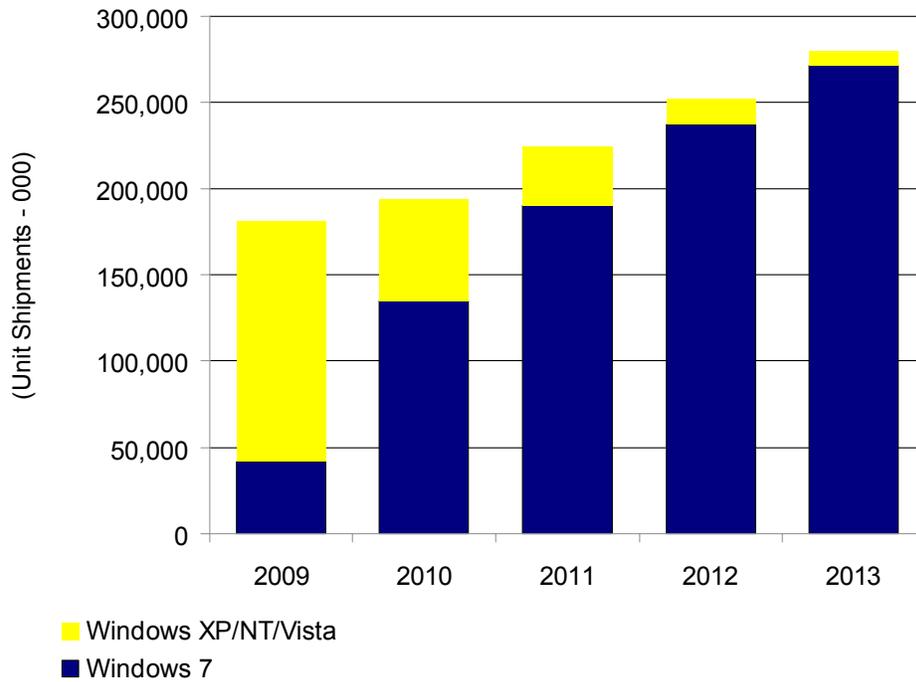
## **ADOPTION OF WINDOWS 7**

As of this writing, Windows 7 is expected to launch in October 2009. Figure 1 shows IDC's published forecast of Windows 7 unit shipments worldwide by year compared to Windows XP, NT, and Vista.

IDC expects Windows 7 shipments to grow from just over 40 million in 2009 to 272 million in 2013.

**FIGURE 1**

Microsoft Client OS Forecast — New License Shipments



Source: IDC, The Economic Impact of Windows 7, 2009

In the scheme of total IT spending in the EUEZ, the spending on the more than 50 million copies of Microsoft's Windows 7 to be shipped between launch in October 2009 and the end of 2010 will be small – barely 1% of total IT spending and only 5% of total spending on software. But Windows 7 means more than revenue to just Microsoft. It will also drive revenue for hardware companies, other software companies, service firms, and channel firms in every corner of the region.

To understand this overall impact first requires understanding the role of software in the economics of IT.

## THE IMPORTANCE OF SOFTWARE

In the EUEZ, packaged software accounts for 20% of total IT spending. That's spending on operating systems, applications, and development tools for everything from ultra portable computers to large mainframes.

But this software generates related activity.

- People in service firms install, integrate, support, and train others on software.
- People in computer stores, system resellers, and distribution companies spend time selling and delivering software.
- Hardware and software firms design and sell products that run on software.

Because software is more complex to sell, service, and support than hardware, euro for euro, software generates more downstream economic activity than hardware.

IDC's analysis of the IT services market shows that for every euro of packaged software sold, there is another € 1.24 in revenue to IT service firms. That software revenue and additional services revenue also drive revenue in the distribution channel. These multiple revenue streams pool to help fund employment.

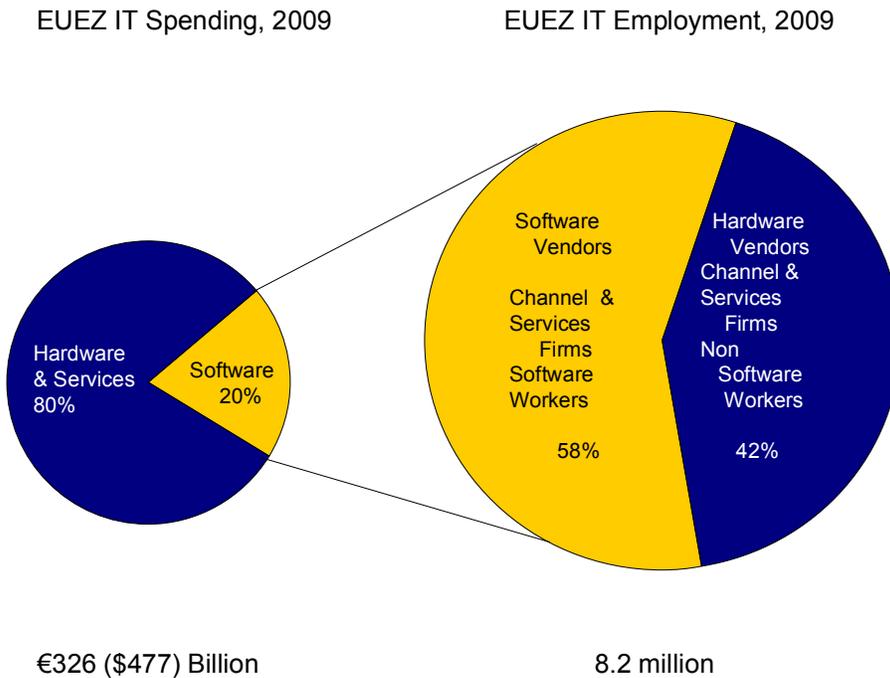
IDC's interviews with user organizations also confirm that in IT organizations, the allocation of staff disproportionately favors software when compared to software's share of the external IT budget.

This is why Windows 7 can have a much larger impact on an economy than Microsoft's revenues alone.

Figure 2 demonstrates this conclusion by comparing software spending as a percentage of total IT spending to software-related employment as a percentage of total EUEZ IT employment in 2009.

**FIGURE 2**

Software's Outsized Influence



Source: IDC, The Economic Impact of Windows 7 Study, 2009

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## THE IT LANDSCAPE

If the economic forecasts hold, by 2010 the EUEZ IT market should begin recovering from the economic crisis.

The EUEZ IT market in 2010 should look like this:

- ☒ IT spending, € 331 (\$485) billion, up 2% from 2009
- ☒ Packaged software spending, € 67 (\$100) billion, up 2% from 2009
- ☒ Hardware spending, € 104 (\$152) billion, flat from 2009
- ☒ Services spending, € 160 (\$234) billion, up 2% from 2009
- ☒ PC shipments, 85 million, up 8% from 2009

The increases from 2009 are modest – Windows 7 will be shipping into a relatively harsh environment.

But the launch of a new and better operating system will necessitate new applications, new hardware, new planning, deployment and training, and new services. These will drive much-needed investment that will, in turn, fuel stronger growth in subsequent years.

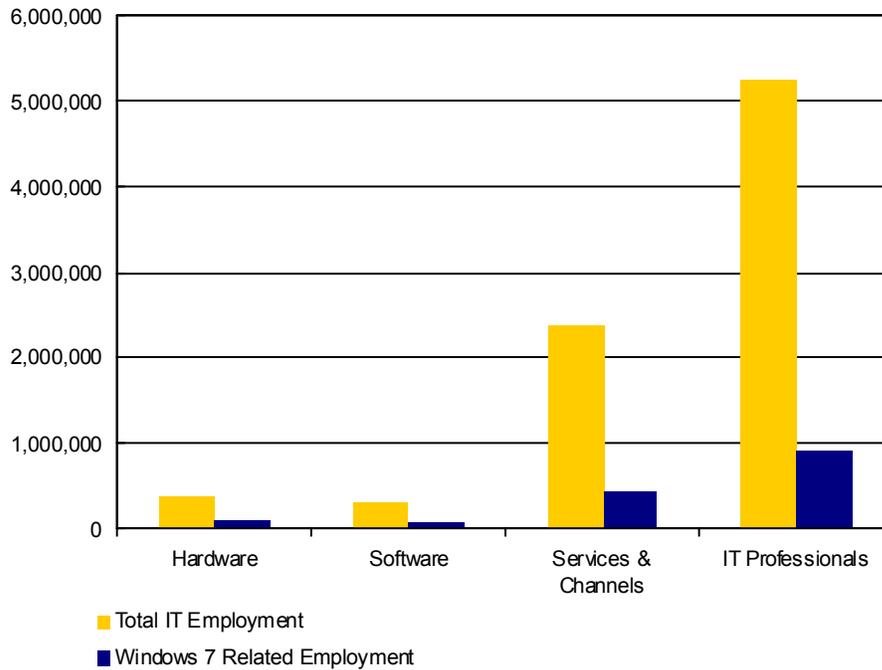
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## THE IMPACT OF WINDOWS 7

Applying the same methodology used to determine software-related employment, IDC has determined Windows 7-related employment by the end of 2010. As a subset of the software market, Windows 7 will drive a subset of employment. As an operating system, however, its share of employment will be disproportionately larger in comparison to employment related to applications or development tools.

Figure 3 shows how Windows 7-related employment compares to total EUEZ IT employment in 2010. By the end of 2010, Windows 7-related employment will account for more than 1.5 million jobs – or 18% of all IT employment – in the EUEZ IT industry.

This is nearly 100,000 in hardware companies, nearly 80,000 in software companies, more than 440,000 in services and channel companies, and more than 900,000 in IT using organizations.

**FIGURE 3****Windows 7 Related IT Employment, EUEZ**

Source: IDC, The Economic Impact of Windows 7 Study, 2009

Table 1 below shows total IT employment and Windows 7 related IT employment by country. Within the group, the Windows share of total employment varies a little. For instance, in countries such as Poland, where PCs account for a higher percentage of overall hardware spending, the importance of PC operating systems is higher than in countries with less reliance on PCs.

**TABLE 1****Windows 7 Impact on Employment By Country in 2010**

Country	Total IT Employees	Windows 7 Related Employees	Windows 7 %
Czech Republic	175,000	34,000	19%
Denmark	153,000	27,000	18%
France	1,241,000	222,000	18%
Germany	1,591,000	286,000	18%
Hungary	120,000	22,000	18%
Italy	681,000	113,000	17%
Netherlands	440,000	74,000	17%
Poland	332,000	69,000	21%
Spain	516,000	84,000	16%
United Kingdom	1,388,000	262,000	19%
Rest of Region	1,678,000	336,000	20%
<b>Total Group</b>	<b>8,315,000</b>	<b>1,529,000</b>	<b>18%</b>

Source: IDC Economic Impact of Windows 7 Study, 2009

## THE WINDOWS 7 EFFECT

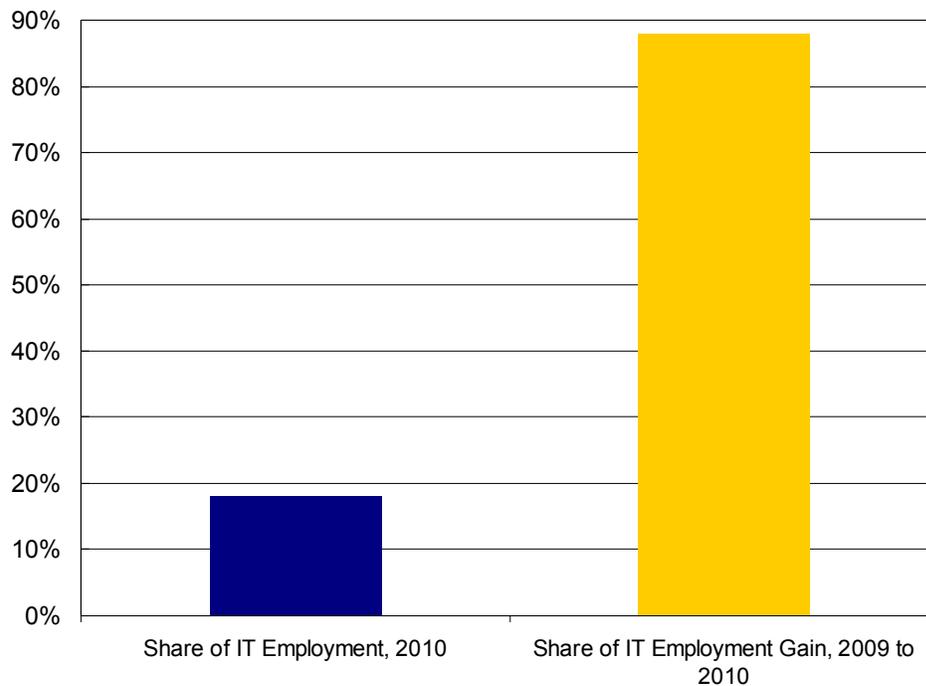
It's one thing to calculate Windows 7 related employment, another to determine what employment would be were Window 7 not to enter the market. What's the net gain, or economic "bounce," from the launch of Windows 7?

Figure 4 shows one way to look at it. Here we show the Windows 7 percent of IT employment in 2010 (18%) compared to the Windows 7 share of the net gain in overall employment from 2009 to 2010. Coming up with the net gain means developing an estimate of 2009 employment – *as if Windows 7 were not in the market*. We did this using the same methodology we applied to determine Windows 7 2010 employment, but with the predecessor operating systems in 2009.

IDC expects that employment related to client operating systems is expected to grow by about 40,000 new jobs or more than half of total growth in EUEZ IT employment *solely* because of the launch of Windows 7.

**FIGURE 4**

The Windows 7 Effect, EUEZ



Source: IDC, The Economic Impact of Windows 7 Study, 2009

## THE REACH OF THE MICROSOFT ECOSYSTEM

Microsoft is more than the world's largest software company. It is an economic force that, through its ecosystem, directly impacts the economies in which it operates.

Microsoft partners and OEMs sell PCs running Windows; software vendors write applications that run on Windows using Microsoft application development tools; retail outlets and resellers employ people to sell and distribute these products; and service firms install and manage Microsoft-based solutions, train consumers and businesses on Microsoft products, and service customers for their own applications.

If you total all of the spending on hardware and software that run on Microsoft operating systems as well as all of the spending on the services related to installing and maintaining Microsoft applications and solutions, you quickly come up with a number much bigger than Microsoft's revenues.

With Windows 7, ecosystem companies will drive their own revenues by:

- Reselling the new operating system
- Reselling other Microsoft software that runs on the new operating system
- Selling their own software
- Selling services on the Microsoft software
- Selling services on their own software and that of others that run on the new operating system
- Reselling partner-developed software that runs on the new operating system
- Selling or reselling hardware that runs the new operating system

These permutations and combinations of revenue generating activity will lead the Microsoft ecosystem – as many as 220,000 companies in the EUEZ, at least half working with Windows 7 – to bring in more than € 70 (\$100) billion in product and services revenues related to Windows 7 from launch in October 2009 to year end 2010.

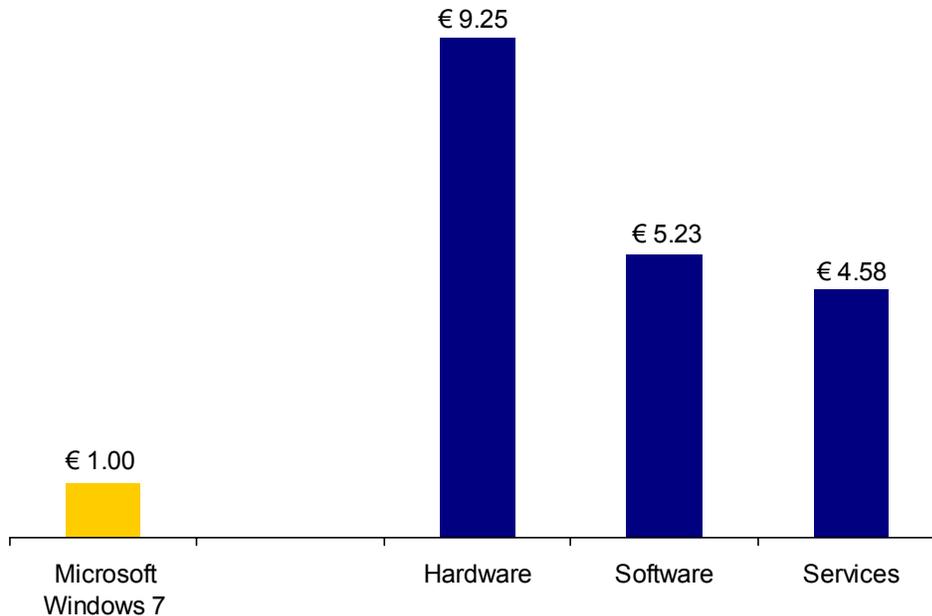
Because the vast majority of the companies in the Microsoft ecosystem are locally owned and operated small and medium sized businesses, the preponderance of that € 70 (\$100) billion will remain in local communities and drive local economic growth.

Figure 5 shows the euro relationship between estimated Microsoft revenues from Windows 7 and revenues to partners from Windows 7-enabled hardware, software, and services sales. For every euro of Microsoft revenues from the new operating system, other companies in the EUEZ will make € 19.06.

To obtain these revenues, EUEZ ecosystem firms are expected to invest € 25 (\$37) billion during that period to develop, market, and support their products and services that work with or run on Windows 7. These investments, mostly out of company revenues, will also primarily remain in their local economies.

**FIGURE 5**

Windows 7 Ecosystem Revenues, EUEZ



Source: IDC, The Economic Impact of Windows 7 Study, 2009

## THE MICROSOFT PARTNER COMMUNITY

Within the Microsoft ecosystem is a subset of vendors that are recruited and supported by Microsoft as OEMs and registered partners. They are a diverse group of companies, running the gamut from large international vendors, such as major PC manufacturers, to very small national resellers and software entrepreneurs.

These partners often don't go to market as pure hardware, software, or services companies. Many resell software while creating their own, sometimes they resell hardware as well, and often they service both their own software and the hardware and software they resell.

Hence, IDC also classifies ecosystem companies by business model, categorizing them into five groups:

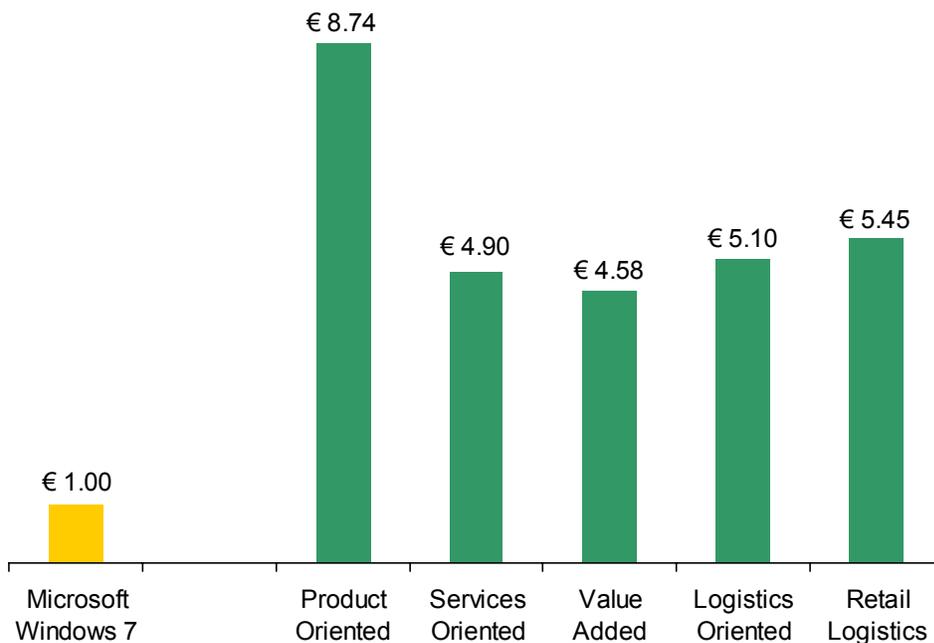
- ☒ *Product-oriented partners* derive 60% or more of their revenue from the sale of internally created products. These may be independent software vendors (ISVs), communications solution vendors, hardware vendors (ranging from major system vendors to non branded local assemblers), or other types of technology solution vendors.
- ☒ *Services-oriented partners* derive 60% or more of their revenue from the delivery of internally created services and less than 20% from the resale of third-party products. These include systems integrators and consultants.

- ☒ *Value-added resellers (VARs)* derive 20% or more of their revenue from product resale and 20% or more from internally created services. They provide turnkey solutions that bundle hardware, software, and services.
- ☒ *Logistics-oriented resellers* derive 60% or more of their revenue from the resale of third-party products and less than 20% from the delivery of internally created services. They focus on improving the process and reducing the cost of buying third-party products.
- ☒ *Retail logistics resellers* derive 80% or more of their revenue from the resale of third-party products to consumers. This category is a unique subset of the logistics-oriented category.

Figure 6 recasts the revenue ratios shown in Figure 5 by partner type. Since most ecosystem partners fall into one of these categories based on their business model – as opposed to the strict hardware, software, services IT spending categories – these figures are more applicable to their understanding the impact that Windows 7 can have on their own markets

**FIGURE 6**

Windows 7 Ecosystem Revenues by Partner Type, EUEZ



Source: IDC, The Economic Impact of Windows 7 Study, 2009

Table 2 below shows the Windows 7 ecosystem revenues compared to Microsoft revenues by country by category. Countries with a high PC share of total hardware revenues tend to have higher hardware revenues compared to Microsoft revenues and lower software and services revenues. This translates into higher product oriented revenues compared to other partner categories as well.

**TABLE 2****Euros of Windows 7 Related Revenues Per Euro of Windows 7 Revenue, 2010**

Country	Total	Hardware	Software	Services	Product Oriented	Services Oriented	Value Added	Logistics Oriented	Retail Logistics
Czech Republic	19.18	7.54	6.72	4.25	7.87	5.22	4.67	4.42	4.51
Denmark	20.84	12.01	6.04	5.87	11.03	5.99	5.62	6.32	6.80
France	20.22	12.29	3.98	2.91	10.52	3.39	3.90	6.06	6.90
Germany	18.48	8.70	6.09	6.04	8.61	6.14	5.33	4.94	5.05
Hungary	18.76	9.40	5.27	5.54	8.87	5.53	4.98	5.13	5.41
Italy	19.62	8.35	6.10	4.03	8.28	4.85	4.49	4.70	4.93
Netherlands	20.67	10.80	5.11	2.85	9.77	3.73	4.03	5.61	6.26
Poland	18.04	9.88	4.96	4.78	9.13	4.93	4.65	5.35	5.78
Spain	20.47	8.57	6.08	6.03	8.51	6.13	5.31	4.89	4.99
United Kingdom	19.82	12.55	3.17	2.32	10.45	2.73	3.48	6.08	7.05
Rest of Region	17.00	11.62	3.84	5.01	10.09	4.69	4.63	5.99	6.64
Total Group	19.06	9.55	5.33	4.94	8.97	5.17	4.77	5.15	5.47

Source: IDC, The Economic Impact of Windows 7 Study, 2009

**SUMMARY AND OUTLOOK**

The advent of Windows 7 will precipitate related and cascading economic benefits, from new employment to increased revenues and investments made in national, state, and local economies throughout the region. In this case, 1% of total EUEZ IT spending will drive 18% of total EUEZ IT employment and account for a significant portion of the new jobs created in the EUEZ IT industry in late 2009 and 2010.

In the midst of an economic crisis, with most governments seeking economic stimulus to grow their economies, the launch of a major new operating system should be considered good news – a stimulus package in its own right.

**DEFINITIONS AND METHODOLOGY*****Economic Impact***

**IT Spending** — Spending by consumers, businesses, governments, or educational institutions on information technology, including hardware, software, services, and data networking, as measured in the IDC's *Worldwide IT Spending Trends* reports (The Worldwide Black Book). This spending *excludes* all telecommunications revenues and some smaller emerging technology areas, such as videogames (although PC gaming software *is* included).

**IT Employment** — The number of people employed (full-time equivalent) in hardware, software, services, or channel firms and those managing IT resources in an IT-using organization (e.g., programmers, help desk, IT managers).

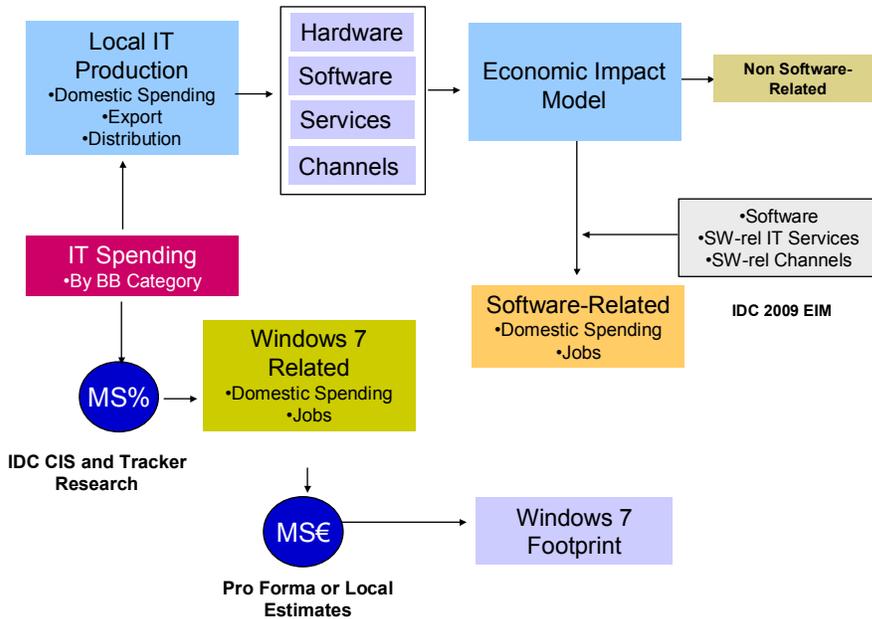
**Channel revenues** — Within calculations of employment, IDC used a figure for channel revenues to drive estimates of employment. In this case, channel revenues were equated to 100% of IT spending. Most of that goes back to the hardware, software and IT services suppliers, but it is that revenue that funds employment.

Within its tracking of IT *spending*, IDC looks only at channel mark-up, which is the difference between IT spending and vendor revenues.

Figure 7 illustrates the methodological flow of the study.

**FIGURE 7**

**Economic Impact Methodology**



Source: IDC, The Economic Impact of Windows 7 Study, 2009

**Software-Related Revenues and Employment**

This is the percentage of spending or employment that can be associated with creating, installing, servicing, or distributing software. It was developed by first analyzing 13 service categories and using IDC research to determine the percentage of that activity devoted to software (e.g., what percentage of IT outsourcing is managing software applications and infrastructure, and what percentage is managing hardware.) This led to a ratio of software spending to services spending. For the purposes of allocating employment, internal IT departments were assumed to resemble external service organizations and headcount is allocated accordingly. The allocation of channels activity to software is the midpoint between the percentage of software spending to the total of software and hardware spending and the percentage of IT services that is software related.

**Windows 7 Related Economic Impact**

Windows 7 related employment was derived using country-level estimates of the percentage of IT spending in 2009 and 2010 by IT category for products running on the new operating system or for services supporting them.

- ☒ For hardware we counted newly shipped PCs that we expect to run on Windows 7 based on IDC forecasts.
- ☒ For software we counted all software that we expected to be shipped that would run on Windows 7, including Microsoft software. For this we used the IDC Software Market Forecaster on revenues by software category (e.g., development tools, CRM software, collaboration tools) by operating system.
- ☒ For services we counted all services related to the design, deployment, management, support, and training for Windows 7 and solutions running on it. We excluded maintenance and support on hardware running Windows 7 under the assumption that maintenance was more likely to be related to equipment failures.
- ☒ For Windows 7 related IT professionals we used the general ratio of services to come up with estimates of headcount percentages in user organizations.

To determine the amount of Windows 7 related IT spending per dollar of Windows 7, we took the Windows 7 related spending percentages developed above and compared them to estimates of Windows 7 revenue. In the final calculation, we subtracted Windows 7 revenues and Microsoft revenues from its own software that would run on Windows 7 from the total to come up with the total Windows 7 related spending that wasn't revenue to Microsoft.

### ***Ecosystem Revenues and Investment Levels***

The exercise above yields a ratio of Microsoft revenues to those in the ecosystem, which leads to a revenue calculation for 2009 and 2010.

IDC then used these revenues and applied estimates of investment in R&D, product development, sales and marketing, and customer support to determine Windows 7 investment levels. These were patterned after standard industry ratios.

### ***EUEZ countries***

For this project, 10 countries were called out: Czech Republic, Denmark, France, Germany, Hungary, Italy, The Netherlands, Poland, Spain, United Kingdom. The remaining 20, grouped into Rest of EUEZ, were: Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Portugal, Romania, Slovakia, Slovenia, Sweden, Switzerland.

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