

Asia Pac stacks up

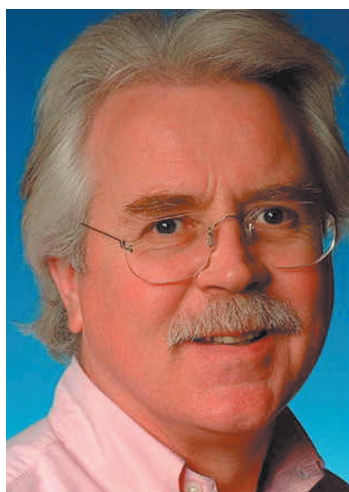
With so much untapped business opportunity in the Asia Pacific region, European sales will come under threat, predicts **Keith Humphreys**

THE ASIA PACIFIC (ASIA PAC) region is both an opportunity and a threat. The opportunity is enormous. For example, there are more mobile phone subscribers in China than there are people in the US. Yet last year, China represented only 11 per cent of Asia Pac's total spend on ICT, and this is expected to grow to only 15 per cent by 2007.

Simply put, China is said to be the 'factory' of the region and India the 'office'. However, these two countries represent just one-quarter of the Asia Pac region. Despite the devastating effect the tsunami disaster has had on the region, it is still set to burgeon, especially if the release from third-world debt is accelerated.

For vendors, the opportunities in the region are a double-edged sword. Any product which is approaching commodity in its lifecycle will be manufactured in the Asia Pac region sooner rather than later. Witness IBM selling its PC division to Lenovo for \$1.75bn. This not only gives Lenovo leading products such as the ThinkPad laptop but also gives access to IBM's routes to market, which is a key advantage for a Chinese firm.

There are many cultural differences between East and West. The most important difference is timing. While the rise of China might seem to be meteoric, the culture is one of thinking long term, and patience is a key asset. An example can be seen in the streets, where Volkswagen appears to dominate despite the close proximity of Japan. This is because of early investment by the German car company. Cisco enjoys a similar dominant position in Japan where its long-term partnerships and investments have been very successful. But the emergence of Huawei and RTZ as "forces to be reckoned with" have stymied that plan in China.



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Strangely, Siemens has found itself as a lynchpin of this partnership activity. A strong relationship between 3Com and Siemens floundered in 2000, when 3Com exited the core enterprise market, only to be instigated again in 2004 (albeit as a services partnership) at the suggestion of Huawei. It would have been hard to predict the joint venture between 3Com and Huawei four years ago, let alone that a Chinese company would be brokering the reinstatement of a relationship between a US and a German company.

So what of the opportunity? Well, for system integrators with global ambitions, it is certainly an opportunity. Even for pan-European companies, the ability to service China-based global companies is great. The region will also provide more product choice as more and more Chinese manufacturers search for routes to market. The same goes for the two global distributors, Tech Data and Ingram Micro. Late last year Ingram paid \$0.5bn for Tech

Pacific which has operations across that region.

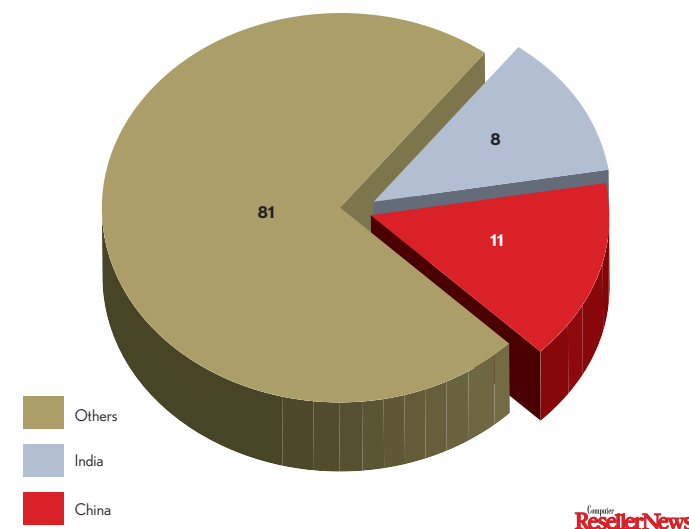
The threat is the same for the vendor and its channel partners in Europe: a change of focus and, consequently, reduced spending. Whereas today Europe can account for 20 per cent of total sales, an impact will be had on this figure as the percentage Asia Pac represents increases. For example, Asia Pac is now only 10 per cent of Cisco's market despite the success it has enjoyed in Japan. This increase will lead to a reduced investment in Europe, as it has always been seen by US vendors as an expensive region with which to do business.

One only has to glance at the medals table at the last Olympics in Athens for proof that China has the patience and determination to succeed. It produced 32 Gold medals compared with 35 Gold for the US. In Beijing in 2008 it will not be second to any region.

Keith Humphreys is managing consultant at EuroLAN.

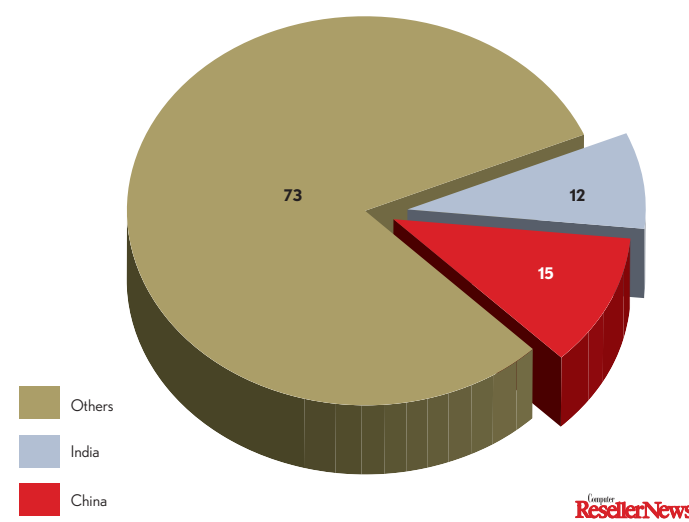
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Total ICT spending in Asia Pacific in 2004 (%)



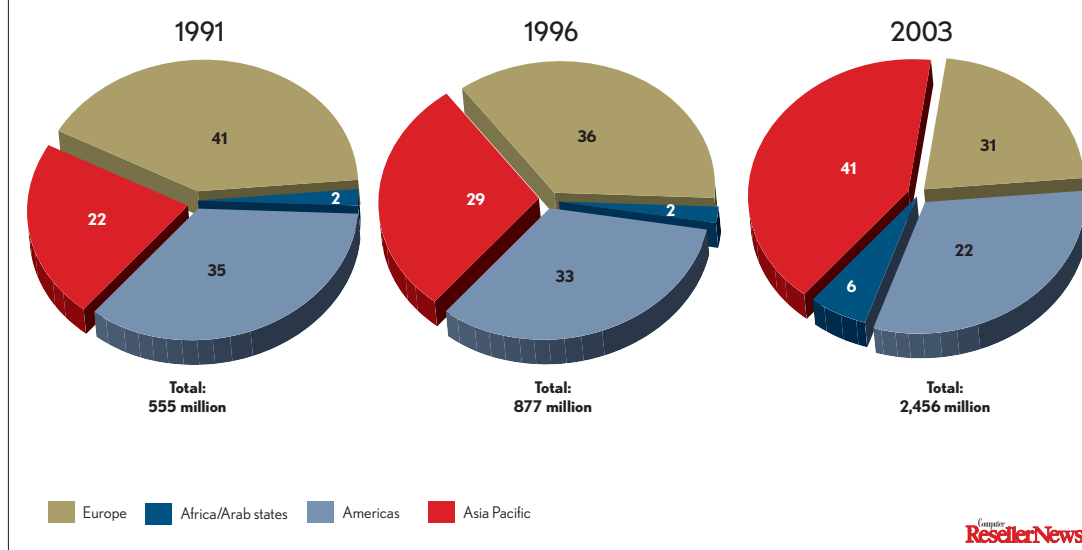
Source: EuroLAN

Projected ICT spending in Asia Pacific in 2007 (%)



Source: EuroLAN

Total telephone subscribers, mobile plus fixed line (%)



Source: EuroLAN