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Asia-Pacific IT Spending Spells OPPORTUNITY for Channel-Friendly Vendors

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by Cindy Payne, Managing Director Asia-Pacific Connections

As the regional economy recovers from the global recession that hit export-oriented Asia-Pacific in 2001, IT spending across the region has increased in response to public and private sector investments in infrastructure upgrades and technological improvements. In a recent user survey of over 3,000 CIOs and IT Managers region wide, International Data Corporation (IDC) found that 58% of the respondents expect an overall increase in their organization's IT expenditure this year. IDC now estimates that IT spending in Asia-Pacific* will grow 10% in 2004 to reach nearly US$88 billion.

Forces driving this IT demand are rapid infrastructure upgrades, product innovation, and initiatives related to operational efficiency and customer affinity. Organizations across Asia-Pacific are vying to leverage IT to maximize productivity and competitiveness.

IDC tracks IT spending through channel partners in the region and reports indirect (channel) sales were valued at over 70% of all IT spending in 2003. Channel sales are expected to keep pace with regional IT spending growth so that, in 2008, channels should sell over US$72 billion of hardware and US$18 billion of software - compared to anticipated total regional IT sales of US$130 billion.

Channel partners in Asia-Pacific are reaping the rewards of the burgeoning small- and medium-sized business (SMB) market, since most SMBs do not have an in-house IT department and prefer to purchase their IT products from a single, third-party source. Value-added resellers and systems integrators, in particular, are cashing in on SMB IT spending in Asia-Pacific, which is outpacing overall regional IT spending. IDC projects SMB IT spending to grow 12% this year to reach US$29.7 billion, representing one-third of all IT spending in the region. China, alone, will account for 31% of this SMB spending, while Australia and Korea together will comprise another 33%.

Hardware is the mainstay of SMB spending in Asia-Pacific today, followed by software and services. However, beginning next year and through 2008, services should surpass SMB software and hardware spending in the region - with a projected 15% compound annual growth rate (CAGR) from 2003-2008.

Software channel partners are expected to increase their contribution to overall IT spending in the region going forward. Currently, value-added distributors and resellers contribute up to 60% of all software license revenue, while systems integrators account for 31% of enterprise applications software license revenue. Software vendors are likely to depend more heavily on systems integrators and consulting partners in the future - tapping their expertise and knowledgebase to improve vendor software offerings and develop better end-to-end solutions.

Global vendors are strongly advised to develop carefully-planned, localized channel strategies if they want to penetrate the promising Asia-Pacific IT market effectively.

*All IDC statistics in this article reflect Asia-Pacific, excluding Japan

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