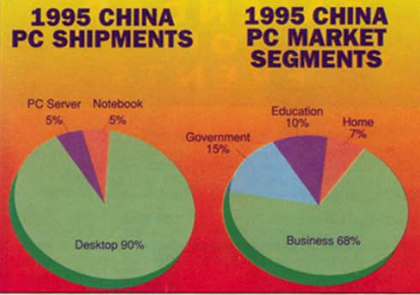


PC VENDORS NEED TO RETHINK STRATEGY



Source: IDC Asia-Pacific

business climate. The Chinese are often reluctant to accept a single-vendor solution out of fear of losing options later. This scepticism also applies to vendor hype: a sales pitch in China needs to be gentler, more civilised, and more honest than in western cultures.

This article was extracted from Market Scan International, a Miller Freeman publication.

With its burgeoning economy and a growing demand for computers, China represents a potential gold mine for PC vendors. Although problems are inevitable, there are rich rewards for those who dare.

and home computing.

Shifts In The PC Field

PC market dynamics shifted in 1994 when Compaq displaced consumer PC leader AST with a two-pronged strategy of lower prices and higher credit limits to its channel partners.

Faced last year with payment defaults and a subsequent credit collapse, Compaq is tightening up its channel while unsuccessfully trying to stem eroding market share.

AST, second-ranked vendor in 1994 and 1995, continue to lose share due to its worldwide supply problems.

In business and government sales, Hewlett-Packard is showing steady growth.

With its focus on new channels, IBM is recruiting a number of new joint venture partners, including some from Compaq's channel.

through partners (mostly distributors and dealers).

Experts advise foreign companies to join with two or three distributors able to untangle government red tape, oversee currency exchange and

obtain the necessary licenses.

Since the late 1980s, joint ventures have emerged as the best way to do business in China.

Alliances have paired Compaq and Stone, IBM and Great Wall, Digital Equipment and Founder, Apple and Legend, and AST and Tianjin.

Bridging Cultures

Despite Chinese appreciation for Western high-tech industry, an inherent scepticism permeates the

EVER since 1979 when China flung open its door and signalled a shift to a market economy, high-tech marketing in this vast Asian country has been somewhat of a 'good news, bad news' proposition.

The good news is that in recent years the government has taken concrete steps to attract foreign investors, establishing in 1994 reforms in banking, investments, taxation, patent protection, foreign exchange and the nation's legal framework.

The bad news is that foreign information technology (IT) companies still face daunting political, economic, and cultural hurdles.

It is not surprising that foreign investors' response has not met Chinese expectations.

In 1994, over half of all overseas investment in China still flowed from Hong Kong.

Market Potential

China's market size — its 1.2 billion potential consumers — keeps foreign IT

Today, over 75 per cent of all workstations in China are sold through channels (mostly VARs), and over 95 per cent of all PCs are sold through partners.

companies coming.

According to IDC, China's PC market is projected to grow at 49 per cent this year after growing at 84 per cent in 1995.

China's Ninth Five-Year-Plan (1996 – 2000) reinforces China's focus on domestic technological development, and this development will be done almost entirely with the assistance of foreign companies.

The government supports work in telecommunications equipment, software, networking, VLSI

Local vendor Legend is winning business in the government and education markets.

Legend is the only local vendor to make the top five PC vendor list in 1995. Because of a relatively unfocused effort, Apple, which is targeting the education and publishing sectors, holds only 1 per cent share.

Channels Improving

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MARKET BREAKDOWN

Hardware

With a tiny mainframe legacy, PCs represent over 75 per cent of all systems sold.

The lion's share is for businesses, although the average Chinese consumer is now willing to pay up to a year's salary for a home computer.

Network

PC LANs are generally used as hosts for general commercial data processing in the government, manufacturing and finance sectors.

With 50 per cent of all its PCs networked, China ranks third in the region, behind Taiwan and Hong Kong.

Software

Rampant piracy keeps packaged software sales unusually low. According to BSA estimates, illegal copies comprise over 90 per cent of all software sold in China.

Services

In a country where end-users expect free installation, training and maintenance, little value is placed on the services sector. As the channels evolve and mature, and margins begin to fall, pressure will grow to generate income from these services.

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