

IBM's Focus on Asia Pacific's SMB Market: Key Insights Gained from IBM PartnerWorld 2007

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Date: May 29, 2007

INTRODUCTION

This Springboard Research document presents observations and analyses gained from IBM's Partnerworld conference held in St. Louis, Missouri, USA, from April 28 to May 2, 2007. The basis for the insights expressed within this document – beyond our continuous tracking of IBM's business activities – includes information obtained from interviews with senior IBM executives and business partners.

FOCUS POINT

Springboard Research believes that IBM's focus on localizing solutions and deepening relationships with its business partners gives the company better leverage than most IT vendors planning to exploit the rapidly growing SMB market in Asia Pacific. Localized solutions and strong regional partnerships can help IBM expand its reach among the vast majority of SMBs who have had little or no exposure to IT.

KEY OBSERVATIONS

Small and medium-sized businesses (SMBs), a key thrust area in IBM's business strategy and growth driver for the vendor for the past 5-6 years, is expected to become the company's biggest industry in the next couple of years. IBM predicts that the global IT industry can rise above the current level of 4-5%, if IT penetration in the SMB segment is increased. As such, IBM has focused on this segment through SMB targeted marketing and sales activities in Asia Pacific, aggressive expansion to tier 2 and 3 cities in the region and solutions and applications development (with business partners) that are more likely to appeal to SMBs. Springboard's observations of the key themes and strategies of IBM's SMB market push in the region are outlined in greater detail below:

- **Capitalizing on the Growing SMB Opportunity in Asia Pacific:** SMBs dominate the business universe in this region. Currently, a significant cross section of Asia Pacific's SMBs have limited or no exposure to IT solutions and systems, but do have critical gaps in their business operations that IT can fill. As the area's economy grows, especially in India and China, which account for almost 50% of Asia Pacific IT spending, SMBs – many of them for the first time -- are making significant investments in IT to sustain their growth. IBM is beginning to capitalize on this opportunity.
- **Focus on Key Markets in Asia Pacific:** For IBM, China, India, ASEAN (especially Vietnam) and Korea are the fastest-growing SMB markets in the region. Of these, it is China (35% growth in SMB business) and India (24%) that is shaping IBM's SMB fortune in Asia Pacific. Given that these countries account for almost 50% of the APAC IT market, they are the key focus areas for IBM's SMB strategy.
- **Building Targeted Solutions and Partnerships:** IBM is focusing on re-architecting solutions to meet specific SMB needs, including scaling down solution/applications functionalities to suit operational-management capabilities and budgets. SMBs are

looking for operational efficiency, lower TCO, security and an infrastructure that's easy to use. On the other hand, IBM has increased incentives for its partners who participate in the SMB market. IBM is investing to strengthen education, demand generation and technical support to business partners. Moreover, the company is working closely with ISVs in the region to encourage SMB-centric application development using Express Advantage. That essentially means that IBM is leveraging local partners to better understand its SMB customers and build the right kind of solutions for them.

- **Expand to Tier 2 and 3 Cities:** As economic growth in Asia Pacific countries spreads to tier 2 and 3 cities and beyond, IBM expects its customers to build a significant presence in these outlying markets. IBM is following suit by expanding its reach to these new cities and towns. By the end of 2007, IBM will have built a presence in an additional 25 tier 1 and/or 2 cities in China and 23 cities in India. IBM currently has a presence in 300 cities in China through nearly 9,000 business partnerships. In India, the vendor has a market presence in 200 cities and has around 2,500 partners. More than the growing presence of its large customers in smaller cities, however, it is the SMBs in these locations that are a significant potential new market for IBM.