

ASIA PACIFIC IT MARKET PREDICTIONS 2009

Gains & Losses for Asia Pacific IT in a Year of Uncertainty

INTRODUCTION

This Springboard Research document presents an analysis of key trends in the Asia Pacific IT market in 2008, along with a preview of the top trends that Springboard believes will shape the regional market in 2009. The analysis is based largely on Springboard's continuous tracking of the major trends and developments in the Asia Pacific IT markets. We also interviewed CIOs from some of the leading companies in the region as well as executives with leading IT vendors, and assessed publicly available information on IT companies, countries, products, technologies and services in the region to provide additional inputs for this bulletin.

THE CURRENT REALITY – THE ECONOMIC CRISIS & ITS EFFECT ON IT IN ASIA

Springboard Research expects IT spending to drop in 2009 as a direct result of the global economic crisis. We expect IT spending in Asia Pacific (excluding Japan) to grow 7.1% in 2009, down from 2008 growth of 10.2%.

We have adjusted this forecast downward due to the rapid changes the crisis has caused not only in world economic markets, but also on the psyche of IT decision makers during the fourth quarter. Springboard's prediction for IT spending in 2008 (from our 2008 Asia Pacific IT Market Predictions, published in December 2007) indicated that the sub-prime crisis in the US would not derail Asian IT spending, which was accurate until the 4th quarter. However, as the crisis worsened and spread worldwide late in the third quarter, we began to see IT spending negatively affected across the region – although not to the same degree as in North America and Europe.

The severity of the IT spending slowdown will vary across countries and vertical markets. Certain countries like India and China will continue to grow, albeit at lower rates. This relative strength in IT spending will help to power the growth that we will see in the region and increase their primacy in the Asia Pacific IT market at the expense in particular of Australia and Korea. The most affected countries will be mature IT markets in export-oriented economies, (Korea and Taiwan), and countries heavily dependent on the financial services industry, (Hong Kong and Singapore). We expect Australian IT spending (particularly in US\$ terms) to also suffer after the recent deep drop in commodity prices and the decline of the Australian dollar. Like many western economies, Australia looks likely to head towards a recession despite massive interest rate drops. The economy in the quarter ending September 30th only managed to grow by 0.1%, with the non-farm economy actually declining.

New Zealand is the first economy in the Asia Pacific to fall into a recession in the current crisis. It has in recent weeks – like Australia – also slashed interest rates and changed governments. Given the reliance on larger economies such as Australia and China for trade, it is going to be difficult for New Zealand to drive domestic growth hard enough to emerge from recession.

Finally, Thailand will experience significantly slower growth as it deals not only with the economic crisis, but its ongoing political troubles that have increased business uncertainty in the country. Indonesia and Vietnam will be less affected as the combination of limited existing IT investments and solid domestic demand will ensure ongoing IT spending.

Table 1: Country Risk

| Risk Index | Countries |
|---|--|
| Countries at a high risk of a significant IT spending slowdown in 2009 | Australia, Hong Kong, Korea, New Zealand, Singapore, Taiwan, Thailand |
| Countries running a medium risk of a significant IT spending slowdown in 2009 | Malaysia, Philippines |
| Countries running a lower risk of a significant IT spending slowdown in 2009 | China, India, Indonesia, Vietnam |

Source: Springboard Research, December 2008

In terms of the impact on industries, we expect the public sector to be one of the most resilient markets as governments boost spending to alleviate the economic slowdown. In emerging markets like India and China, we expect segments that have boomed the past several years to be hardest hit. These segments include retail, real estate and retail financial services (including insurance). These sectors will be hit by a lack of funding and

consumer demand. Companies in these sectors, used to incredible growth the past several years, are likely to cut back on expansion plans, sell some of their assets, and look for alliances and consolidation. We also expect to see a higher rate of bankruptcy, especially in sectors like manufacturing (as exports decline) and real estate (as inventories pile up and new projects find few takers).

The Long Term Impact on the Asian IT Industry

Technology has permeated far deeper into businesses' operations over the past 7-10 years and while it is a much larger component of most organizations' total spending, it has also become crucial to increasing efficiencies, competing in an increasingly globalized market, and expanding revenues. Springboard therefore believes that while technology spending will definitely be affected by this crisis, it will be more resilient than other areas that are often easier and quicker to cut.

Over the next 2-3 years, Springboard Research believes that the current global economic crisis will help drive the ongoing transfer of wealth, power and importantly, innovation from West to East. Before the crisis the economies of Asia together with other emerging markets were powering the world economy and contributing to most of the world's growth, and throughout the crisis we expect these markets to remain engines of expansion.

In the IT market, multinational vendors will continue to view Asia as a critical growth market. We expect many more US based firms to transfer more resources (budget and people) into the region and set up special teams at their corporate offices to focus only on emerging markets. Many of the larger IT vendors are already doing this and these initiatives will continue to expand, with other mid-tier vendors also adopting this strategy. While initiatives around Asia will grow, we expect to see ongoing slowdowns and budget cuts within many organizations' North American and Western European operations, as Asia continues to increase its share of overall budgets, staffing, and executive focus.

These investments will help continue the education and awareness of IT with the region, which will help spur on more IT spending, especially in the SMB space. We therefore believe that an increase in Asian IT spending will be an early indicator that the crisis is abating. At the end of this crisis, we will see Asia emerge as a much bigger part of many companies' global strategies – both from IT vendors investing more in the region as well as other vertical industries funneling more investments into Asia; thus creating the opportunity for more IT spending related to these investments.

2008: KEY IT TRENDS AND CURRENT LANDSCAPE

Largely due to the timing of the financial crisis in the second half of the year, there was little impact on planned IT investments by Asia Pacific companies during most of 2008. IT companies in the region continued to grow along expected lines as IT user organizations continued to invest in technologies and solutions that helped them grow and do business more efficiently. Among the major trends of 2008, Springboard Research believes the three most important were Virtualization, Green IT, and Software as a Service (SaaS).

- **Virtualization** – Consolidation was a key theme for many CIOs and IT managers across Asia Pacific in 2008. This meant that while many organizations were busy consolidating their IT systems and infrastructure, many organizations' were also heavily focused on making the most of existing IT investments. This, in many ways, was the key factor that drove many of them towards virtualization. As organizations increasingly focused on cost reductions, improving application performance, energy efficiency, infrastructure consolidation and more easily manageable IT systems, virtualization received more attention from Asian organizations in 2008.
- **Green IT** – 2008 also witnessed a heightened green awareness among both IT organizations and vendors. While almost all leading IT vendors began to highlight and market the green aspect of their products, solutions and services, IT users also became more conscious of the need to deploy more environmentally friendly and energy efficient systems. While green awareness is still low in most parts of Asia Pacific except Australia, a growing number of organizations throughout the region have begun appreciating its value. It will be interesting to see how Green IT evolves through the financial crisis; clearly it will have to be a solution that lowers costs for the enterprise as well as for environmental management outcomes.
- **Software as a Service (SaaS)** – Through 2008, interest in SaaS as an alternative to on-premise software continued to grow. The growing maturity and acceptance of SaaS was further bolstered by the increased market understanding (and inevitable hype) of cloud computing as a viable approach to (and platform for) delivering and accessing enterprise software and services. This increasingly complementary evolution and growth of SaaS/cloud computing was further aided by Microsoft's entry into this market. A late and somewhat reluctant entrant into the SaaS/cloud computing market, in 2008 Microsoft took the first major steps towards building a credible and long term SaaS/cloud computing strategy.

2008 PREDICTIONS – A REPORT CARD

Before we provide our key predictions for 2009, it is good to look back to evaluate how we performed with our predictions for 2008. Springboard predicted key market trends in 2007 in our *2008 Asia Pacific IT Market Predictions* document, published in December 2007. The following table presents a report card of how we feel we fared with these predictions.

Table 2: 2008 Predictions: Hits and Misses

| What We Said in 2007 | How We Fared |
|--|--------------|
| The subprime crisis in the US will not derail strong IT market growth in Asia | = |
| Service-Oriented Architecture will get more attention and commitment from senior management | + |
| Virtualization will make steady headway in both large and mid-sized companies | + |
| Cost Savings will drive Green IT investments | + |
| Business organizations become more appreciative of consumer-driven technologies and applications | + |
| Skill shortages will hit vendors, IT management and the investment plans of many organizations | + |
| IT Governance and Risk Management will be critical issues in IT organizations in 2008 | + |
| Unified Communications will steadily gain traction | = |
| Consolidation in the software industry will continue | = |
| India emerges as a lucrative IT outsourcing market | + |

Source: Springboard Research, December 2008

2008 ASIA MARKET AWARDS

As we reviewed our predictions for 2009, our analysts also assigned awards for the key dynamics in the Asian IT industry they deemed most noteworthy. Results are highlighted in Table 3 below, followed by background on each selection we made.

Table 3: 2008 Market Awards

| Award | 2008 |
|-------------------------------------|-----------------------------------|
| IT Buzzword of the Year | Cloud Computing |
| IT Trend of the Year | Collaboration & Social Networking |
| Asian IT Company of the Year | Alibaba.com |
| Acquisition of the Year | HP/EDS |

Source: Springboard Research, December 2008

Cloud Computing - IT Buzzword of the Year

Hype around cloud computing has been growing steadily throughout 2008. This is not a new concept but has instead evolved from several previous incarnations, dating all the way back to service bureaus in the 1960's. Cloud computing's unique advantage derives from its incorporation of other key trends, including Software-as-a-service (SaaS), Web 2.0, service oriented architecture (SOA), grid computing, and virtualization. The term itself gained currency in 2008 with strong backing from Amazon, Google and Salesforce.com as well as endorsements from vendors like IBM and Microsoft.

Collaboration and Social Networking – IT Trend of the Year

Demand for collaboration grew steadily in 2008 across Asia Pacific, with a growing number of businesses in the region seeking to deploy tools that provide a range of rich, real-time media collaboration capabilities. Many large organizations began including collaboration as a key element of their more extensive IT implementations. Access to new tools and technologies, combined with the prevalence of the Internet within organizations, has fueled demand for innovative approaches to enabling collaboration. Consumer-driven social networking has also had a significant impact on the way employees collaborate, both within an organization and outside it.

Alibaba.com – Asian IT Company of the Year

If there is one Internet company in Asia that is changing the face of ecommerce in the region, it is Alibaba.com. Even though it hit a low in the stock market during 2008, China-based Alibaba.com continued to grow considerably in sales and profits throughout 2008. Its third quarter profits rose 49% with revenue increasing by 37%. It's Springboard's Asian IT company of the Year not just because of its growth but also because of its continued transformation into a global business-to-business marketplace. In 2008, the company expanded to India and quickly became one of the top ecommerce portals in the country.

HP/EDS - Acquisition of the Year

The HP/EDS deal was a game changer for the IT services industry. It allows the merged entity to significantly build penetration within IT budgets and to start to link IT and business through EDS's capabilities in business processes. Clients will be potential winners, and HP will also gain across its product set, as a result of increased access into new accounts. However, a merger of this scale is all about the implementation; to date it has gone through relatively smoothly, but 2009 will be the critical year.

2009: TOP PREDICTIONS

Springboard believes that many of the trends witnessed in 2008 will continue in 2009. As stated earlier, we expect Asia Pacific organizations to focus heavily on extracting greater value from existing IT investments versus significant, new capital expenditure due to the ongoing financial crisis. There will also be a continued focus on reducing operational expenditure both from business and IT perspectives. For instance, companies will almost certainly cut back on business travel (by relying more on web conferencing) and trim down sales and marketing expenses (by replacing road shows with virtual shows and meetings). In other words, a reduction in travel and sales and marketing expenditure will likely lead to investments in web conferencing and other such collaboration tools to facilitate online/virtual sales and marketing initiatives.

As organizations seek to better contain (and often reduce) capital expenditures throughout 2009, we also expect the interest in Cloud Computing to continue to grow strongly. Organizations are unlikely to initiate new, large-scale projects that require significant IT infrastructure-related investments. Cloud computing as an alternative service delivery model, and SaaS-related projects in particular, help minimize upfront capital expenditure by relying primarily on a subscription-based model.

With that in context, Springboard Research presents below a preview of top 10 trends that we feel will shape enterprise IT in the Asia Pacific region in 2009:

#1) Cost Concerns Will Drive a Primary Focus on IT Infrastructure Consolidation

We believe this dynamic will be the number one priority of many enterprises across Asia Pacific. While many organizations mentioned it as their top focus in 2008, many of them will be more actively executing their consolidation plans in 2009. This consolidation will happen at different levels – from servers and storage to applications and networks. While at the broad level, reducing operational costs and data center complexities will drive consolidation, many organizations will also target improved disaster recovery staff productivity. As Springboard Research found in its interaction with CIOs and IT managers in the region, the current economic situation is weighing heavily on their minds. A majority of them believe their IT budgets will get squeezed in 2009 as organizations begin cutting down expenditure across the board. CIOs will have to operate with reduced IT budgets but heightened expectations to deliver more. All new purchases and investments will have to pass through rigorous scrutiny in the backdrop of a worsening economic scenario. Given that, a key goal of IT consolidation will be to deliver operational efficiency during 2009.

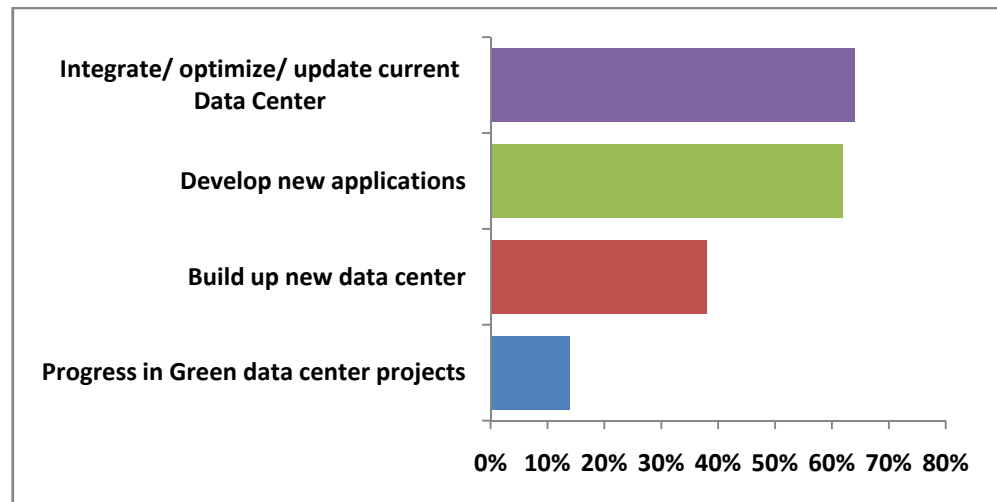
#2) Increased Efficiencies Help Virtualization Emerge as key to Data Center Transformations

While Asia Pacific saw significant movement towards more efficient (and therefore less costly) data centers in 2008, 2009 will be crucial for data center transformation across the region. While we expect overall IT budgets to be squeezed, data center-related investments will be a key focus area for most APAC enterprises in 2009 and beyond. The majority of organizations will focus on optimizing and updating existing data centers for improved energy efficiency and resource optimization as we found in a recent survey among large enterprises in China. (Figure 1)

Virtualization will help drive data center transformations as organizations focus on improving resource utilization and allocation, reducing operational costs, simplifying management of data center resources via reduced complexity, enhancing security and identity management, and increasing reliability and availability, all while managing risks more effectively.

However, challenges to virtualization remain. Security in a virtualized environment, lack of standards and full interoperability, lack of integrated processes in organizations and skill shortages will be among key deterrents to virtualization.

Figure 1: Key Areas for Data Center Investment by Large Enterprises in China



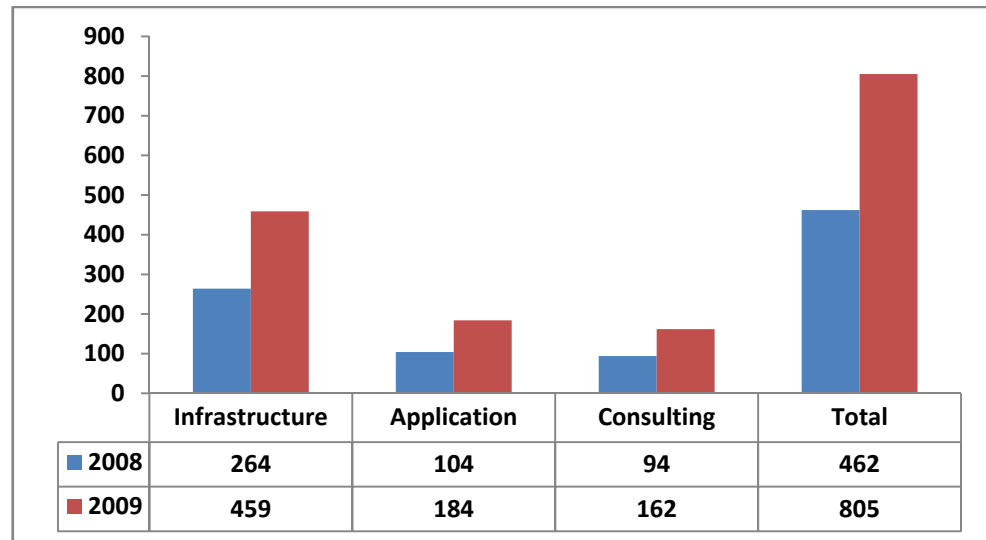
Q: What are your new IT projects for the next 12 months? N: 50 Source: Springboard Research, December 2008

#3) Cost Savings Help Green IT Projects Go Mainstream

The global economic crisis, growing focus on climate change issues and high energy prices throughout most of 2007 and 2008 have driven a stronger focus on environmental and energy related issues. In 2009, we expect more companies to directly link green IT initiatives with cost savings, targeting projects that help reduce IT-related expenditures and enhance operational efficiency. While positive public relations and social responsibility will remain important considerations, we expect most green measures to be driven more by pure business necessities (and objectives) than environmental considerations. Instead of executing on projects to be “Green”, organizations will execute on these projects to save on costs and increase efficiencies and any “Green” benefits will be a value-add on top of the project. Figure 2 highlights the growth we expect in the Green IT Services market landscape.

The key areas for interest in terms of Green IT Services are virtualization, data center management, recycling and enterprise-wide Green IT strategies. Currently, the focus of enterprises in Asia Pacific is largely on the soft targets of electricity management, server consolidation and employee education. Springboard Research believes that moving forward the focus of Green IT in the infrastructure space will move to more holistic data center management issues, and address the fundamental question of who owns the data center and if outsourcing can improve Green IT outcomes.

Figure 2: Asia Pacific Green IT Services Market in 2008 & 2009



Source: Springboard Research, 2008 / Note: All figures in million US\$

#4) Enterprise-Wide Outsourcing Emerges as a Bright Spot in a Year of Economic Downturn

Springboard Research believes that as companies cut cost and reduce manpower to overcome challenges thrown up by a slowing economy, the importance of enterprise-wide outsourcing will grow significantly in 2009. We expect more companies to go for enterprise-wide outsourcing not just because they want to cut cost, but also to lessen the risks associated with buying new technologies in uncertain times. Also, Springboard Research expects enterprise-wide outsourcing to grow in a year of economic downturn as enterprises look to avoid and manage risk, by bundling their IT services providers under one umbrella with the likes of IBM and Accenture etc. As the risk of a provider / technology supplier going out of business or exiting a product or service segment is higher during economic downturn, organizations are likely to rely more on established vendors like IBM and Accenture to manage all their service providers and to ensure services continuity if a provider struggles or exits a market or product.

Springboard believes that because of a changing CIO mindset, large multi-year outsourcing contracts are gradually transforming to a shorter services model. Even though each country in the region has a different maturity level when it comes to adoption of the enterprise-wide outsourcing model, Springboard believes that both developing countries like India, China, Thailand and Philippines and developed economies like Australia, Singapore, Hong Kong and Korea will contribute significantly towards growth of various outsourcing services segments.

#5) Cloud Computing Movement Gains Momentum in Asia

Springboard Research believes that in 2009 every leading hardware, software and services vendor will have a clear cloud computing strategy. Moreover, as budgets shift from cap-ex to op-ex, more IT organizations will strongly consider cloud computing as an alternative software and service delivery model. We expect the cloud computing ecosystem to rapidly evolve as partners (ISVs, SI's, developers, etc.) increase investments in this area. Asia Pacific will play a significant role in this regard due to the huge availability of local IT talent. 2009 will see several new initiatives from both traditional vendors (like IBM and Microsoft) and SaaS pioneers (like Salesforce.com). While vendors like Microsoft and SAP can be expected to invest more aggressively to complement their existing offerings with cloud-based services, those like Salesforce.com will expand their focus beyond applications to include platform services as well as alliances with both existing cloud computing platform vendors like Google, Amazon or Facebook, and more traditional IT infrastructure vendors like IBM, Intel, Dell, etc.

#6) Slowdown Presents an Opportunity for Skill Upgrades & Acquisitions

For some time now the Asia Pacific region has been grappling with skill shortages as well as the high cost of skills. This has affected IT user organizations as well as IT vendors and the channel. We believe that as demand for IT products and services slows down, these organizations can use the opportunity to acquire new skills without paying a huge premium. Springboard Research expects all sorts of skills (system integration, business applications, technology, programming, etc.) to be more available in 2009 because of a slowdown in investments in new IT projects. While IT user companies can use the opportunity to fill gaps in skill sets in their IT organization, IT vendors can look forward to selectively augmenting their existing staff or building new practices. It is noteworthy that many IT services and consulting organizations have been finding it challenging to grow their business organically because of a shortage in required skills and their high costs. While big vendors have not been left untouched by skills related challenges, this is truer of vendors in the mid-tier and lower levels.

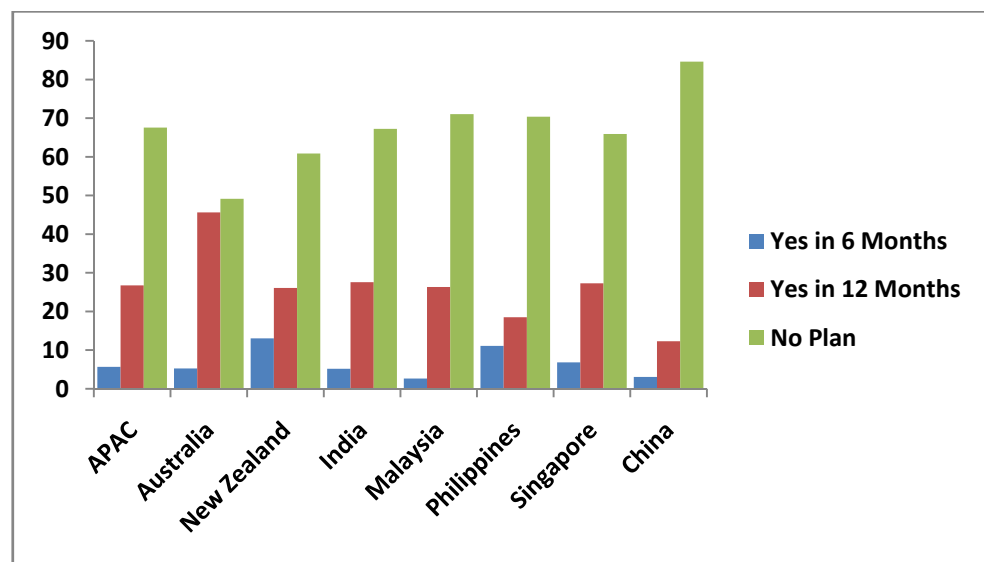
#7) Unified Communications Gain Steam as Companies Cut Travel Costs & Strive to Improve Communications and Improve Productivity

Springboard Research believes that unified communications will be one of the hottest technology trends in 2009 across Asia Pacific. Key areas of focus for organizations across the region include; facilitating real-time collaboration, improving the way employees communicate and collaborate across the enterprise, controlling communication costs, and serving customers more effectively by leveraging expertise from across the organization. However, the market will not be without challenges and many Asian companies will need

more education and awareness of the technology before they adopt unified communications across the enterprise.

Springboard forecasted Unified Communications to gain traction in 2008 and while it expanded in the region, we feel that the current crisis will give additional momentum to organizations to further adopt Unified Communications. Springboard does not see massive individual investments in this area, but more of a steady stream of interest, exploration, and adoption of lower-end, less expensive tools that can assist organizations. Vendors that can provide a lower barrier to adoption, especially around the up-front investment needed, can look to benefit as the crisis abates and spending increases again.

Figure 3: Unified Communications Deployment Plans over Next 6-12 Months



Q: Are you planning to implement a unified communications solution in the next 6 to 12 months? N: 370 Source: Springboard Research, December 2008

#8) The Crisis will Lead SMBs to Focus on Outsourcing and SaaS to Transform their Business

Springboard Research believes that the small and medium businesses (SMBs) in the region will be the most impacted by a slowing global economy. A number of these enterprises are heavily or entirely dependent on export business, as well as in many cases not having the financial resources to easily ride out the entire crisis.

Given that some may not survive the downturn, as is happening with export-oriented companies in China, India and other Asian countries, many will go for a drastic makeover in order to remain in business. This, we believe, will force them to change their approach

to IT and focus on business transformation initiatives rather than merely buy point products or services. SMBs will be forced to accept ideas like outsourcing and managed services, and focus on accessing (rather than building their own) IT infrastructure that will help them transform their business. On the other hand, many small enterprises with limited IT resources (both budgets and skills), will seriously consider alternative approaches like SaaS or cloud computing that help them get started quickly with little or no upfront investment.

#9) Increased Financial Challenges Lead to Tightening of Regulations, Compliance and IT Governance

As the collapse of financial institutions led the downturn in the global economy, the past year saw an increasing clamor for a stricter mechanism to regulate private businesses. We believe that the demand for new and stricter regulations will grow louder in 2009 across the world and Asia Pacific will not remain untouched. Given that, companies in the region will have to comply with many new rules and regulations purportedly aimed at bringing more transparency in their operations and preventing overnight bankruptcies. While the banking and financial services companies will be the most watched, other sectors will also see new regulations and stricter compliance with laws. Companies will be asked to implement more stringent information management norms and foolproof information security systems. Organizations will also focus more on their own internal compliance and governance as they look to cut costs, squeeze efficiencies from their operations, and focus on transforming their businesses during this time of crisis. All this will bring in a new focus on IT governance, compliance, information security, business continuity and disaster recovery in 2009.

10) Government Spending to Boost Economy will Benefit IT Companies

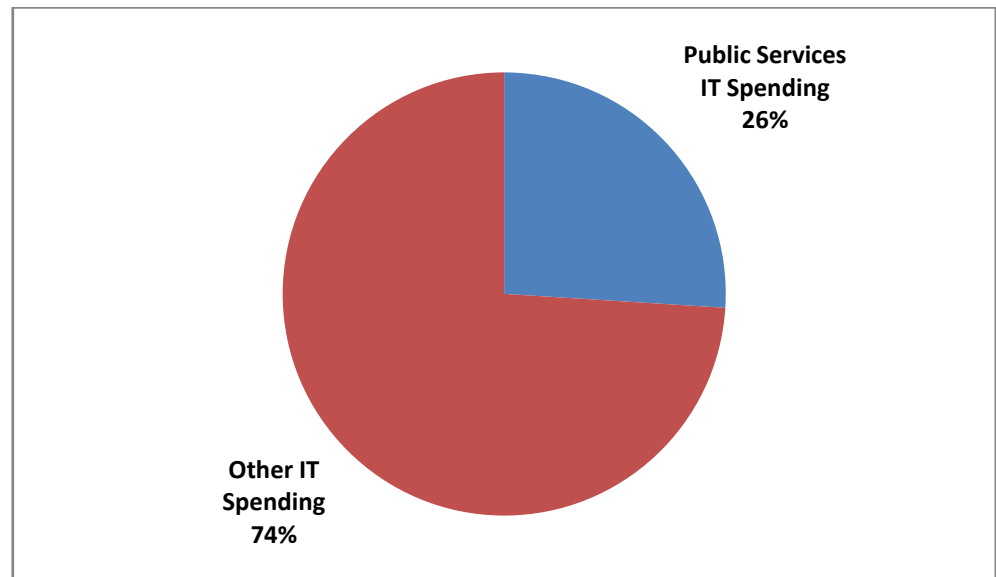
Governments across Asia Pacific including China and India are pushing up public spending in infrastructure, healthcare, education, transportation, regulation and compliance, and delivery of government services. China has already announced a large stimulus package with a large focus on infrastructure. India and other countries will most likely follow with their own similar packages as we move into 2009. (Figure 4)

Post-Mumbai terror attacks, government spending on public security and national defense will get a boost not just in India, but across Asia Pacific as countries rush for preventive measures. Springboard Research believes that the IT companies will be one of the biggest beneficiaries of government spending in these sectors as technology will be a big part of these investments.

However, IT vendors will have to be more innovative in order to become an integral part of governments' initiatives to boost their economies. IT vendors who can successfully align

their business goals with national priorities during difficult times are more likely to gain from government spending than those who fail to do so.

Figure 4: Share of Public Services IT Spending in Total National IT Spending in Australia, China and India, 2009



Source: Springboard Research, 2008 Note: Public Services IT Spending includes private education and healthcare

CONCLUSION

Springboard Research believes that as the reality of an economic slowdown engulfs enterprises across industries in the region, it will create short term challenges as companies focus on cutting costs, deal with lower revenue and profits, and look to transform their businesses to meet the new economic reality the crisis has created. On the other hand, it will be an opportunity for innovation and business transformation, building competitive edge, driving operational efficiency and offering new levels of customer experience. This crisis has created the opportunity for a continuous transfer of wealth from West to East with Asia also managing the crisis better than the other major regions; thus, Springboard feels that there will be high levels of optimism in the air once the region starts seeing the end of this crisis. Organizations need to be positioned so that they can take advantage of the rebound once it starts developing, as the shift to the upside could move with the same speed as it did this year to the downside.

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