Hong Kong Information Technology Report Q3 2011

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Abstracts

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Market Overview

The Hong Kong IT market is forecast by BMI to grow from around US$5.2bn in 2011 to US$6.5bn in 2015. Economic expansion and improving business conditions are expected to underpin stronger demand in the private sector in 2011, while strong advance sales of the iPad2 ahead of its April 2011 launch indicated positive sentiment in the consumer segment.

IT market growth is forecast at 11% in 2011 but much will depend on continued business and consumer confidence in the economic recovery. The Hong Kong government should continue to spend on key modernisation and informatisation initiatives as part of its Digital 21 programme. The government's new IT plan includes an emphasis on cloud computing for 2011, and Hong Kong hopes to emerge as a regional cloud computing hub.

The IT market will be supported by initiatives encouraging the integration of Hong Kong's economy with mainland China and the abolition of taxes on cross-border trade. Recent integration of PCs with wireless networking technologies and the rollout of 3G mobile networks and popular converged services such as internet protocol television (IPTV) are also drivers.

Industry Developments

The Hong Kong government has also announced that its new pan-government IT strategy has an emphasis on cloud computing in 2011. There is no specified time for rollout as officials continue to consider data privacy and security issues. In the initial

phase, the emphasis is likely to be on creating some kind of private cloud to support internal communication and collaboration within the government.

Competitive Landscape

In April 2011, retailers reported strong advance interest in Apple's iPad2, despite prices of around US$2,000 for the top-end 64-gigabyte model. 2010 saw growing enthusiasm in Hong Kong for tablet notebooks, spearheaded by Apple's iPad, which became available from mobile telecoms service provider 3. Meanwhile, in Q410 rival Samsung's Galaxy Tab device was launched in Q410 with what was described as 'four-digit' pre-order figures in the local market.

Cloud computing is a major current focus for vendors. In May 2011, Japanese IT services leader Hitachi Data Systems (HS) launched a new portfolio of cloud services in Hong Kong in partnership with IT services group ACW Services. Early adopters for the service, branded CloudService360, reportedly included the Hong Kong operations of a global environmental organisation and a global fashion retailer.

Meanwhile, one feature of the IT services competitive landscape is the increasingly aggressive move of telecoms service providers into the IT services space. In May 2010, PCCW Solutions launched its own cloud computing service. Local telecoms company PCCW has forecast the service will break even within one year, and the banking and retailing fields are seen as key areas of potential.

Hong Kong has launched a drive to emerge as the leading regional datacentre hub ahead of perennial rival Singapore and other competitors. The government has indicated that it will continue to work to try and boost Hong Kong's datacentre ecostructure. High-value datacentres are included in China's 12th Five-Year Plan, which covers Hong Kong.

Computer Sales

BMI forecasts the Hong Kong computer hardware market at US$2.3bn in 2011, with 6% growth from 2010. In 2010 the market rebounded as consumer spending remained strong. The holiday factor and an influx of visitors from the mainland provided support for retail growth in the Christmas/New Year shopping period.

Computer sales are expected to maintain an upward trajectory in 2011, with robust consumer demand support by demand for tablets and a revival in corporate and SME

investment. The Closer Economic Partnership Agreement with mainland China is continuing to expand horizons for smaller enterprises and encourage IT investments.

Software Software sales are forecast at US$1.3bn in 2011 and are expected to reach around US$1.6bn by 2015. Hong Kong boasts one of the most advanced software markets in the region and software accounts for around 25% of IT revenues. Indeed, the territory has long been an important market for new launches of packaged software products.

Migrations to Microsoft's Windows 7 operating system should continue to support the market. Beyond basic enterprise resource planning (ERP) applications, business segment growth opportunities include customer relationship management (CRM) and business intelligence. As vendors' attention turns to smaller companies, the software-as-a-service (SaaS) model is enjoying increasing popularity in Hong Kong.

IT Services

In 2011, the IT services sector is forecast at around US$1.6bn, up from US$1.4bn the previous year. IT services revenues are then projected to grow at a 2011-2015 CAGR of 6%. The market is expected to build on growing investment in cloud computing and a trend towards larger outsourcing projects evident in both the public and private sectors over the past couple of years.

The government's Digital 21 initiative will continue to generate a number of projects, while one of the highest IT spending verticals should be the financial sector, where IT systems and processes still generally lag some way behind Hong Kong's status as a leading global financial centre. The IT services industry benefits from Hong Kong's excellent telecoms infrastructure, with Hong Kong being the first city to fully digitise its fixed-line telecoms networks.

Cyberport

The Cyberport was designed to provide the city with a major regional hub that would attract leading IT companies and professionals. The first phase of the HKD13bn project, developed by PCCW, was inaugurated in November 2001. After the science park opened in June 2003, it came under criticism for failing to attract enough tenants to fill the 38,000m2 of office space. This was mitigated slightly when Dutch electronics firm Philips agreed to rent a floor and Microsoft announced it was moving its 250 Hong Kong-based employees there.

However, high-tech blue chip companies seem to have lost interest, with commentators pointing to the lack of a mature venture capitalist community, favourable e-government policy or even 'entrepreneurial spirit'. As the Cyberport does enjoy some advantages, including a favourable location and proximity to the vast mainland market, there is increasing demand for the government to revive the project.

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