Czech PC industry breathes sigh of relief

Two years ago, when we last visited the Czech Republic for a national survey, the PC market was becoming startlingly mature, and resembling a western market in all but name. Growth of PC unit shipments was slow, as a result of a saturated market - a population of 10 million were managing to buy 500,000 PCs a year. But sales growth has really picked up in the last year as vendors tap into the lucrative retail sector, and small businesses start buying notebooks. *IT Europa* assesses how the market is shaping up for 2007...

A-brands are known to be commonplace in the advanced IT space in the Czech Republic, in both the consumer and the small-to-medium business environments. In terms of market positions, the top-five chart reads like a catalogue of names one might expect to find in markets such as Germany, the UK, France and the Nordics. Acer and HP are numbers one and two respectively in the rocketing notebook market, selling 106,000 and 101,000 PCs in 2005, according to number-cruncher Dataquest, with Dell chasing, albeit some way behind, at 66,000 units. After that there is Fujitsu Siemens, which has a clear high-end retail presence for notebooks, and Asus hits in at the lower price range, where it sees the Czech Republic as one of its key markets. Lenovo is growing in the market, with a strong resell presence based on partnerships formerly established by IBM.

The growth of Acer and HP in the Czech Republic has been nothing short of startling, particularly in the notebook arena where Acer has a crushing 39pc marketshare, HP has 29pc, and mean-machine Asus has gobbled up 10pc.

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

Company	2004	2005	2006	Focus
eD'system	360	385	424	Broadliner
Tech Data	216	231	254	Broadliner
AT Computers	156	167	184	PCs, components
BGS Levi	128	137	151	Components
ProCA	120	128	141	Components
SWS	84	90	99	Software
Libra	72	77	85	PCs, consumer electronics
Konsigna	70	75	83	Peripherals

Notebooks are the in-thing in growth terms, but desktops naturally prevail in many homes and businesses, and A-brands do not want to lose out. Acer, for example, may trail in desktop sales, but it boosted desktop unit shipments from 6,400 in 2004 to 14,400 last year - a 225pc increase. 'We have such a strong notebook channel to SMBs that we've been able to challenge the big guys on desktops,' Tomas Cech, country manager at Acer, tells *IT Europa*.

The Czech Republic is a major source of business for Acer, which has a large repair facility in the Czech city of Brno, serving domestic customers as well as those in Slovakia, Hungary, Poland and Austria. Cech claims Acer's channel-to-market there is 'slim and adaptable', reacting to changes in customer demographics. 'The customer structure is changing,' he says. 'We now see a lot of couples and professionals buying notebooks.' He adds that Acer tries to make sure its channel is structured well to maintain growth, explaining: 'We try to ensure good incentives like a 10pc to 12pc margin on our higher-end products.'

'Now we're working with over 250 system builders in that tier - that's how noticeable growth has been'

Milan Hrbovsky, Microsoft

Pavel Machovsky, PSG channel boss at HP's Czech office, agrees: 'There is a clear shift from no-name PCs to brand names.' HP is established in notebooks and LCD displays in the market, and is working to increase its desktop and server sales. It also began this month to sell consumer-targeted notebooks, for the first time in the country, and Machovsky explains: 'This is primarily driven by a general increased interest in notebooks, as well as a huge boom in fast internet access at home.'

Careful structure of distribution has helped lead Acer and HP to the top of the PC table. Acer works with five of the highest-revenue generating distributors in the market, namely eD'system, AT Computers, Tech Data - Ingram Micro has yet to enter the country - BGS Levi, and SWS. Five distributors in a market of 10 million people would normally be counted as an excessive ratio, but Cech maintains that a broad distribution is the wiser option. 'Sure, we could live with one less distributor,' he says, 'but with the particular geographic and customer structure issues here, we need a wider channel and it gives sales more stability.' HP uses AT Computers and BGS Levi to drive it into the retail arena, and eD'system and Tech Data to enable it to target SMBs.

Pavel Machovsky, HP

Speculation continues as to whether Ingram Micro has designs on the market, but the broadliner has, so far, yet to make a move there. 'For any distributor to start here, it would need good vendor support,' suggests Cech at Acer, pointing out the high number of distis already established in the country. The biggest move in distribution, though, has been last year's merger of distribution and assembly giants Levi of the Czech Republic and BGS of Slovakia, which has also rocked the PC assembly market, and this has created a force to be reckoned with.

Machovsky at HP explains: 'Levi used to be a subdistributor for BGS, and it continues under the BGS Levi umbrella to serve small dealers that also assemble desktops. The acquisition was a smart move because it made Levi able to continue to address proximity partners while having the scale to carry major brands like HP.' He adds that having access to both markets makes sense, as European Union expansion has led many distributors to address both the Czech Republic and Slovakia in one fell swoop, and a number have thrown Poland into the bargain too.

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Armand Koten, ASBIS

There is much talk of wholesalers looking to buy rivals in the market. Armand Koten, country sales director at ASBIS - which claims to be the largest HDD disti in the country with annual sales of over 250,000 units - says: 'I believe it is more likely that there will be some acquisitions within the Czech and Slovak markets, than another distributor entering the country - this is because we've been part of the EU since 2004 and there's been plenty of time already for that to have happened.' He does add, however, that he would not completely rule out another distributor coming in.

Components distributors such as ASBIS and ELKO continue to benefit in a market with so many PC assemblers. ASBIS, for example, serves over 40 system builders with technology for PCs, notebooks, and servers, and claims to be the top provider of Intel products to the assembly channel. These wholesalers are making a conscious move to notebooks, as market demands increase for mobile technology, and Koten explains: 'Last year the market was flat in PC terms and had double-digit growth on notebooks.'

Eager anticipation remains among distributors surrounding new vendors looking to find channels so they can profit from the fast-growing market. 'I expect more dramatic changes in the vendor landscape than the distribution landscape,' reckons Koten at ASBIS. 'This will be most notably vendors of accessories, navigation systems, MP3 players, LCDs, multimedia systems and other trendy products.'

Distributors and vendors also face merger and acquisition activity in the reseller channel, provoked by the previously slowing PC sales as well as the lumbering but incessant growth of multiple retailers and online retail. The retail market in the Czech Republic is led by Dixons' brand ElectroWorld, as well as Datart and Makro, local specialist OK Computers, and ever-growing foreign supermarket giants Ahold and Tesco, the latter of which bought Carrefour in the Czech Republic last year. Both are moving quickly into IT sales. 'Some resellers have developed a network of shops across the country [in response],' says Cech at Acer. But there is still much room for growth, because retail is only estimated to carry under 15pc of the market's revenues in IT terms, and several major consumer electronics names including Media Markt have not yet ventured into the country.

Milan Hrbovsky, Microsoft

> *'[Subcontracting PC assembly] is just a case of economies of scale. Producing say, 300 PCs, can be too costly'*
>
> Milan Hrbovsky, Microsoft

Resellers are also making moves to ensure that their business has a clear specialism, which many hope will secure their medium and long-term future. 'Of the 200 partners that we want in our Preferred Partner programme,' says Machovsky at HP, 'most will start to specialise. They're becoming solution partners because there's not enough margin in moving boxes.' He claims that help desk services, product delivery and installation, as well as extended warranty offers, are all areas where HP is striving to help local dealers generate margins around its products, though warranty can be a difficult area as Czech law already insists on a two-year guarantee on technology goods.

In spite of the growing presence of A-brands and the entrenchment of their channels, the local PC assembly market largely continues to thrive, with AT Computers as the largest system builder. Local names are particularly strong in desktop computers, where A-brands have taken some time to start building a presence - the likes of HP, Acer and Dell are only now finding their feet in decent desktop sales, and all this hard work has been of great benefit to local

Czech Hardware Market

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

Sector	2005	2006	2007
PCs	472	521	558
Servers	190	213	234
Add-ons	242	263	282
Total IT hardware	**907**	**998**	**1,075**
Network equipment	**525**	**540**	**552**
Total ICT equipment	**1,603**	**1,702**	**1,790**

system builders.

The problems for these local assemblers, however, are not simply that they cannot match the marketing and distribution might of the top foreign brands, but also that they are, naturally, unable to draw level on development investment. The result of this is that most are not involved in much notebook assembly and are being lapped by A-brands in that race.

Last year, the local market witnessed the collapse of what was its second largest PC assembler, AAC, which had additional distribution activities. AAC was a major player in the market that changed shape rather dramatically in 2004 by the merger of its units Libra Electronics and ProCA, both assembly and wholesale businesses. At that point, the company told us it would become one of the biggest consumer electronics producers and IT distributors in the market. The collapse of AAC sent shockwaves through what was thought to be a stable Czech system builder community. 'AAC was very successful in retail and had a strong brand called Brava,' says Milan Hrbovsky, OEM director at Microsoft. Brava is now understood to be owned by rival BGS Levi, having been sold off to counter the mounting debt that crushed AAC.

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Tomas Cech, Acer

BGS Levi, born out of the merger of domestic distribution and assembly firm Levi with Slovakian counterpart BGS in 2005, has moved from third to second place in the system builder arena, following the collapse of AAC and the purchase of AAC's Brava brand. The company is a major retail contender, standing up forcefully beside A-brands, 'with major campaigns for the brand and specialist models such as gaming PCs for teenagers', according to Hrbovsky. It has also grown strongly as a distributor thanks to the merger, with high capabilities in warehousing and delivery, and good negotiating power with vendors.

But PC assembly is never just a case of the giant B-brands wiping out their smaller counterparts, even in central and eastern European markets where large local brands tend to sell a serious quantity of PCs. A number of small local brands have good niche business in all these markets, and the same is true of the Czech Republic. They also have the flexibility unavailable to large brands, enabling them to sell fairly customisable solutions to businesses and consumers.

A trend is also emerging according to Hrbovsky, where small system builders who cannot produce cost-effectively at their sales volumes, are subcontracting production to large PC assemblers, enabling them to strengthen margins while retaining the same brand for the customer. 'It's just a case of economies of scale,' he says. 'Producing say, 300 PCs, can be too costly.'

Hrbovsky believes the growth of small system builders is admirable: 'We've had a system of working with two tiers of system builders here: the top tier, where we work closely with the large PC assemblers such as AT Computers and BGS Levi, and the second tier, which two years ago comprised of another ten companies. Now we're working with over 250 system builders in that tier - that's how noticeable the growth has been.' System builders have a particularly well-established presence among SMB and high-end consumer clients, and a growing number have their own shops too, avoiding the dangers of difficult retail partners dictating prices. They are also striving, with success, to build customer loyalty and regular business by offering installation, advisory and basic integration services.

Microsoft claims, as it always will, that its commitment to PC assemblers is very clear. And the claim is not without good substance, because the company, alongside such vendors as Intel, AMD, Seagate and others, is one of the most loyal supporters of local brands in the Czech Republic - as it is in its many other European markets - a decision that makes sense, considering the combined revenue B-brand partners generate annually for the US-based company. The vendor is currently collaborating with over 500 resellers in the Czech Republic on a 'major' point-of-sale campaign for B-brands, and it is also readying 600 partners for the much-talked about Vista launch next year.

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It's a pleasant sight to see the Czech Republic take off the brakes - at least for the near future - as the slowdown in PC sales had become a dangerous habit. Of course, simple limitations such as the small size of the country's population will limit IT sales growth in the long run, so the boom may not last forever. But a renewed client interest in technology, coupled with a more advanced level of collaboration between vendors and their channels - and within the PC assembly supply and sales channels - will mean that sales cycles will shorten, to the benefit of everyone in the local IT industry. It's a market that can no longer be ignored, and it is only a question of time before the retail market really strikes for the home run.