# 7. INDUSTRY PROSPECTS AND OUTLOOK

## 7.1 Malaysia

### *7.1.1 Overview of Malaysian Economy*

The Malaysian real GDP growth rate in the year 2002 was 4.2%. The economic performance at the fourth quarter was at a sustainable rate of 5.6%, following growth of 5.8% in the third quarter, 3.9% in the second quarter and 1.1% in the first quarter. This encouraging performance resulted from a stronger private spending, backed by the lower interest rates, higher income, greater access to credits by consumers and favourable commodity prices. The year-end bonus payments contributed to the higher disposable income in the fourth quarter of 2002, while rural consumption was supported by the sharp increase in agricultural commodity prices. There was also an expansion in the public sector with a lower deficit performance. In the fourth quarter, inflation was lower at 1.8% (3Q 2002: 2.1%) and the labour market was stable with an unemployment rate of 4%. The results also showed positive performance in all sectors.

There was a continual recovery in investments as the gross fixed capital formation strengthened by 9.8% (3Q 2002: 2.6%) with higher loan disbursement to the manufacturing and construction sectors and increase in the import of capital goods. Higher development expenditure by the Federal Government on housing and public utilities coupled with the steps by the private sector to upgrade their equipment and capacity expansion activities have also contributed to the recovery of the investment position. Inflows of funds for investment increased in the 4$^{th}$ quarter, with gross inflows of foreign direct investments ("FDI") amounted to RM3.9 billion and net inflows of RM0.4 billion. Exports have also showed continual recovery with an annual growth of 6% and a larger trade surplus of RM14.8 billion (3Q 2002: RM13.5 billion).

The growth in the year 2003 will depend on the global economic situation. However, positive growth is still expected with a modest world economic growth, some recovery in the global electronics industry, firm commodity export prices and stronger expansion in intra-regional trade. Increase in the import of intermediate goods is indicative of sustained export orders into the first-half of 2003. With all these optimistic factors and strong domestic demand, the private sector will be able to contribute to the improvement in the economic growth. Economic growth will also be supported by a continual increase in consumer confidence, while the strong banking sector provides a stable foundation to absorb any unforeseen instability in the financial markets.

*(Source: Bank Negara Malaysia, 26 February 2003)*

### *7.1.2 Malaysian IT Industry*

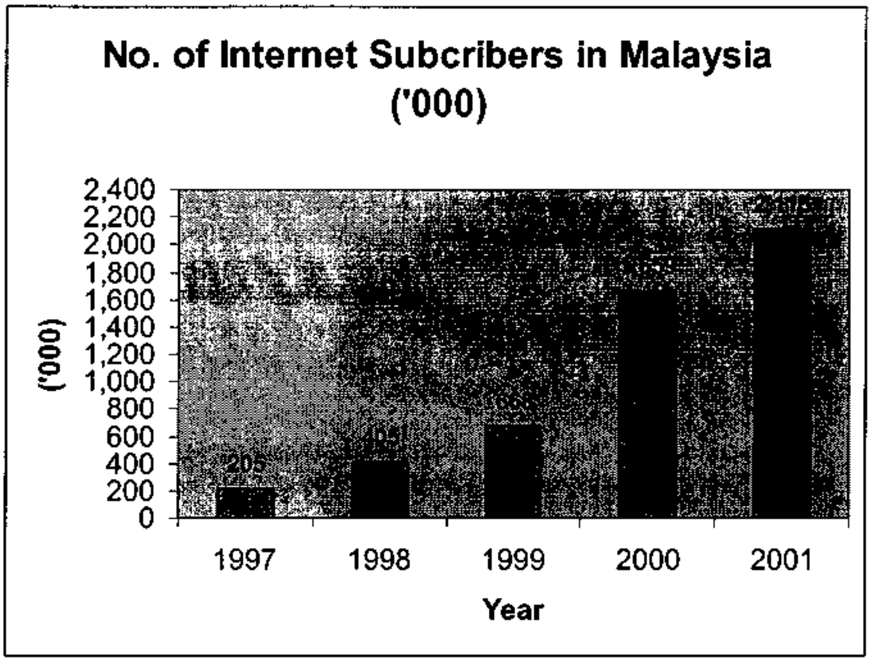
"In Malaysia, bearing the potential impact of the Iraq war and Severe Acute Respiratory Syndrome ("SARS"), IDC forecast that the annual growth of IT spending would be 1% in 2003 to reach USD2.15 billion. IT services spending is expected to be the key growth segment, with an annual growth rate of 9% in 2003. Mainly outsourcing and contract-based spending will drive this increase in IT services spending."

*(Source: IDC, 2003)*

### *7.1.3 Growth in Malaysia Internet Subscribers*

As the browser-based solutions provide solutions for e-commerce activities and internet related services, the prospect of the division is dependent on the growth of e-commerce and the internet. The internet model is driven by the obvious advantages of a central data depository with significant reduction in cost per transaction, borderless global market reach and the ability to access information and online business transactions on a round-the-clock basis. With future solutions focusing in this direction, it will provide users with the right tools to drive their businesses to a new higher level not achieved prior to the browser-based solution.

Based on the statistics published by the Malaysian Communications and Multimedia Commission, the growth of the internet subscribers in Malaysia is as follows:-




*(Source: Malaysian Communications and Multimedia Commission)*

As the number of internet subscribers in Malaysia has grown significantly over the last five (5) years, higher usage of the internet as a mode of commerce is expected. The growth of e-commerce, lowering of costs of technology and technological advancements should fuel the growth of companies by web-enabling their business process. IFCA would therefore benefit from the growth of companies taking advantage of the opportunities offered by internet technology.

### 7.1.4 *Malaysian Property and Construction Industry*

"Growth in the construction sector continued to be bolstered by projects implemented under the fiscal stimulus programme and housing development, thus contributing to a stronger growth of 3.8% in 2002 (2001:2.3%). At the same time, the Government reviewed procedures, rules, and guidelines as well as established a special task force to ensure that the implementation of public and privatised projects are carried out as scheduled and, therefore, produce the intended impact."

"Housing property development continued to remain strong, due mainly to the stable and low interest rate. At the same time, the Government's extension of the stamp duty exemptions for the purchase of houses for another six months from January to June 2002, has managed to stimulate demand further."

"The Government continued its efforts to increase the number of low-cost houses for the lower income group. Towards this end, a total of RM943 million was allocated for several low cost housing projects in 2002. Under the Public Low-Cost Housing Programme and People's Housing Project, a total of 11,200 units of low-cost houses is expected to be built compare to 7,700 units in 2001, a significant increase of 45%. At the same time, this initiative is complemented by several other special schemes, set up to build low-cost houses to be financed under the various funds, such as the Fund for the Hard Core Poor, the Fund to Accelerate the Construction of Low-Cost Housing and the Low-Cost Housing Revolving Fund."

"The Government continued to monitor and address the issue of property overhang especially commercial space. Towards this end, the directive to local authorities not to approve any new construction of office and commercial space, except in special cases, to discourage further addition to property stock continues to be enforced. During the first quarter of 2002, the number of unsold industrial units recorded a reduction of 8.7% while vacant space in shopping complexes was reduced marginally by 1.1% compared to the last quarter of 2001. In contrast, purpose-built office vacancy increased marginally by 0.7% during the same period."

"The construction sector is envisaged to record a higher growth of 4.5% (2002:3.8%). Public sector infrastructure projects in health and education sub-sectors in particular, as well as for rural development. Housing development is also expected to contribute significantly to growth in the sector in view of the increasing demand, especially for low and medium-cost houses."

*(Source: Economic Report 2002/2003 Ministry of Finance, Malaysia)*

### *7.1.5 Packaged Software Market Overview*

As a local software developer, Malaysia is definitely IFCA's biggest market in the region. By studying the Malaysia's Packaged software, we could learn about the company's prospect in the software market.

The total Malaysian Packaged Software market was valued at RM1,226.9 million (USD322.8 million) in 2002. The market is at an overall compound annual growth rate (2002 – 2007 Compounded Annual Growth Rate ("CAGR")) of 8.5%, which will result in the size the Packaged software market in Malaysia reaching RM1,843.8 million (USD439.6 million) by 2007.

***Table 1 - Malaysia Packaged Software Market Revenue and Growth, 2002-2007***

| Year | RM million (USD'M) | Growth (%) |
|---|---|---|
| 2002 | 1,226.9 (322.8) | - |
| 2003 | 1,296.4 (341.1) | 5.7% |
| 2004 | 1,406.7 (370.1) | 8.5% |
| 2005 | 1,534.3 (403.7) | 9.1% |
| 2006 | 1,670.6 (439.6) | 8.9% |
| 2007 | 1,843.8 (485.1) | 10.4% |
| 2002-2007 CAGR | | 8.5% |

*Source: IDC,Q4 2002*

### *7.1.6 Market Drivers*

IDC has listed down the major market factors that will drive the Malaysian software market in the next 5 years:-

- **Government spending on IT** has been the main growth driver focusing on computerisation and MSC development. The Malaysian government has allocated RM994 million (USD261.58 million) to be spent on IT this year alone, as part of its RM4.9 billion (USD1.3 billion) planned fund under the 8th Malaysian Plan (2001-2005). Besides this, the Malaysian government is concerned with the rate of IT technology adoption among the small and medium enterprises. The Government has taken some action to encourage the small and medium enterprises sector uptake on IT. Such action are providing tax incentive, improving IT infrastructure and setting up of research and development site, and benefits to attract technology experts.

  Several technology-related financial grants or assistance schemes are available for local small and medium enterprises, which are made available through various government agencies including Small and Medium Industries Development Corporation and Malaysian Technology Development Corporation. On top of this, the government has been the main driving force on combating software piracy in Malaysia.

- **A corollary to the trend toward Web-based application architectures** is that IT staff want to give users access to more functionality from a single "screen" (even if the underlying applications are not totally integrated); this leads to the increasing adoption of enterprise-application portals (provided by the enterprise-application vendors or separate portal vendors) as the "Graphical User Interface of the next decade".

- **The continuing move of enterprise suites into the small and medium enterprises industry;** the total IT market in Malaysia reached USD2.2 billion in 2001, of which 33% were contributed by the small- and medium-enterprises industry. With the increased focus on IT, the small- and medium-enterprises industry looks set for more growth. There is a growing trend for small- and medium-enterprises to invest in IT solutions to enhance their business processes, and software and services spending is expected to account for 46% of the market by 2006. Based on IDC's annual end-user study, IDC observed that CRM investments are still relatively low in Malaysia. Industries that have invested in CRM are communications and media sector as well as the distribution industry. IDC believes that this is likely due to continuous priority and stiffer competition in retaining customers in these industries.

*(Source: IDC, Q4 2002)*

### *7.1.7 Packaged Software Market Breakdown by Product Category*

Packaged software is made up of three primary markets, namely:-
1. Applications market *(where IFCA's products fall into)*
2. System Infrastructure Software market
3. Application Development and Deployment Software market

In 2002, 53.0% of Malaysia's Packaged software market came from the Applications market, with a dollar value of RM650.4 million (USD171.2 million). This was followed by the System Infrastructure Software market (24.1%) and the Application Development and Deployment market (22.9%).

In 2002, license revenue for the Malaysia Applications market segment totaled RM650.4 million (USD171.2 million). IDC anticipates that the market will continue to grow steadily with a CAGR of 8.2% over the next five years, reaching RM963.7 million (USD253.6 million) in 2007.

***Table 2 - Malaysia Packaged Software Market Revenue by Product Category, 2002***

| | **RM million (USD'M)** | **Share (%)** |
|---|---|---|
| Applications | 650.4 (171.2) | 53.0% |
| Systems Infrastructure Software | 295.5 (77.8) | 24.1% |
| Application Development and Deployment Software | 280.9 (73.9) | 22.9% |
| **TOTAL** | **1,226.9 (322.8)** | **100.0%** |

*Source: IDC, Q4 2002*

The Applications market can be further broken down into 9 secondary software markets, namely Consumer Applications, Collaborative Applications, Content Management Applications, Authoring Applications, Speech and Natural Language Applications, Cross-Industry Applications (formerly known as Enterprise Resource Management Applications), Services Industry Applications, Product Supply Chain- Specific Applications, and Customer Relationship Management Applications. IFCA's products fall into the Services Industry Applications category of the Applications market.

### 7.1.8 *Service Industry Applications Market*

As a portion of the application market segment, Service Industry applications include applications designed specifically for banking/finance, insurance, healthcare, professional services, transportation, telecommunication, utilities, government, education, and other service industries.

IFCA is positioned in the Service Industry Applications market, providing industry specific application for hospitality, and property development industry. In 2002, Service Industry applications totaled RM 99.9 million (USD26.3 million), representing 15.4% of the Applications market. IDC expects that the market will grow at a CAGR of 9.5% over the forecast period and reach RM 157 million (USD41.3 million) by 2007.

*(Source: IDC, Q4 2002)*

## 7.2 PRC

### 7.2.1 *Packaged Software Market Overview*

To generate revenue growth continually, IFCA is also looking at potential market in the region, especially PRC. The PRC packaged software market experienced growth of 19.5% to reach RM7,514.1 million (USD1,977.4 million) in 2002 from RM6,287.9 million (USD1,654.7 million) in 2001. On the one hand, PRC's World Trade Organisation entry, steadily growing economy, increasing FDI, and enterprises' emphasis on software investment has enabled PRC's packaged software market to maintain its relatively high growth in the last year compared to other countries in the Asia/Pacific region.

***Table 3 - PRC Packaged Software Market Revenue and Growth, 2002-2007***

| Year | RM million (USD'M) | Growth (%) |
|---|---|---|
| 2002 | 7,514.1 (1,977.4) | - |
| 2003 | 9,347.6 (2,459.9) | 24.4% |
| 2004 | 11,899.5 (3,131.4) | 27.3% |
| 2005 | 15,179.1 (3,994.5) | 27.6% |
| 2006 | 19,057.8 (5,015.2) | 25.6% |
| 2007 | 23,692.4 (6,234.8) | 24.3% |
| 2002-2007 CAGR | | 25.8% |

*Source: IDC, Q4 2002*

### 7.2.2 *Drivers for Growth*

- **Fast growth of IT facilities over the past decades.** PRC has become one of the largest IT hardware spending markets (over RM68.4 billion/USD18 billion) in the Asia/Pacific region (excluding Japan), even though its software spending accounted for only 9.2% of the total PRC IT market, compared to 20% of the worldwide market. Enterprises can now generally count on software to realise a better rate of return on the huge investment made in IT hardware/infrastructure, than it has in the past.

- **Industry decentralisation and reform.** To cope with global competition and bring PRC markets in line with global practices, many sectors in PRC, such as telecommunication, power, and media, are being decentralised and further reformed, bringing new competition to the market. The purpose of software adoption in these sectors is shifting away from simply meeting government requirements and towards basic survival.

- **Government commitment.** PRC's accession into the World Trade Organisation brings with it fierce competition for domestic companies. The fact that they lag behind in IT adoption levels is considered the foremost obstacle stopping local enterprises from taking the competitive edge. As a result, the government has set a target in its 10th Five-Year plan for improving IT adoption levels in all large enterprises throughout the country. Not only will the banking and telecommunication sectors further develop their IT infrastructure and accelerate the software adoption, but also the state-owned enterprises operating in the manufacturing industry.

- **Increased IT investment especially in software.** At present, IT investment accounts for less than 1% of fixed asset investment, and software-related investment takes up less than 10% of IT investment. To catch up with their global counterparts, it is expected that enterprises in PRC will increase their IT investment significantly over the next few years.

*(Source: IDC, Q4 2002)*

### 7.2.3 *Packaged Software Market Breakdown by Product Category*

Applications market represented 48.4% of PRC's Packaged software market in 2002, dollar value of RM3,639.0 million (USD957.6 million). The system infrastructure software market represented 34.2% while the application development and deployment market has 17.4% of PRC's Packaged software market.

IDC expects the application market to grow healthily over the next five years, with a CAGR of 28.4%, reaching RM12,683.1 million (USD3,337.7 million) in 2007. Its market share is expected to increase to 53.5% of the total Packaged software market by 2007, compared to its 48.4% share in 2002.

***Table 4 - PRC Packaged Software Market Revenue by Product Category, 2002***

| | **RM million (USD'M)** | **Share (%)** |
|---|---|---|
| Applications | 3,639.0 (957.6) | 48.4% |
| Systems Infrastructure Software | 2,571.5 (676.7) | 34.2% |
| Application Development and Deployment Software | 1,303.4 (343.0) | 17.4% |
| **TOTAL** | **7,514.0 (1,977.4)** | **100.0%** |

*Source: IDC, Q4 2002*

### 7.2.4 *Service Industry Applications Market*

At present, the license revenue of this market segment is generated mainly from financial services and telecommunication sectors, but demand from other sectors, such as healthcare, hospitality, government, etc are also expected to rise over the next few years.

In 2002, Service Industry applications totaled RM 1,068.2 (USD281.1 million), representing the largest proportion of the Applications market, a share of 29.4%. IDC expects that the market will grow at a CAGR of 30.7% over the forecast period and reach RM 4,069 million (US$1,070.8 million) by 2007.

*(Source: IDC, Q4 2002)*