

## VERTICAL OPPORTUNITIES IN THE CHINESE UNIFIED COMMUNICATIONS MARKET

### **Asia Pacific Market Insights**

*Frost & Sullivan's commentary on the Asia Pacific ICT industry, addressing opportunities, best practices, and major events*



Unified Communications (UC) has become the buzzword in the enterprise communications market in China in 2008. The 11.9 percent of GDP growth in 2007 had led to great revenue surpluses that allowed companies to invest in communication systems. Together with the stimulus effect from the Olympics, UC applications have gained significant growth in the Chinese market in 2008. Nonetheless, the global market condition has resulted to a depressing and slow winter due to the subprime crisis and credit crunch. The future of the Chinese UC market is still positive, however, the near term opportunities seem unclear, this article attempts to identify the growth opportunities in key verticals in the Chinese UC market in 2009.

## UC Market Landscape in China in 2008

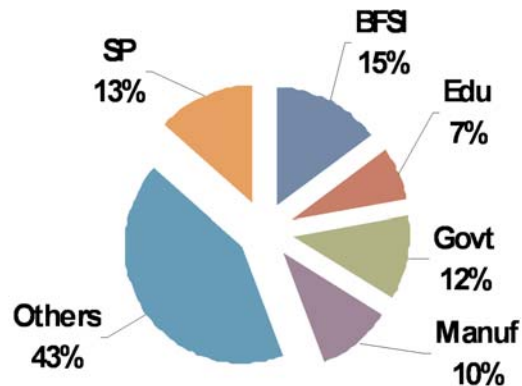
- **Concept of UC is already well recognized in Tier 1 and Tier 2 cities in China but not in Tier 3 cities and in the suburbs.** The concept of UC was introduced to China in late 2006 and has received tremendous attention from traditional Voice vendors such as Cisco, Avaya, Nortel and desktop application vendors like Microsoft and IBM. In 2008, spending on UC grew by slightly over 10 percent in China.
- **International events have stimulated the adoption of UC.** The hosting of the 2008 Olympics and 2010 World Expo has urged the Government and Hospitality verticals to upgrade their communication systems to IP-based UC. Key adopters were 4-5 star hotels, convention centers and provincial public sectors in developed regions in 2008.
- **Small and Medium Businesses (SMB) are beginning to adopt UC and contributed to a significant portion of the UC market revenue.** The adoption of UC solutions was mainly centered around large MNC enterprises before 2008. In Q2 2008, the SMB market has taken up 50.1 per cent of total UC market revenue, although driven predominantly by telephony upgrades. Most vendors have introduced SMB-focused solutions to address the unique needs of communication systems in this horizontal; Avaya's IP Office 500, Alcatel-Lucent's BiCS voice platform, Cisco's UC500 and Nortel's CSI000 have penetrated well into the Chinese market in 2008.
- **UC vendors diligently developed training programs and certification programs for UC pre-sales, product knowledge, deployment trainings and technical maintenance.** Cisco has unveiled its enhanced training programs and collaborative web-based platform for SMB-focused resellers. Avaya continued its SIP Training Program and IP Office Implementation Workshop for its new releases of IP Office series. Nortel acquired Tsinghua Tongfang Co., Ltd. and Beijing InterAct Technology Co., Ltd. as its new channels in 2008.
- **Local Unified Communications vendors such as Huawei and Shenzhen City Qing Flag Information Technology are aggressive in the UC space.** They both had released different editions of UC solutions to cater for the different needs from different verticals. Shenzhen City Qing flag Information Technology Co., Ltd. had successfully secured deals with Shenzhen Airlines, Essence Securities and Guosen Securities with its flagship product "UcStar".

## Key Vertical Opportunities for the Chinese UC Market in 2009

The deepening and widening US financial crisis has seriously eroded global real economy. As a developing country, China is not immune from the global financial stress and is expected to inevitably suffer from the chain effect. In Q4 2008, China's GDP growth has slowed down to single digit, registering the lowest pace in five years since the SARS period. Different verticals exhibit different responses to this financial crisis and such responses would entail mixed implications on the Unified Communications market in China.

According to Frost & Sullivan, the total Unified Communications Market in China has registered revenue of more than US \$400 million in the first half of 2008 and the vertical demand split is shown as below:

Demand Analysis by Verticals, China, H1 2008



Others include Healthcare, Retail, Transport and Logistics, and other verticals.

**Banking & Finance Services and Insurance:** This vertical was most hit by the global financial crisis, and more specifically, foreign-invested banks were severely affected. Chinese banks such as Bank of China, Industrial and Commercial Bank of China, China Merchants Bank and Bank of Communications were not heavily affected by this crisis. Firstly, Chinese banks have more in-bank savings than outflow investment due to the Chinese habit of 'save-up', as Chinese banks need to reserve higher percentage of cash deposits to cater the needs of daily withdrawals. Secondly, the Chinese financial system is almost closed and less exposed to the troubled assets of this crisis. Profitability of Chinese banks may decline in 2009 but it is expected to continue growing at a lower rate.

Hence, opportunities exist in Chinese banks for UC adoption rather than foreign banks in 2009. Insurance is another sector that is expected to continue its spending on communications technologies. Insurance Agencies which have already eyed the untapped rural and suburban areas of China have the potential to initiate UC adoption in 2009.

**Hospitality:** The driving factor of the Olympics has come to an end in Q3 2008. Due to the pessimistic economic outlook, it has been estimated that hotels in China will have a slip of occupancy rate in 2009 as less people want to travel. Fewer international conferences and meetings are expected to be held in China. Hospitality spending power on communication systems in China would be impaired significantly.

**Manufacturing:** Appreciation of RMB and less foreign demand have made the export-oriented Manufacturing sector one of the biggest victims of this financial crisis. Thousands of workers in the Pearl River Delta have been retrenched since Q3 2008 and more is expected. It seems that UC adoption is unfavorable in this vertical in 2009; however, as Manufacturing companies thrive for better productivity and cost control to compete with their peers in the fierce competition due to a plunge in demand, vendors should address the ability of reducing communication cost and improving business process efficiency to clinch deals with Manufacturing companies that are geographically dispersed in China.

**Government/Infrastructure:** The Snow Storm and Wenchuan Earthquake has restrained the Government from spending on upgrades and deployment of communication systems in the second half of 2008. Nevertheless, the economic stimulus package aimed at blunting the impact of the crisis by the Chinese government has focused on enlarging the demand for domestic consumption, and has allocated billions in budgets for government infrastructure projects, including Transportation, Railways and Airports. UC vendors ought to eye such government projects; the recent declaration of \$280 billion investment

on railway network opens up the UC market opportunity in such projects. Provincial Government agencies also offer opportunities for communications infrastructure upgrades and expansions.

**Telecommunications:** Ministry of Industry and Information Technology (China) has issued 3G licenses to China Mobile, China Unicom and China Telecom in January 2009. It is expected that bigger investment will flow into 3G wireless network from the telcos in 2009. It is suggested that UC vendors take the opportunity to actively partner with telcos to jointly deliver 3G Mobility solutions and hosted UC services in 2009.

According to Frost & Sullivan, the total Unified Communications Market Opportunity\* in 2008 was worth close to US \$900 million in China. In 2009, Frost & Sullivan expects to see steady growth in enterprise spending on communications infrastructure and applications in China. While the economic climate is not very favorable, there are pockets of growth that will drive the adoption of UC in China in 2009. Efforts around building vertical-specific UC solutions and identifying business processes within verticals where UC can have tangible benefits are required to succeed in the market place.

*\*Note: UC Market Opportunity includes Enterprise Telephony, Email, Instant Messaging (Unified Client), Unified Messaging, Conferencing & Collaboration (Audio, Video & Web), Mobility, Presence & Integrated UC Applications, and Core Contact Center Applications.*

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