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Pacific's LAN Market Bounces Back

by Cindy Payne

Rebounding from the regional economic slump, Asia-Pacific's* LAN market is expected to record revenue gains of more than 10% by the end of this year. IDC Asia/Pacific forecasts the region's LAN revenue will exceed US$2.3 billion in 1999 and US$3.8 billion by 2003.

Vendors across the region are scurrying to fulfill this increased demand, amidst a time of major market consolidation and fierce competition. Cisco and 3Com dominate the vendor landscape, though vertical market players are carving their niche. Channel and alliance programs, focused on market-share acquisition and long-term strategic branding, have become critical as vendors realize that partner leverage is the key to survival in the turbulent LAN arena.

Regional Outlook

Strong LAN demand in the region's top four markets – China, Australia, Korea and Taiwan – will spearhead regional revenue growth for the foreseeable future.

Greater China is leading regional LAN market growth. By year-end, the sub-region will gross more than US$1 billion, with the People's Republic of China and Taiwan contributing US$800 million and US$200 million respectively. Despite a slowing growth rate compared to recent years, IDC Asia/Pacific analysts expect Greater China to grow 15% next year, and exceed US$2 billion by 2003.

Australia, the most developed LAN market in the region, continues to maintain its regional leadership position, and is currently leading the switching market. Its 1999 LAN revenue is forecasted to reach US$500 million, despite showing signs of saturation with a flattening growth rate.

Meanwhile, both Korea and the ASEAN/ India sub-regions are emerging as major regional markets, with rising growth rates forecasted for the coming years. Fueled by a rebirth in infrastructure development, Korea's LAN market will likely reach US$300 million by year-end, and is expected to grow by 8% next year.

Forecast to grow 12% next year, ASEAN/Indian LAN revenue is expected to outpace all other sub-regions in the next few years. The price-sensitive India market will be a major market force with its dominance in hubs and NICs. Malaysia, Thailand, Indonesia, and the Philippines are also identified as key emerging markets, with the sub-region targeted to reach US$600 million by 2003.

The Switch Market – LAN's Shining Star

Buoyed by market consolidation leading to price erosion, 1998 unit growth for hubs, NICs, routers, and switches was up 20%, 17%, 25% and 130% respectively.

Switch revenue accounted for 42% of 1998's total LAN revenue, climbing 24% over the previous year. Compared to declining regional revenues for hubs, NICs and routers, switches clearly dominate the Asia-Pacific LAN scene.

High-end technologies, including gigabit ethernet, fast ethernet and ATM, are fast replacing low-end technologies, as enterprises invest in networks capable of coping with today's information explosion. Between 1997 and 1998, gigabit ethernet's growth exceeded 16,000%, while fast ethernet and ATM grew 47% and 30% respectively.

Increasing Demand for LANs

A major demand stimulant for LANs is the growing number of small and medium-sized enterprises (SMEs) in the region, particularly in Australia, Taiwan and India. More SMEs are investing in LAN architecture in an attempt to catch up with the "big boys" in the increasingly IT-enabled marketplace. According to IDC Asia/Pacific, more than 60% of LAN sites in Australia, Korea and Malaysia are smaller than 250 nodes.

Economic improvements in crisis-battered ASEAN, and stronger economic performances from Korea and China, have also boosted LAN growth, as business confidence returns to the region.

Internet deregulation in India is now driving LAN demand, as a growing number of Indian SMEs jump on the Internet bandwagon to take advantage of e-commerce opportunities. The rosier LAN outlook is further reinforced by infrastructure developments in India and China, as these countries play "catch-up" to meet the demands in the IT marketplace. Strong government IT initiatives in Taiwan and Singapore will continue to spearhead LAN growth in those markets.

The Vendor Landscape

Market consolidation was dizzying in the 1998 LAN market. Cisco, 3-Com, IBM, and Nortel were the top four vendors in Asia-Pacific last year. Undeniably the market leader, Cisco posted 20% revenue growth in 1998. Cisco and 3-Com, combined, accounted for 79% market share in routers, 58% in NICs, and 40% in switches.

Vendors who bucked the consolidation trend last year were D-Link and Xylan. D-Link's growth strategy focused primarily on price-sensitive users, while Xylan dominated the government, education, and medical arenas.

To build share, vendors are now focusing on various push-pull marketing programs tailored to their varied clients. Industry-specific user seminars target the large enterprises, while the SMEs are offered competitive pricing, product bundles, and trade-in offers. Seeding programs and long-term strategic brand building strategies are defining the region's winners.

The telcos are also expected to be key players in the market as the convergence of data and voice brings channel structure change. Their share-growing strategies include consolidation and strategic alliances with channels and ISPs, in an effort to offer end-to-end products and solutions.

* All references to the Asia-Pacific market in this article exclude Japan.