

# Japan: A Unique Giant in Asia-Pacific

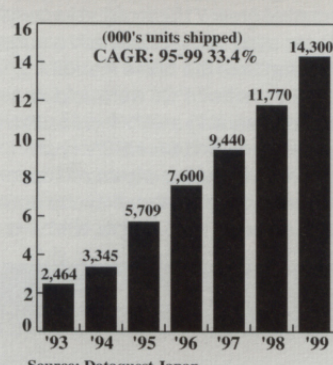


By Cindy Payne, Managing Director, Asia-Pacific Connections Ltd.

Foreign companies wishing to enter the Japanese IT market must be well-armed with an understanding of the unique characteristics of the market and be prepared to make a long-term investment vis-a-vis local partnerships. It is easy to be wooed by the fact that the Japanese IT market was valued at US\$ 88.9 billion in 1995, representing 72.4% of the total Asia-Pacific market. However, Japan's dominance in the region is declining as Korea, Greater China and ASEAN growth rates continue to soar. IDC now predicts that the Japanese IT market will be valued at over US \$100

billion in 1999, representing growth of approximately 12% and regional share of approximately 60%.

## Japan PC Market Growth



## Unique IT Market Composition

The IT market in Japan is still quite centralized, with mainframes comprising around 5% of IT spending. Indigenous mainframe suppliers such as Fujitsu, NEC and Hitachi have a strong-hold on the market and have slowed the downsizing and the shift to client/server trend. Not unsurprisingly, there is a very

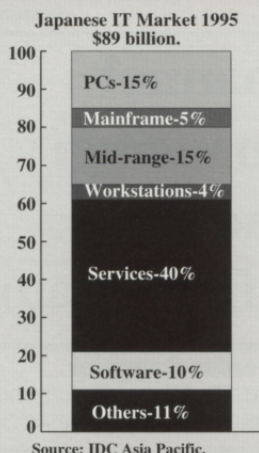
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strong services market in Japan, driven by the high-end systems market, along

## Japan IT Market Composition by Product/Service



with the Japanese demand for high-quality support. In 1995, services represented around 40% of the total IT market, compared with around 20% in the rest of the Asia-Pacific region.

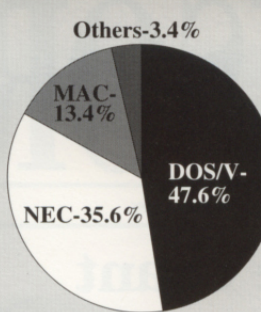
## Local Vendors Drive Shift to UNIX

Japan has a huge mid-range systems market, unlike the rest of the Asia-Pacific region which has a PC server focus. The market for mid-range systems in Japan was valued at over US \$13 billion in 1995 and driven by Fujitsu, NEC and Hitachi pushing their UNIX servers into their mainframe installed base. This shift to UNIX has given foreign vendors a big opportunity in what was originally a local-vendor-only market.

## PC Market Dynamics

The Japanese PC market is the second largest in the world, after the U.S. Due to the broad acceptance of DOS/V, the cross platform English/Japanese operating system, NEC has lost its strangle-

## 1995 PC Market Architecture



hold on the market. DOS/V now represents almost 50% of the market, with NEC's operating system slipping to 35.6%, followed by MAC at 13.4%.

PCs represent only 15% of the total IT market in Japan, compared to other markets in the region where PCs represent almost 40% of all IT spending. According to Dataquest Japan, Japan's PC market grew 71% in unit shipments last year amid falling prices and a surge in demand from the home market. About 5.71 million PCs were sold in 1995, representing a 46% increase in value terms over 1994. NEC's share declined while Fujitsu capitalized upon the boom in the home market and doubled its share in 1995. Apple, IBM and

## 1995 Top Five PC Vendors

(by market share)

NEC	40.0%
Fujitsu	18.3%
Apple	14.2%
IBM	10.1%
Toshiba	3.8%

Source: Dataquest Japan.

Toshiba rounded out the top five PC vendors. The majority of the demand is for desktops, followed by notebooks.

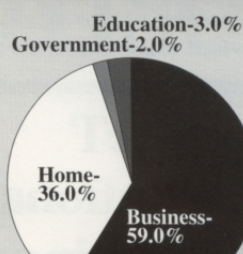
Demand for PC servers has been latent, with Compaq leading the PC server market in 1995, followed by Fujitsu, NEC, IBM, Digital and Apple. Overall PC growth is set to slow down, according to Dataquest Japan, with a compound annual growth rate (CAGR) of 33.4% forecast from 1995 to 1999.

The PC penetration rate is still quite low in both the home and in business. Some 11.6% of Japanese homes had PCs in 1995, an increase from 8.2% in 1994, and this is forecast to reach 34% by 1999. 28% of Japan's businesses had PCs in 1995, which is forecast to rise to 66% by 1999. Of all the PCs sold in 1995, 59% went to the business sector, 36% to homes, 3% to education and 2% to government.

## Networking Growth

The networking market in Japan is still in its infancy. According to the Japan Electronic Industry Development Association (JEIDA), the PC-LAN market in Japan is expected to expand from around 15% of sites networked in 1993, to reach 35% in 1996. JEIDA predicts that by the end of 1996 the networking market in Japan will be almost a US\$ 10 million market. IDC predicts that

## 1995 Japan PC Market Segments



Novell's NetWare will remain the network operating system of choice until Windows NT takes over in 1998.

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Although the prognosis for the IT market in Japan is relatively slow growth, the sheer enormity of the market opportunity must always be kept in mind. While it is becoming less dominant compared with the rest of the Asia-Pacific region, the region as a whole is expected to match Europe in size by 1999, with Japan still representing around 60% of the region. Japan has been quite closed to foreign companies in the past, due to government regulations, a strong nationalistic pride and quality local vendors. However, deregulation, and a more open computing environment, have brought increased competition along with a rapidly growing acceptance of foreign goods. Foreign companies that can digest the special characteristics of the Japanese market and localize their marketing strategy in the growth segments of the PC and networking market can turn the land of the rising sun into the land of the rising sales. ♦

*Note: Cindy Payne is a regular columnist in Marketscan International, the monthly newsletter covering market developments in Europe, Asia-Pacific and Latin America. See page 6 for information about subscribing to Marketscan International.*

Cindy Payne is founder and managing director of Asia-Pacific Connections Ltd. She has 17 years of diversified international experience in the Asia-Pacific region. Over the years Cindy has developed an extensive network of international vendors, channel partners and service companies to facilitate strategic planning and market development activities.

Asia-Pacific Connections was established to assist IT companies with the expansion of their business activities in the Asia-Pacific region. The company offers a wide range of services including: market research and analysis; market entry or growth development; distribution search and sales management; product marketing and management; PR planning and event management; product localization; employee and distributor training, and much more.

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