Technology Vendor Pipeline Report
Asia Pacific & Japan

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As the listed US vendors release their 2010 results, it's clear that globally, the technology sector has recovered faster than other market sectors. In Asia Pacific, many global technology vendors are reporting growth rates between 25% and 75% for 2010 and better still for 2011.

by Mark Braithwaite

Only a year ago, most Asia Pacific leaders were cautiously optimistic about what 2010 would hold. The outlook was unclear. A year later, the same leaders are reporting that 2010 was a year of strong performance in Asia Pacific and the outlook for 2011 is stronger still.

While the US and European nations are grappling with economic issues that will take years to resolve, Asian nations are forging ahead with a projected regional growth rate for "Developing Asia" of 8.4% for 2011.

Just 4 months ago, the IMF stated in its World Economic Outlook Report: "Asia is leading the global recovery". In a January update, they upgrade the US GDP projections, but the combined advanced economies are only going to grow at 2.5% in 2011, while the emerging economies forge ahead at 6.5%.

Some global technology vendors are betting the farm on Asia. We were keen to find out why and whether this is the right strategy.

Over the past 2 months, we spoke with 38 Asia Pacific Regional Vice Presidents of Global Technology Vendors and asked them three simple questions:

- How was your performance in 2010?
- What's the pipeline looking like for 2011?
- What is the expectation from HQ for Asia Pacific?

We looked to gather data from the widest variety of vendors possible, with regional revenues from $100m through to several billion, across software, infrastructure, services, networks, telecommunications and others. Simple questions with complex answers that clearly define the view of Asia Pacific in 2011.

There were several common themes and consistent messages…

2010 Performance was generally strong

"We had a strong 2010. The market is much more stable and we have now overtaken 2008 levels."

"All countries were better than 2009, including Japan. Over the last year, we have become 20% of global revenue".

"We have grown between 20 and 40% every quarter for the last 7 quarters in APAC while our headcount and general expenses have only grown between 15 and 20%."

"We grew mid-teens globally and 30% in Asia."

"We were the fastest growing region. We grew 25% and that includes a poor performance from Japan. China, India and South East Asia all grew between 30 and 50%. Against the pre-crash 08 results, we grew 5%. The hold ups from the GFC are gone. There is less concern about the US economy now."

"We grew almost 50% even though Japan was a disaster."

"2009 was a record year for us in Asia, so we were concerned about 2010. We have managed more than 40% growth without additional headcount, but this is now putting strain on the business."

The consistent theme here is that the cautious optimism at the beginning of the year morphed into strong results as customers gained confidence in the continuing strong economic growth in an Asia that had somehow de-coupled itself from the financial inertia of the US and Europe.

In December 2010, The Economist magazine coined the phrase "Redistribution of Hope" – it has moved to Asia.

> **"We grew 70% in Asia Pac in 2010 even though customers seem cautious."**

...And the outlook for 2011?

"We are very bullish about the next 12 months."

"We expect a stronger performance in every country during 2011."

"I expect the high growth markets to grow at 20 to 30% each and the mature markets such as Australia and Japan to grow at 10%."

"We see a strong outlook for Asia in 2011. The centre of gravity of our global business is moving."

"2009 was very tough. We started 2010 cautiously optimistic, but the revenue and profit results were much better than expected. We grew top line 35%. 2011 looks better again."

"2010 was a record year for us. 2011 will be the same."

"Over the last 2 quarters, the pent up demand seems to have been released and companies are making IT investments again. I think 2011 will be the same as 2010, a strong year."

"2009 we flat lined, but 2010 grew beyond expectations. I am optimistic about 2011."

"The global outlook for us is conservative but we see good opportunity in Asia. We are seeing a great deal of MNC investment in the region with strong M&A activity to speed market entry. This will drive revenue for us."

There is a clear link between the economic data from the IMF and the strong outlook predicted by regional leaders:

GDP growth projections for 2011

Advanced Economies *average*	2.2%	Developing Asia *average*	8.4%
USA	2.3%	China	9.6%
Euro Zone	1.5%	India	8.4%

- In China, on average over 2010-11, private domestic demand is poised to contribute two thirds of near term growth.
- The IMF describes India's macroeconomic performance as vigorous.
- A survey asking people if their country was going in the right direction yielded some interesting statistics – China 87%, Britain 30%, US 26%.
- From The Economist magazine: "In the emerging nations, they are not arguing about pensions, but building colleges".

Of all the companies we surveyed, everybody is expecting to move forward in 2011.

But Asia is not one market. The results and outlook are not consistent in every country. Here are some conflicting views:

Japan

"Japan shrank (even though it's 40% of my number). I think this was a combination of the market and our execution."

"Japan has tightened as a market for us in the last few months, but it is so big that even single digit growth is huge. I see neutral growth though for 2011".

"The wave has crested in Japan. A new wave of IT spending is about to break. We are predicting a great year in Japan."

India

"India has been tough for us. It's a very price conscious market. It's very hard to get things done because of the poor infrastructure."

"We saw more than 70% growth this year in India and there is a lot for us still to do there."

Korea

"We had a great year in Korea. I think it comes down to strong execution. Leadership changes the game."

"Korea has a very strong pipeline in all sectors."

"Apart from Korea, we are back to pre GFC activity levels."

Highly experienced regional leaders seem to recognize that a country that is underperforming, where there is high GDP growth, they need to fix one of two problems:

- Issues with the go-to-market strategy in that country.
- Ability to execute effectively.

As simple as this sounds, it's often difficult to identify which one…

"I am concerned that we can maintain this growth rate as 80% of our business is with existing customers and that is our model."

"We had a lot of new product releases in the last year. The growth is driven by innovation. We have doubled our Asia business in the last 4 years. I sense that traditional IT vendors are fighting for margins."

"Market growth is not the focus. We know it's growing. We are either number one or number two in every country. Our focus is on gaining market share."

> "China and India sell things. They don't buy things. You can't extrapolate US experience onto what will happen in China and India. Pricing and margins are not the same. Spreadsheet modeling without intimate market experience does not work. I don't want to sound negative. We grew at 80% in 2010 and I see a very strong 2011."

"Customers in Asia buy from us to drive revenue growth or contain costs. There is nothing new."

"China is cheap if you are a manufacturer, but to sell technology into China, the skills are the same price as the US but the margins are not."

"Korea has been very difficult and I see this as the market rather than execution."

"We have tried both direct and indirect models across the region. In regard to indirect all I can say is don't throw the ball if you don't have anyone to catch it."

"The key is to push the products you want to sell into each market and focus on a Go to Market model for that specific market."

"I see the traditional large IT vendors having aggressive plans, but most of them don't have anything to sell."

And one point which nobody is arguing about…

"FSI and Telco sectors are where the big spending is. This is consistent across the region. The only exception has been FSI in India, which has been tough. We see manufacturing as a key target sector in China."

"We see a strong 2011 in Telco and FSI, with a rebound in manufacturing and continued good results from the public sector."

"FSI is very strong, but other sectors seem restrained. We are doing a lot of business in Telco and Government."

But there are some unique challenges in Asia...

"The cost of people is going up. The demand for skills is outrageous."

"I have never seen such uncertainty around currency exchange rates and this affects the way we do deals. Our pricing is in USD, but we may finance deals in local currency or Euros."

Based on strong results and a strong outlook, the question is: Should you be increasing your investment in Asia Pacific?

The answer may seem obvious from what you have just read, but it's not that simple. This is what the local leaders said about their company's approach to managing a "portfolio of geographies"…

"Our biggest challenge was that we were too conservative. When the GFC hit, our CFO blocked aggressive deals that would gain market share. Having said this, we have gained ground with a positive bottom line."

"I don't think most companies in Tech manage their portfolio well in supporting the growing geos at the same time as aggressively optimizing costs in declining geo's. As a company, we have not got there yet."

"Asia is important, but is only 10% of our business. I think we can double in the next 2 years, but I find it difficult to get additional headcount from the US."

"Everybody wants to be here but does not know how. I think US companies are not managing their regions as a portfolio, the decision tree for investment is different for the growth economies. I don't know why this is so hard to implement."

Other companies have taken an aggressive approach to expansion in Asia, but this also has a few issues…

"The market has been tough in the US and the analysts are asking the CEO's what they are doing about China and India. CEO's have been forced to focus on growth potential in Asia. The awareness of China is now huge, but the flip side for me is tempering expectations."

"Our CEO has changed from not hiring at all, to demanding growth. It's been hard to change gear and build what we need to meet the targets."

"Our board will give me as much investment as I can take for China and India. I am working to manage expectations."

"Globally, the focus for growth has been on the BRIC countries. The issue I have now is hosing down expectations. The board asked me why China is not doing 10 times our current revenue, even though we have 80% market share."

Challenges or not, many are aggressively driving growth…

"We have increased investment in all emerging and growth markets by almost 25% this year."

"There is a huge infrastructure build out in China serving the urbanization trend. Stats show that there will be 3 new cities created every year for the next 10 years. We are focused on how to exploit this."

"Our CEO is very aggressive about growth in Asia."

What does all this mean for your company and what should you do about it?

- Asia Pacific presents confirmed and credible economic statistics that show very strong growth for the foreseeable future.
- Gartner is predicting strong growth in IT spend for 2011.
- Data from 38 global technology vendors, shows strong pipelines and a positive outlook for 2011.
- The IMF stated in January, "The [global] recovery is set to continue. Financial conditions are expected to remain stable".

Of course, there are challenges, but business always has challenges. It's better to have challenges in a growth market than challenges in a declining market.

The rise of the middle class in Asia is driving economic growth. This is not news any more. What is more important though, is not why Asian nations have strong growth, but the fact that **you can bet the farm on the next 12 quarters**.

About the Author

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