Poland's distributors start to feel the pinch

Poland remains a notoriously local market, with few foreign distributors having a noteable presence, except Actebis and Tech Data which are placed first and second in the country. But following EU accession in 2004, Polish distributors have been feeling on edge with the risk of more competitors entering the market, and they are specialising in an attempt to fortify themselves. *IT Europa* looks deeper...

Of the ZL 17bn (€4.4bn) Polish IT market, 40pc of IT sales are to SMBs and consumers, and the market is growing rapidly - at almost 10pc annually, according to local researcher and publisher Teleinfo. The largest broadliner in the market, ABC Data, is owned by Germany-based Actebis, with revenues said to be around the ZL 1.7bn (€432m) mark. It is trailed by some way by second-placed Tech Data, the US giant that has Polish revenues estimated at ZL 1.3bn (€329m). Following this are local goliaths Action - which is expanding activities in Ukraine too - AB and Incom.

Tech Data's growth in the market has been strong and the company claims Poland is one of its key countries. Irek Dabrowski, managing director at the firm's Polish office, tells *IT Europa*: 'Poland is one of our most profitable markets, and in general it's a good time to be here.' Tech Data has for a number of years been attempting to restructure its business to return key zone EMEA to profitability.

Consumer electronics are quickly becoming a hot topic for Polish distributors, and are usually what they mean when they refer to 'convergence', rather than the coming together of telecoms and IT goods. But Tech Data claims to be 'the only distributor genuinely covering both segments [IT and consumer electronics]' and it is also growing its networking expertise. Other distributors have a mixed response to this, with Incom stating it also supplies the consumer resell arena with entertainment and photo products.

Retailers are increasingly leaning towards this convergence to sell PCs, as consumers develop more 'disposable income' and become interested in high-tech consumer products. The introduction of Microsoft's new XBox console to the market this autumn only serves to accentuate such a link, as many observers have noted the console's similarity to a gaming PC, and many Polish resellers are said to be looking into this market to avoid multiple retailers

Top Polish Distributors
by sales Euros (m) - *IT Europa* and market estimates

Company	2004	2005	2006	Focus
ABC Data (Actebis)	370	432	492	Broadliner
Tech Data	276	329	375	Broadliner
Action	283	322	367	Components
AB	200	253	288	PCs, monitors, printers
Incom	141	178	203	Components, peripherals
NTT	103	119	135	PCs, peripherals
Pronox	100	102	116	Components
Optimus	55	62	71	Broadliner

stealing the limelight.

While elsewhere in Europe Tech Data tends to brand its high-margin networking business as Azlan, in Poland it has made a decision to sell this through the Tech Data brand. Dabrowski explains: 'The Azlan name has never existed here and we felt it would be more effective to stick with the broadline name. But in the Czech Republic and other markets, Azlan is a known name so it's very effective there.' Despite running against the grain of nearly all of Tech Data's markets with this decision, the firm is adamant that value-added, Azlan-type distribution represents 20pc of its revenues in the country. 'But it's not a fast-growing area compared to broadline and retail sales,' Dabrowski is keen to point out. Other specialist distributors in the market include networking disti Techmex and storage and security firm Veracom.

'Poland is one of our most profitable markets'
Irek Dabrowski, Tech Data

Third-placed distributor Action is a major components-led distributor, but is said by some to have a certain reliance on large contracts. A source at another Polish distributor tells us: 'Action counts a lot on the government, and it hoped for a deal with the Ministry of Education. Without these big deals, it is sometimes pushed to look elsewhere to make up the difference.' Action has recently set out a plan to better its business by focusing on its in-house PC brands and its own retail operation, and increasing its investment in its Ukrainian office, as detailed in the last issue of *IT Europa*.

Incom, calculated to be fifth in the league of IT distributors in Poland, claims that it, too, is enjoying major contract wins that are adding stability to the bottom line. 'I can't complain about the last 12 months,' says president Mariusz Jaworski. 'We've won the three largest bids in the Polish IT industry, and they've enabled us to have a net profit of $5m (€4m) in the last 12 months.' Incom's sales for 2005 are estimated at ZL 692m (€178m), and it claims to be one of the few distributors with a good cash reserve in the bank.

Incom won the Ministry of Education contract, and supplied 40,000 PCs that it assembled in-house, as well as printers, monitors and projectors, all under a deal that was principally financed by the European Union. Indeed, since Poland joined the EU two years ago, the government has had large amounts of money at its disposal causing a boom in IT projects, and this is benefitting large public sector contract specialists such as Incom. Admittedly, the year has not been as strong as usual from a government IT spending perspective, but that is owing to the elections that took place in October last year, and researchers Teleinfo call it 'an exception'.

Earl Graham and Mariusz Jaworski, Incom

But a number of commentators state that relying on large public sector contracts is risky. Adrzej Dopierala, country manager at Oracle's Polish office, says: 'These contracts are needed, but they're not enough. Apart from placing thousands of PCs in schools, the investment should be targeted to upgrading common infrastructure like the networks, portals, training and education. That lasts for a long time, compared to PCs that last for two or three years.' He adds: 'We need to see more investment in lowering the costs of access to the internet, too.' But no distributor is reliant completely on the public sector, and Incom, despite having a major business in this area, is also one of the leading wholesalers to the consumer and SMB channel - the latter of which is extensive in Poland, even though local SMBs are still low spenders on IT compared to their more western counterparts.

The distributor was a Samsung printer partner, and earlier in the year it testified in court against the vendor's other Polish distributors, ABC Data, Tech Data and AB, as part of a case brought by the country's anti-monopoly body. It claims the three distributors had formed a 'cartel' in the printer distribution channel, and that 'a couple of other distis came forward' to testify too. Dabrowski at Tech Data denies the charges, and previously told us the accusations are 'simply the result of [Incom's] disappointment', as Samsung decided not to renew Incom's distribution contract. Incom has claimed the lack of renewal was a result of pressure on Samsung caused by the three distributors halting Samsung sales in protest. It is thought that a verdict will be reached by early next year.

The level of competition in the market may not have noticeably changed in recent years, but the arrival of such giants as Actebis - in the form of ABC Data

- and Tech Data has put many of the wholesalers on the defensive, looking to improve delivery times and availability. The two firms have brought in what some refer to as a "western" style of distribution, meaning tight delivery times and good product availabilty and proximity. Tech Data claims it can deliver within 24 hours to any part of Poland, and that it has efficiency with 40pc of its vendors bolted down to point where it can deliver their products on the same day in the capital city, Warsaw.

Several commentators believe the market is set to see more distributors opening up for business. 'We believe the competition is going to become tougher each year. The market remains open to new businesses so the arrival of new distributors cannot be ruled out either,' says Agnieszka Kowalska, country sales director at components distributor ASBIS's Polish office. 'The main challenge for us has been to maintain a leading position as the competitive situation becomes more difficult.'

As with some other central and eastern European (CEE) markets, Ingram Micro is absent, and this is setting a number of commentators talking. The firm used to operate in the market and played heavily on volume and price, but shocked locals by exiting in 2002 right after signing a distribution contract with PC and printer giant HP. Dabrowski at Tech Data decided not to comment directly on his rival's possible re-entry into the market, but did admit that 'consolidation will go further'.

Talk of Ingram Micro entering Poland is still just rumour, however, and last issue the firm's CEO, Greg Spierkel, told us the firm would not re-enter the market, adding: 'Although we got €50m to €60m revenues, we couldn't make money [there]. And I couldn't see how that would change.'

A major point of competition among distributors when they pitch to vendors for business is credit, and it has been a difficult issue for many firms in Poland. Bank credit is difficult to obtain, even for established businesses, but some of the country's distributors have taken what might be called the brave initiative to offer their own credit to resellers. Dabrowski claims Tech Data took the lead in this area, adding: 'It's a key area where we can deliver an advantage over some of our competitors. Even stable, large resellers haven't always found it easy to obtain credit.'

Kowalska at ASBIS argues that efficiency is not the only service target, though, for distributors: 'The market is teeming with resellers and retailers, and their demands keep growing and changing. Currently these demands focus on excellent delivery, but also as much on customer services, online trading, and the right quality and pricing.'

Vertical specialisation is another tactic that is widespread in the Polish channel, and Incom claims it is one wholesaler taking a big part in this movement. 'We're moving into the public sector tender business, acting a bit like an integrator. We also strengthened our business there by buying the Adax PC brand from [now bankrupt assembler] JTT Computers,' says Earl Graham, VP at the distributor. 'We're adding services to our reseller channel sales, and the PC assembly we offer gives us a major advantage, as we felt local brands were becoming a little weaker.' (See below for more on PC assemblers.)

A number of other distributors also have a clear components specialisation, including Action, Pronox and Latvia-based regional competitor ELKO. Cyprus-based components wholesaler ASBIS sees Poland as a major market among its extensive CEE coverage, counting on its established presence there to tackle the competitive components wholesale space. It has been striving to expand business in the market, opening offices in the last few years in Krakow, Lodz, Wroclaw and Szczecin, to add to its Warsaw base, and sells products from a wide range of vendors - such as Intel, LiteOn, Seagate, Hitachi GST, NEC, Microsoft, Foxconn, MSI, Pioneer, Epson and Supermicro - to PC assemblers.

But ASBIS is also setting a trend by increasing sales of components to pure resellers, as Kowalska explains: 'As in previous years, we've tried to expand our channel partner base, which ended up growing by 15pc in 2005. We now sell components and peripherals to dealers, computer stores and small IT businesses.' ASBIS, naturally, also sells its own PC and consumer electronics brands Prestigio and Canyon, as it does across the rest of CEE.

Online sales to resellers are also proving popular for a number of distributors, often enabling them to run 50pc to 60pc of their sales to dealers without human contact, increasing efficiency and saving money on employing large numbers of staff to handle phone and fax orders. Also, that way resellers

Polish Hardware Market

2005-2007 in Euros (m). Source: EITO

Sector	2005	2006	2007
PCs	1,262	1,478	1,605
Servers	294	320	337
Add-ons	431	459	483
Total IT hardware	**1,987**	**2,258**	**2,425**
Network equipment	**1,588**	**1,636**	**1,687**
Total ICT equipment	**5,324**	**5,716**	**5,852**

can of course check stock availability quickly when their own customers are present, saving them from having to hold large amounts of goods, and improving the whole channel to the end-user.

The growth of retail in Poland has been less remarkable than other markets, but is steady and now represents 12pc of total IT sales and 30pc of PC sales, according to Teleinfo. In spite of the eight-year presence of Metro-owned Media Markt, the rest of the retail landscape remains dominated by local chains. Dixons is only said to have four ElectroWorld stores, and Vobis, a local chain of over 140 franchise stores, has a strong presence too. Indeed, local distributors and their own retail chains that are dominating the pure IT and consumer electronics sales points for consumers. Action, third in our Polish distributor table, is said to have its own chain of stores, though this could not be confirmed at the time of going to press.

'The arrival of new distributors cannot be ruled out'

Agnieszka Kowalska, ASBIS

Not everyone is in agreement with the strategy of some distributors to have their own stores, and Dabrowski at Tech Data is the most vocal. 'We want to be a partner, not a competitor, to our resellers,' he proclaims. 'That is why we have a different approach. We're here to be a strong distributor instead of trying to cause consolidation in the retail market.' Incom finds itself in a rare case of agreement with Tech Data's Polish office when it comes to this topic, and Graham states: 'Resellers are our customers, and competing with the customer is a mistake.'

Irek Dabrowski, Tech Data

Indeed, according to market sources some resellers have responded to the retail pressure by forming buying groups - of which it is understood by *IT Europa* there are currently three - though no distributor we spoke to was willing to comment on the effectiveness of this or even name the groups. One manager at a wholesaler said off the record: 'Uniting as buying groups should help dealers to get better purchase terms and save money, but it's too early to say whether that's the case in practice.'

As with most other maturing IT markets, local resellers are striving to add value to their deals by selling services, but some distributors complain that not all vendors are helpful enough in this area. 'We work a lot with vendors but some are becoming less supportive and more neutral,' says Graham at Incom. The difficulty for resellers in consumer sales, according to Teleinfo, is that 'violently growing competition' has caused a severe decrease in the mark-ups dealers have been able to add to the services they traditionally relied on in consumer sales. Luckily for local resellers though, many SMBs continue to purchase in local stores and are investing in services, largely preferring that to the multiple retailer channel, where there is generally a greater emphasis on price than on products, installation or advisory services.

The notebook PC space in Poland, which is said to have nearly doubled last year amongst SMBs, remains dominated by A-brands, but B-brands have also long had their place in the famously territorial PC space, especially in desktop machines, and companies present include Optimus (though this company outsources its manufacturing - see *IT Europa* issue 1), NTT, Action, Vobis (which has its own chain of franchise stores) and Computronik. As mentioned earlier, public sector giant Incom bought the Adax PC brand from bankrupt assembler JTT Computers, and VP Earl Graham is convinced the locals will continue to survive as many are successfully doing in other eastern European markets, despite the ever-increasing level of price pressure. 'We'd like to start to compete on notebooks, but there will always be a local desktop PC market,' he proudly defends. And server sales are the part of the hardware market growing most rapidly, according to Teleinfo, with a massive 42pc increase last year compared to 2004, as SMBs begin real investment in IT.

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Locally-established distributors, from ABC Data to Tech Data, Incom and Action, are all building their presence by finding new areas of business in which to specialise. It is hardly surprising that this heightened sense of competition is increasing the fighting talk between distributors, and the battle over a rumoured "cartel" of wholesalers is simply an example of companies becoming aggressive in difficult times - it may never be clear exactly who is in the right in that case, though the courts will attempt to reach a decision. But the good news is that as wholesalers diversify, their businesses will become stronger, and the market will continue to impress.