

Technology Vendor Pipeline Report Asia Pacific and Japan

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It seems that only two months ago, many of us thought the global financial crisis was reaching a point of equilibrium. Even the six-monthly IMF global economic outlook, published at the beginning of October, was revised within a month of its release. The impact is still unfolding and all predictions seem to date quickly.

by Mark Braithwaite

The purpose of this report is to take a factual look at what is unfolding in Asia Pacific and Japan for technology vendors. The information here is no more than 15 days old at the time of writing and has been compiled from "off-the-record" discussions between Mark Braithwaite and the Asia Pacific & Japan Senior Vice Presidents of 37 global technology vendors. Our aim is to give you a "moment in time snapshot" of what the market leaders are experiencing and how they see 2009 shaping up.

Every SVP has a multitude of data points they use to assess the market and make informed decisions. What is abundantly clear is that the most trusted source, and rightly so, is the "one on one discussion with customers". If we consider that each of the SVP's have had direct and recent input from at least 20 customers, then this report has 740 verified data points. It should reflect a fairly accurate snapshot of the market.

In broad terms, the companies polled are the market leaders in Networks, PC's, Storage, Application Software, Infrastructure Software, Security, Outsourcing, Desktop Applications, Mobility Technology, Transaction Processing, Telecommunications, Healthcare Technology, Database, Virtualisation and Videoconferencing. The companies represented here all have full regional presence and vary greatly in size.

What will become clear as you read on, is that there are definite patterns pointing to areas of the market that are going strong and others that are facing serious challenges.

As we look into **buyer behaviour and pipeline**, there are very mixed signals. There are vendors doing it tough, those seeing no significant change yet, and those who are finding that current conditions are fuelling the pipeline.

Let's swallow the bad news first.....

"Price competition has increased as there are less deals, so purchasers are driving hard deals and eroding margin"

"Decision process is longer - justification of ROI is more stringent. Till the end of December is positive as CIO's use the budget they have but they don't know what the '09 budgets will look like"

"Customers want to sweat the assets a bit longer"

"Local MNC's are mostly business as usual but cautious. With US & EU MNC's there is a significant retraction; projects and investments have stalled"

"Many CIO's have a 20-30% budget decrease"

"SME's are strapped by liquidity challenges and have become risk averse"

"Pipeline has softened 5% in the number of deals and 15% in revenue potential of deals"

"The globals have all put the brakes on, while government is business as usual"

Those who are reporting business as usual said.....

"Generally surprised at how strong the deal-flow is"

"Q1 pipeline looks good but we can't see beyond that"

"We have a strong pipeline but we are being cautious and may need to be creative on deals"

And those who are confident of their strong pipeline.....

"We started our '09 budgeting process in June and are still bullish for APJ. A great deal of our growth is driven by the crisis. Companies are focusing on core business and outsourcing Capex to Opex where they can"

"Next 12 months will be strong for us but more concerned about longer term overall activity"

"Customers say it's all about prioritising. Cut out discretionary projects. We tend to be in the top few of any priority list because we take the need for capital investment out of their business. We are not seeing a change"

"Major market change helps our business. The only negative impact for us has been on exchange rate changes"

"Prospects have increased - buying cycles have not - shorter term contracts are preferred. Our business is about annual charges and churn damages the incumbent. This represents huge opportunity. Buyers get more creative. I am very optimistic about the next 6 months"

There is a pattern here, but it is not obvious without looking at what is happening in the main geographies. Again there are mixed experiences.....

China

"Bankruptcies in South China have made an impact on our business"

"China is doing brilliantly for us. It does not seem to be linked to the global market"

"Government in China, Hong Kong and Taiwan are providing strong growth"

"The consumer in China is not hard hit relative to the US"

"The big shifts in infrastructure buildout is starting to benefit us"

Japan

"Japan is in a growth cycle for us even though the economy looks bad. This is cyclical though"

"Japanese CIO's are saying that they are moving from a market share focus to an efficiency focus over the next couple of years"

"The consumer business in Japan is fine"

"We never seem to be able to get the Japan business to work properly"

Australia

"The Australian market is strong for us in the service provider sector"

"We have seen softness in the Australian market. This is Forex related"

"Government in Australia has slowed for us"

"Government in Australia is strong for us"

Korea

"Currency changes have become a problem in Korea. It was OK till the end of September then just stopped"

"Korean companies right now will not work with suppliers who sell product in USD"

"We are seeing good growth in Korea"

South East Asia

"Thailand and Malaysia are strong for us on the back of the telco build out"

"Indonesia is struggling because of currency"

"We expected SEA to contract, but it is strengthening"

India

"IT services in India have slowed in the last 9 months"

"The Indian banks have seen an 80% drop in funds because of margin lending. Because of this, they can't invest in technology - they need to outsource"

"Government in India is mixed"

"Tightening up"

"The BPO market has stalled as it is closely linked to the US banks"

"In my opinion, India has been over-hyped for some time now and is hurt much more than anyone is admitting"

Bear with me here, taking a look into what is happening in the major market verticals will complete the picture. We just focused on the recurring themes.....

FSI

"FSI is very exposed"

"Drop in demand from globals. No end date predicted"

"Banks are looking to relieve Capex to Opex. This seems common to services"

"The consolidation of banks in Australia is opening up deals we did not have access to"

"The retail banks such as HSBC are fine"

Government

"Most governments in the region are pro-actively providing stimulus spending. This is a big opportunity for us"

"No evidence of any change"

"We are aligning our best and brightest with our government business"

"Healthcare and infrastructure is growing strongly. The emerging middle class in Asia needs infrastructure. We have a strong outlook for the next 2 years"

Manufacturing

"Manufacturing is struggling because of retail"

"In the last 6 weeks, 20% of retail focused manufacturers in southern China have closed their doors"

Telco

"Telco infrastructure build-out is strong across the region"

"The corporate telco sector will not be as affected as other areas of technology. The real impact will be that the user population will be lower"

Services

"Outsourcing is counter-cyclical as it helps customers cut costs"

"We are seeing explosive growth in our data centre business. Cost optimisation for the customer"

"Server consolidation is warm. Desktops, notebooks and networks have slowed"

"Buyers have a keener eye for short term impact on software projects - ROI demand has reduced from 24 to 12 months"

"The sting in the tail for services offerings is that finance costs have increased by 7% or so in the last 6 months"

So, what is all of this telling us? There are clearly pockets of strong activity for some companies. For others there seems to be a constant stream of deal delays.

From our perspective, it was clear that companies who are in the earlier stages of their market penetration are much more confident than those who have a large, mature presence.

Companies focused and effective in government and infrastructure are all confident, no matter what they sell. At the same time, companies heavily weighted to supporting US and European MNC's have suddenly lost a great deal of their market and the pipeline is looking sick.

This is good news for some, bad for others and mixed for the larger players who are in both markets.

Companies who sell product or services to support the telecommunications build-out, all seem to have very full pipelines. Services companies who replace Capex with Opex are all reporting a strong market. Finally, there are the niche specialists such as security software vendors, who are finding that current conditions have changed the market in their favour.

In general, the message about enterprise is that it will continue to spend on IT, but also conserve cash. This means it will be increasingly difficult to justify purchases outside of those that are needed to keep the business running, or to bring a definite short term cost saving.

Recovery Timing must be the most popular discussion issue in business today. The most optimistic VP's are seeing an economic recovery starting in Q3 2009 with a significant and speedy upswing. At the other end of the spectrum, Q3 in 2010 is the first light at the end of the tunnel after a long dark and cold journey. Let's hope the optimists are right.

Right now though, the market is not behaving in a way that anyone has experienced before. For some, **Management Priorities** have changed.....

"Companies will cut employees to satisfy profit needs"

"In a tough time, it is important to be prescriptive as a leader rather than look for consensus. Provide clarity of purpose and commitment to execution. Be crisp, clear, no confusion and allow no wiggle room"

"We are all about managing cost and risk in the near term. No major changes"

"We are hanging onto Capex and holding off on leases. Our partners are looking for 90 days instead of 30"

"We are pulling back on expenses as a precaution, but our revenue outlook remains the same"

And they are right to be cautious. Even those reporting strong pipelines are being cautious.

So where does this leave us? Is there something of value you can take away? One SVP said.....

"Customers are either in growth or in trouble. Either way they need to drive efficiencies. This is a great opportunity"

Consider this.....Asus sell notebook computers to consumers for less than \$500. There has been a huge uptake of this product across Asia and the traditional PC market competitors are all scrambling to enter this new market. This is a paradigm shift in the PC business that will change the sector forever. The cash and cost constraints that businesses face now will create paradigm shifts across other areas of the technology sector. The companies that will do well will be those driving the paradigm shifts.

The smart cashed up vendors with aggressive management teams will drive consolidation and take advantage of discounted valuations. Technology companies who manage well through these times will reap the rewards in Asia when the market turns.



Mark Braithwaite leads the Asia Pacific Operations of Executive Search firm, Braithwaite Steiner Pretty.

The BSP team has spent the last 11 years recruiting high performance executives for global technology companies in Asia. BSP has offices in Singapore, China, Hong Kong, Japan, Korea, India and Australia.

Mark Braithwaite markb@bspes.com