

Pacific Market Opportunities

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by Denise A Sangster

The Mediterranean is the ocean of the past, the Atlantic the ocean of the present, and the Pacific the ocean of the future.—Secretary of State John Hay, 1898

Major events in the Pacific Rim—such as Hong Kong’s return to mainland China in 1997—will dramatically affect global trade opportunities before the turn of the century. But the Pacific market isn’t standing still until then—it offers real and growing opportunities today. Japan and small regional markets (Taiwan, South Korea, Malaysia, and Thailand) are showing at least 30-percent annual growth. These markets are the fastest-growing regions in the world and will represent a greater percentage of participating developers’ overall revenue by 1994.

According to International Data Corporation (IDC), the installed personal-computer base in the Pacific market is less saturated than it is in the U.S. and Europe. In fact, IDC’s research indicates that 27 percent of the installed base of personal computers in the Pacific region was shipped in 1989.

The Pacific Rim is traditionally viewed as Japan, Australia, and several developing nations, but it is much more. It is the most culturally diverse region in the world, with the fastest-growing economies. Japan is currently the “engine” that runs the Pacific region, but the newly industrialized countries (South Korea, Singapore, Hong Kong, and Taiwan)

and the less developed countries (Indonesia, Malaysia, the Philippines, and Thailand) are increasing their share of the region's economic activities.

In order to do long-term business in any Pacific market, a developer needs to establish a presence and create a strategic marketing plan that simultaneously embraces the major markets in the world: Japan, Europe, and the U.S.

Record-Breaking Sales Apple Pacific has recently made some significant strides in Pacific markets. In just three years, Apple has established a strong Pacific Rim presence and continues to build market share at a record-breaking pace, particularly in Japan.

Behind Apple Pacific's success is a strategy designed to address the unique needs of each individual marketplace. Depending on how the geographic lines are drawn, the Pacific market covers thousands of square miles and includes more countries, languages, cultures, and religions than any other region in the world. There are larger differences between countries in the Pacific than there are in Europe. In each country, Apple Pacific's success relies on developing close relationships with local partners and economies, providing localized products, and investing in local R&D where possible to develop products for specific markets.

Apple is approaching the Pacific market "with two hearts: one from Apple and the other from a local perspective," says Satjiv Chahil, Apple Pacific's director of marketing.

Apple Pacific has wholly owned subsidiaries in Australia, Canada, Hong Kong, Japan, Singapore, and Taiwan. Products are sold through a network of distributors in other countries in the Pacific region.

JAPAN: LAND OF THE RISING \$\$\$ (or ¥¥¥)

Japan is the Pacific Rim market leader and has the largest consumer market. The country is about the same size (physically) as California and has a population equal to half that of the entire U.S. (122 million people). Its personal-computer market is currently estimated to be about a fifth of the size of the U.S. market, but the growth potential is enormous. According to IDC, Japan's gross domestic product (GDP) represents 16.9 percent of the worldwide GDP.

The Japanese word processor (JWP), a dedicated word-processing system, has been extremely popular in Japan and allows users to type thousands of Kanji (Japanese script) characters needed for written communication. However, the JWP is starting to lose market share to personal computers, particularly laptops and small-footprint systems. In Japan, desktop space is at an absolute premium, and the smaller the form factor, the better. In addition, Japanese consumers are the toughest, most demanding customers in the world, and they demand extremely high quality.

Doubling the Installed Base Apple is making headway in the Japanese market, particularly with the Macintosh Classic and the LC. With the acceptance of these systems, Apple expects to see 100-percent growth in the Japanese Macintosh market this year. Apple did not actively sell the Apple II in Japan, because the operating system did not support Japanese characters. Now, armed with both the Classic and the LC, Apple is going after market share and first-choice position with Japanese consumers.

“We initially targeted the desktop-publishing market and not the mainstream market, since Japan is mostly a word-processing market. Apple wanted to leverage its DTP strength and the Apple name. Apple is now outselling NEC in the DTP market 2-to-1,” says Chahil.

With the release of the new Apple computers in Japan, Apple took a hard look at its Japanese-market pricing. The result was a large reduction in prices.

“Our pricing in Japan used to be 50–100% above the U.S. retail price; today our goal is to keep it within 5–15%,” explains Cahil. As a result, “Apple has had an unbelievable response from consumers for both the Macintosh Classic and the LC.”

“We expect to ship 100,000 units in 1991, which will almost double our installed base,” says Fred Bullock, Apple Pacific’s third-party-marketing manager. “The enthusiasm for Apple’s products from the market represents a big opportunity for developers. The Classic is fueling the growth, with its sales significantly outpacing our sales forecasts, while demand for mid- to high-range CPUs also remains strong.”

In Japan, Macintosh software will be driven by graphics, CAD, networking, and low-cost applications for the Macintosh LC.

Easier Than Localizing for DOS The localization of a roman-character software program can be a difficult, expensive, time-consuming task that creates a major impediment to entering the Japanese market. Japanese is one of the most intricate languages in the world, containing four individual scripts: Romaji (alphabetic Roman characters), Katakana and Hiragana (syllabic characters), and Kanji (ideographic characters). The localization of software for proprietary DOS versions can involve modification of 25-to-40 percent of the software’s source code in order to build in routines critical for the Japanese market, such as double-byte/character support, unique sorting and indexing routines, word and line breaks, alternative date/time/numeric

formats, vertical and horizontal display and input, and the like—plus translation of the on-line text and messages.

KanjiTalk, Apple's Japanese operating system for the Macintosh, has most of the unique needs of the Japanese language already built in, which substantially reduces development time. According to Robert Reiser, a member of WordPerfect's Macintosh International Development group, "it conservatively takes us three to four times as long to develop for (Japanese) proprietary DOS systems than for the Macintosh."

Because of the lack of DOS standards, says Reiser, "we develop at least three different, albeit similar, DOS versions of WordPerfect for the Japanese PC market. We have six people working on these versions; on the other hand, our Macintosh localization group requires only one person, because Apple has built in most of the utilities and routines for the Japanese market. The DOS group has to build these routines itself." And, Reiser adds, "the Macintosh Japanese development work is usable for Korean and Chinese versions, although you need to translate the text into the appropriate language. This makes developing for the Macintosh incredibly cost-effective."

The biggest challenge for third-party developers is to overcome the perception of xenophobia and a mysterious language and culture. Japan is a complex market, yet the correct Japanese business partner will guide the developer and offer assistance with product localization, distribution, marketing, customer service, cultural issues, and business contacts to enhance the product's market appeal to Japanese consumers. (See the "Getting Started" sidebar.)

OTHER PACIFIC COUNTRIES

Australia The Australian market can be a good first point of entry into the Pacific market for a developer with English-language products, since there are few language and cultural differences. Australia's population is approximately 17 million, or 5 percent of the U.S. population. Seven million inhabitants are located in two cities: Sydney, in New South Wales, and Melbourne, in Victoria. These two cities and their surrounding areas generate more than 70 percent of the total commerce in Australia. Australia is the second-largest market in the Pacific Rim, and IDC predicts that the Australian personal-computer market will have an annual revenue growth of 13.9 percent through 1994.

Apple currently outsells IBM by 2 to 1 in Australia. IDC estimates that the Macintosh installed base in Australia through 1990 is approximately 140,000 units. At the end of 1990, Apple's and IBM's market shares were 16 percent and 7 percent, respectively.

There are many dealers, VARs, and republishers in Australia, including approximately 120 resellers, one multivendor chain (ComputerLand), 3 main Apple-only chains (Logical Solutions, Computer Knowledge, and Avante), and 12 Apple Centres. Apple has taken the guesswork out of the Apple channel by certifying distributors and resellers to help developers better evaluate the potential partner's product line, expertise, and potential. But no matter whom you select to work with in Australia, support and pricing are key ingredients to success.

Gray marketing can be a major problem in Australia if locally distributed products are overpriced. The maximum threshold of local pricing is 1.2 times the U.S. retail price; excessive pricing in Australia guarantees gray marketing.

Hong Kong Even with the chaos of Hong Kong and the appearance of a fast-paced country, businessmen there often take more time to make decisions than do Western

counterparts. Courtesy calls and personal selling are essential to success in this market. All important business should be done face-to-face rather than via telephone and fax.

IDC expects the market to have an annual revenue growth of 16.5 percent through 1994, but Apple expects to grow by 23 percent in 1991. Only 24 percent of Hong Kong businesses are currently believed to be computerized, even though IBM PC/XT clones and compatibles have flooded the market for years.

The future of the Hong Kong economy is uncertain, as the transfer of the nation back to Chinese control approaches. Many businesses are believed to be taking money out of the country and investing less, but the economy continues to prosper, albeit at a smaller growth rate than in previous years.

Apple's Hong Kong office serves as the regional office for the "four tigers" (South Korea, Singapore, Hong Kong, and Taiwan) as well as for Malaysia, India, Thailand, Guam, Pakistan, and Bangladesh. Hong Kong has three Apple certified dealers (Gilman Business Systems, Sun Business Machines, and Tricom Computer), three VARs (Compuserve Consultants, EACgraphics, and TomLee Music), and 21 local certified developers. Most of the third-party products are distributed by Apple's dealers.

The Hong Kong market uses mostly English-language-based applications, which makes pricing very sensitive. There is, however, a growing demand for Chinese-language software products, and it should increase as 1997 approaches.

Taiwan Business cards are as important in Taiwan as they are in Japan and ideally should have English on one side and Chinese on the other. Understanding some Chinese cultural characteristics—such as "face," honor, and privacy—is essential.

Taiwan, a Mandarin Chinese-speaking market, should be a test ground for software that may be bound for China. China is a potentially huge market but an uncharted territory for Western computer manufacturers and developers. Note that software piracy can be a problem in both Taiwan and China.

Taiwan has the largest installed base of computers in the Far East, and Apple projects 18-percent growth in 1991. The forces driving the Taiwanese PC market are increased computer performance, price reduction, and a variety of Chinese-language application software.

Apple established a subsidiary in Taiwan in late 1990. Currently Apple has 2 Apple Centres and 11 Apple-only dealers with 14 outlets. Third-party products are distributed by local distributors, Apple dealers, and Apple Taiwan.

Other Opportunities

Indonesia, South Korea, Malaysia, Singapore, and Thailand are emerging markets, all of which are being eyed as personal-computer-manufacturing and -assembly sites (thus creating more local market awareness of computers). Early entry into an emerging market may enable a developer to “own” the market and establish its product as the de facto local market standard.

One challenge for developers will be to find ways to sell computer hardware and software at prices that are proportional to the country’s GNP and to the amount of disposable income. The Macintosh LC is an excellent solution for emerging markets or markets with low PC saturation, but a variety and selection of low-cost software is required to help drive market acceptance. Developers will be faced with a strategic decision: selling a lot of products at low prices or selling a few high-priced products, having to strike a balance between volume sales

and higher prices. Those companies that figure out the appropriate formula for each country will develop market leadership with Apple, create de facto product standards, and lead the Pacific region for years to come.

Pacific Market Opportunities

COUNTRY	COMPUTER ESTIMATED INSTALLED POPULATION	BY PERS. COMPUTER CURRENCY	LANGUAGE(S)	G N P	PERCAPITA INCOME	EST. LABOR FORCE SIZE
Australia	17 million 2,457,861	Dollar 2	English	\$193 billion	\$12,000	8 million
China	1.1 billion	Renminbi Yuan	Putonghua	\$1.1 billion	\$305	510 million
Hong Kong	5.8 million	Dollar	English/Cantonese	\$43 billion	\$10,939	2.8 million
Japan	122 million 6,991,740	Yen 1	Japanese	\$2.8 trillion	\$23,000	60 million
Korea	42.8 million	Won	Korean	\$164 billion	\$4,968	17 million
Malaysia	17.6 million	Ringgit	Malay/English/ Chinese dialects	\$22 billion	\$2,050	6.25 million
New Zealand	3 million	Dollar	English	\$28 billion	\$8,400	1.6 million
Phillipines	60.9 million	Peso	English/Tagalog	\$34 billion	\$727	23 million
Singapore	2.7 million	Dollar	English/ Mandarin/Malay	\$19 billion	\$10,521	1.3 million
Taiwan	20.2 million	Dollar	Mandarin	\$120 billion	\$7,509	2 million
Thailand	56.2 million	Baht	Thai/English	\$40 billion	\$1,194	28 million

SOURCES: Global Touch, Inc., International Data Corporation, Bureau of National Affairs, Asiaweek

* Information not available

Getting Started

Now that you know what opportunities are available in the Pacific, how do you begin to explore them?

First, educate yourself. Learn as much as you can about the markets in general and then about the Apple markets in particular. Understanding market dynamics will carry you through most situations in the future. Apple Pacific and its local subsidiaries have prepared several publications to educate third-party developers with market background information as well as key contacts. The publications are available through Apple's developer programs or Apple's local Pacific subsidiaries.

In addition, Apple Pacific's third-party marketing group and third-party-marketing managers in the Pacific-country offices provide services to help developers locate business partners in the Pacific region.

Apple Pacific's Pacific Market Forum provides developers with more information about the Pacific Market than could be gathered in six months of primary research. The 1992 conference is scheduled

to coincide with Macworld Expo (San Francisco) in January 1992. (For more details on the Pacific Market Forum, contact Jennie Tsunekawa [AppleLink:TSUNEKAWA1].)

The second step is to focus. Apple Pacific can provide one-on-one consulting services to third-party developers who have made the decision to enter a Pacific market. Apple Pacific's third-party-marketing staff can advise you on market-entry strategies, partner selection, and key localization issues.

Several consultants and service providers can also help you create a Pacific strategy to ensure better market acceptance and results. The types of services available include product localization, distribution, marketing, manufacturing, and the like. Again, your Apple contacts can help you locate services.

The final step is implementation. Work closely with both your partner and Apple's local subsidiary.

Here are the names of Apple's Pacific third-party managers and information on how to contact them:

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