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24-November-05

Charting the Channels in Asia-Pacific

by Cindy Payne, Managing Director, Asia-Pacific Connections Pte Ltd

According to IDC Asia/Pacific, regional IT spending reached US$129 billion in 1998. Since 85% of these purchases involved third-party channel partners, recognizing and adapting early to market developments are requisites for vendors and channels alike, to survive in these fluid times.

Many vendors in the region, suffering from lower margins, have tightened their budgets on discretionary spending. As a result, they are leveraging their channel partner relationships more than ever before by increasing sales incentives, tightening inventory turns and lessening credit. At the other end of the spectrum, end users have also had an eye on the bottom line, cutting back on any projects not deemed critical. The focus is now on total cost of ownership, with many end users opting to outsource projects including professional services, marketing and training support.

No doubt, Asia-Pacific channel partners are being squeezed from both sides, with a major shift in demand for value-add in marketing, logistics and support services. Like other global markets, Asia-Pacific channel margins keep shrinking. The most dramatic margin drops have been related to sales of PCs, network hardware, packaged software and custom software, all dropping by more than 30% from 1997 to 1998.

In an effort to build margin last year, more channel partners focused on vertical market solutions, many of which are Internet and E-Commerce related. IDC reports Asia-Pacific (excluding Japan) will boast almost 20 million Internet users this year, purchasing over US$3 billion worth of products over the Net. Ironically, as the Internet provides a whole new playground for applications-oriented VARs and SIs, it is eroding sales from dealers, superstores and retailers. Currently, more packaged software is purchased via the Internet than any other IT products, though analysts predict 10% of all PCs will be purchased online by 2003.

The polarization between value-added channel players and volume time-and-place distributors continues to deepen. A major consolidation in the channels has transpired, with local channels contracting by as much as 70% in the last two years. With global players like Ingram Micro and CHS investing big bucks in the region now, it is clear that there is no room for hybrid partners. Offering a full slate of value-added services, or being a volume time-and-place giant, are the most likely scenarios for long-term success in Asia-Pacific's changing channels.