

CONTEXT

June 2019

RECENT HIGHLIGHTS

ECONOMIC & CHANNEL OVERALL PERFORMANCE

IT INDUSTRY

CHANNEL PERFORMANCE HIGHLIGHTS Q1

2019 OUTLOOK



IoT

is here!

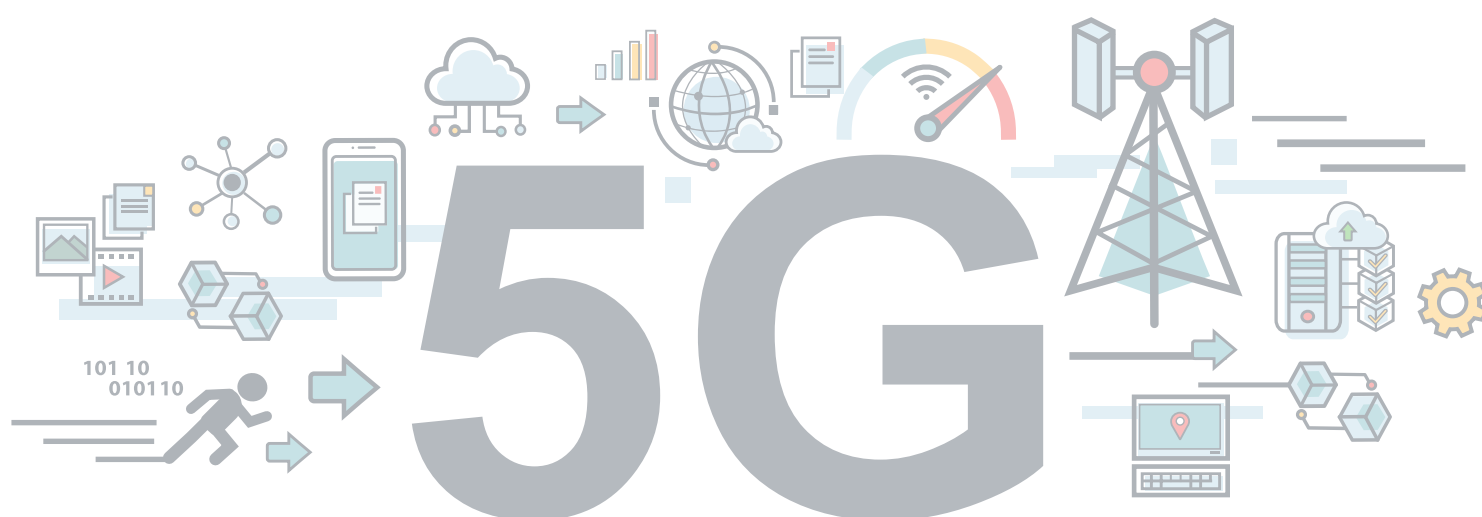
With insight into the technology industry and distribution channels across the globe, CONTEXT presents this review of recent 2019 activity.

Technology in CONTEXT

A global review of activity in the IT industry – June 2019

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1. RECENT HIGHLIGHTS

Industry news

- Samsung has announced a major investment in the semiconductor industry in Korea (see paragraph 3.3).
- Fujitsu will close their offices in Italy as a result of their focus on services.
- Innovix (regional Asian distributor owned by JTH) & Adura Cyber Security (also owned by JTH) have partnered with SK Infosec to launch a security operations centre in Singapore. As a result, they now offer top-class cyber-security services.
- Redington (with Oracle) have opened a Cloud Centre of Excellence in Dubai, offering training workshops and an accelerator programme to help partners transform their cloud business models.
- Etertin (Spanish distributor) has been restructured, laying off around 30 people as they re-focus their business.
- Merlion (Russian distributor) opened its innovative network of Retail-to-Business (“R2B”) stores; sales are reputed to be going very well.
- There were more than 10,000 visitors to the second Smart City Expo which took place in Buenos Aires on 24–25 April 2019.

Services/products

- Google's drone delivery service took off (literally) in Canberra, making its first air delivery in North Canberra after getting approval from the country's civil aviation authority. Wing, the company's drone delivery arm, said the service would initially be available to a limited set of eligible homes in the suburbs of Crace, Palmerston and Franklin and will gradually expand to customers in Harrison and Gungahlin. Wing has been testing drone delivery in Australia since 2014. Over the past 18 months, Wing has delivered food, small household items and over-the-counter chemist products more than 3,000 times to Australian homes in Fernleigh Park, Royalla and Bonython communities.
- Synnex in Asia launched their technology-as-a-service offering in September 2018.
- Samsung's foldable phone – the Galaxy Fold – was partially launched (initially to a limited group). However, rollout was soon cancelled because of a defect in the protective-film layer (now corrected).

People

- In Italy, Vincenzo Baggio announced his retirement after 42 years' service to the industry, as has Andy Dow, who also has a very long service record. Michele Bertaco left Esprinet Italy.
- Philipp Gens has taken over LANIT after his father's unfortunate death.

M&A

- ABSOLUT (Russian household appliances distributor) has been purchased by ELKO (Latvian IT distributor).

Politics

- In Spain, the general elections of 28 April 2019 were won by PSOE (Socialist Workers' party) who now need to decide if they prefer to govern with the help of Podemos (populist party) and ERC (Catalan separatist party) or go it alone with sporadic help from Ciudadanos and other parties.
- Elections took place in South Africa on 8 May 2019 with a big focus on eliminating the massive corruption which is found across all government entities.

2. ECONOMIC & CHANNEL OVERALL PERFORMANCE

	GDP		Forecast	Unemploy-	Consumer	Comparison			
	GDP	GDP	GDP	ment	prices	CONTEXT data		CONTEXT vs Macro-economic data	
	Economist data					CONTEXT data		CONTEXT vs Macro-economic data	
	Q4 2018	Q1 2019	2019	April 2019	April/May 2019	Q4 2018	Q1 2019	Q4 2018	Q1 2019
	%	%	%	%	%	Actual rate €	Actual rate €	Actual € rate growth vs GDP	%
US	3.1	3.2	2.2	3.6	2.0	CONTEXT local presence			
China	6.4	6.4	6.3	3.7	2.5	For reference			
Japan	0.3	0.8	1.0	2.4	0.9	CONTEXT local presence			
UK & Ireland	1.3	1.8	1.0	3.8	1.8	12.1	2.3	10.8	0.5
Euro area	1.1	1.2	1.2	7.6	1.4	8.2	6.5	7.1	5.3
France	1.0	1.2	1.2	8.7	1.3	7.0	9.8	6.0	8.6
Germany	0.6	0.7	0.9	3.2	1.4	6.6	4.1	6.0	3.4
Italy	0.0	(0.1)	0.1	10.2	0.9	14.5	4.4	14.5	4.5
Spain	2.4	2.4	2.2	13.8	1.2	10.8	11.5	8.4	9.1
Poland	4.5	4.7	3.8	5.6	1.8	1.7	4.0	(2.8)	(0.7)
Russia	1.5	0.5	1.2	4.7	4.9	1.0	(8.8)	(0.5)	(9.3)
Turkey	(3.0)	(2.6)	(1.7)	14.7	16.1	(27.7)	(19.7)	(24.7)	(17.1)
Australia	2.3	1.8	2.5	5.2	1.7	Panel in construction			
Singapore	1.9	1.2	1.8	2.2	0.5	CONTEXT local presence			
S Korea	3.2	1.6	2.4	4.4	1.0	CONTEXT local presence			
Argentina	(6.2)	(6.2)	(1.1)	9.1	49.2	(37.6)	(20.6)	(31.4)	(14.4)
Brazil	1.1	0.5	1.0	12.5	4.0	(17.7)	(8.0)	(18.8)	(8.5)
Middle East*	2.2	2.2	1.9	5.7	(1.9)	Panel in construction			
S Africa	1.1	0.0	1.5	27.6	5.0	Panel in construction			

* Saudi Arabia data

Overall

In Q1 2019, the European economy strengthened slightly compared to the previous quarter. GDP growth advanced by 0.1% (from 1.1% to 1.2%) in the eurozone, driven by France and Germany, and the UK made a surprise jump from 1.3% to 1.8%.

There was a general slowdown in the rate of growth of the CONTEXT panel compared to prior year between Q4 2018 and Q1 2019. The exceptions were France, Poland and Spain, where growth accelerated, and Turkey, Argentina and Brazil, where negative growth slowed down.

Nevertheless, the IT sector outperformed GDP by an average of 4.2% in Europe – a figure that would be higher were it not for the UK and Poland, which underperformed against their country's GDP. Even so, it is below the same countries' average overperformance of 7.1% in Q4 2018, a figure which reflected the strength of the channel in that quarter.

UK and Ireland

After unexpected GDP growth of 0.5% in January, overall growth for Q1 2019 reached 1.8%. However, the better-than-expected start to the year was, in part, due to stockpiling against the possibility of a no-deal Brexit. There were positives in the consumer space with the ONS (Office of National Statistics) reporting a 1.6% growth in retail sales compared to Q4 2018.

The UK did not leave the EU on the 29 March, as first planned, and has now been given until 31 October to find a solution, although there is an option to leave earlier if the government can secure backing for the deal which is on the table. The other 27 member states will review the UK's progress on 30 June.

The latest statistics show unemployment in the UK is at its lowest for 44 years and stands at 3.8%. There is a similar story for Ireland where unemployment fell to an 11-year low of 5.4% in March.

Panel growth has slowed dramatically quarter-on-quarter, with 2.3% growth in Q1 2019 compared to 12.1% in Q4 2018.

Germany

The domestic economy has been strong overall, driven mainly by the low unemployment rate and low interest rates: consumer spending was, therefore, good (1.0%) and the main driver of domestic growth.

Problems in Q1 2019 were the continuing political uncertainty surrounding Brexit and the trade war between USA and China, given that the UK, USA and China are all among German manufacturers' biggest markets.

Panel growth has slowed quarter-on-quarter, with 4.1% growth in Q1 2019 compared to 6.6% in Q4 2018.

France

Despite the yellow vest social movement, which had some localised impact in 2018, the health of the French economy has remained stable and performed in line with the previous quarter – even slightly above, at 1.2%. In parallel, the unemployment rate has fallen to 8.7%, reaching its lowest level for 10 years.

Panel growth has built quarter-on-quarter, with 9.8% growth in Q1 2019 compared to 7.0% in Q4 2018, making France the second-highest performer in the panel, behind Spain.

This growth is fuelled by, among other things, a very high investment rate by French enterprises, which has reached an impressive 24%, the highest ever recorded. It is worth noting that, of the seven wealthiest European countries, only Sweden and Spain have done better and French enterprises have made more investments than German.

Italy

Italy has a debt of 2.3 trillion euro, making it the most indebted country in the eurozone after Greece.

The economy fell by 0.1% in both Q3 2018 and Q4 2018 so the country technically fell into a recession in 2018 and this has continued in Q1 2019.

Italy has 2.8 million unemployed people – a rate of 10.2%, which is one of the highest in Europe. Southern Europe as a whole has very high rates of youth unemployment standing at 32.8% in Italy and 32.4% in Spain in February 2019.

Panel growth has slowed quarter-on-quarter, with 4.4% growth in Q1 2019 compared to 14.5% in Q4 2018.

Spain

Spain's GDP grew by 2.4% in Q1 2019, making it the fastest-growing major country in the eurozone.

Unemployment in Spain remains high at 13.8%, but it was 2.05% lower in Q1 2019 than in Q1 2018.

Panel growth has built quarter-on-quarter, with 11.5% growth in Q1 2019 compared to 10.8% in Q4 2018, making Spain the highest performer in the panel.



Poland

Poland's GDP growth rate in Q1 2019 was 4.7%, a small increase on the previous quarter, while the value of fixed capital formation increased by 6.5%, according to the forecasts of the Institute of Economic Forecasting and Analysis (IPAG). This level is considered too low to ensure future growth of the economy.

According to the Institute, exports increased by 6.1%, and imports by 7.2% in the first quarter of this year and a stable increase in the rate of imports over the rate of exports is expected in 2019 and 2020, with imports increasing by 5.6% and 4.9% respectively, and exports by 4.7% and 4.2% respectively. "Foreign trade will also be affected by a stable progressive appreciation of the zloty against the euro and a tendency to depreciate against the US dollar," adds the IPAG report.

Average real gross wages and salaries increased by 5.6%, according to the Institute, and it forecasts that the pace of this will decrease over subsequent quarters leading to a figure of 5.1% for 2019 overall and 4.3% in 2020.

The Institute's inflation predictions show that inflation this year will not exceed the NBP's (National Bank of Poland) target of 2.5% and that next year it will be in the so-called acceptable band will be 1.9%, and its level in December will reach 2.4%. In turn, in 2020, the average annual inflation will amount to 2.5%, and, for December, 2.8%.

The unemployment rate at the end of 2019 is expected to be 5.7%, which is 0.1 percentage point higher than in April 2019, and it is forecast to rise further in 2020 to 5.9%. In the words of the Institute's report: "It will be affected by the slowdown in economic growth, a continued inflow of foreign workers (not only from Ukraine) and a slight increase in the labour market participation rate. The increase in the number of employees in the economy will continue to be observed, although it will be slower than in previous years. According to IPAG's estimates, the average employment in the national economy increased by 2.3% in the first quarter. In 2019 and 2020, the employment growth rate will decrease to 1.9 and 1.2%, respectively."

Russia

GDP grew by 0.5% in Q1 2019, despite sanctions and political tensions, while unemployment remains high at 4.7%. Panel growth has slowed quarter-on-quarter, with an 8.0% drop in Q1 2019 compared to 1.0% growth in Q4 2018.

Turkey

Small positive increases mark a difficult period in Turkey – GDP has gone from falling by 3% in Q4 2018 to dropping by only 2.6% in Q1 2019. There is an increase in consumer confidence which in April 2019 was at its highest level since September 2018. Unemployment was 14.7% in Q1 2019.

Australia

In Q1 2019, Australia's GDP grew by 1.8%, decreasing from the previous quarter's rate of 1.8%, and the unemployment rate remained steady at 5.2%. However, taken over the year, unemployment has decreased from 5.5% with the pace of decline slowing in recent months, reflecting the slowdown recently seen in job vacancies and GDP.

Singapore

In 2018, the Singapore economy grew by 3.2% (below initial estimates of 3.3%), which was a decrease from 3.9% in 2017. This trend continues in Q1 2019 with a growth of only 1.3% and the forecast for 2019 is that growth will slow to 2.4%. Unemployment sits at 2.2%.

South Korea

The forecast GDP for 2019 is 2.4% and it was at 1.6% in Q1 2019, compared to 3.2% in Q4 2019.

Growth in key areas (semiconductors, cars) has decreased and there has been a shrinkage of investment by enterprise. Exports have also slowed, with falling exports to China due to the slowdown there. Changes aiming to “de-nuclearise” the energy policy of the current administration, the North Korea–US negotiations, and the recent worsening of diplomatic relations with Japan have also had an impact. Unemployment is at 4.4%.

Argentina

There are two stories to tell of Q1 2019 in Argentina. January and February were actually quite stable and there was a decrease in the speed at which IT sales were falling compared to Q4 2018: they had been decreasing by as much as 40–50% year-on-year (YoY) but, in the first two months of 2019 they fell by only 15%- 20% YoY. Then came March, when the dollar started rising again – and inflation along with it – and the decreases in IT sales were similar to those seen in Q4 2018.

But 2019 is a presidential election year in Argentina, so everything may change after October: the race is very tight and is leading to a lot of uncertainty in and out of the country.

In Q4 2018 there was a YoY fall of 6.2% in GDP and the trend has continued in Q1 2019.

Unemployment in Q4 2018 stood at 9.1%, and it has remained at this rate in Q1 2019.

Brazil

Brazil's GDP fell from 1.1% in Q4 2018 to 0.5% in Q1 2019. Unemployment is at 12.5% with 13.4 million people out of work. The government is focused on welfare reform, which has been highlighted as crucial for improving the Brazilian economy.

Middle East

GDP growth for the GCC region (Gulf Co-operation Council) is predicted to be 2.6% in 2019, up from 2.1% in 2018, while it is estimated the rate of unemployment for the year will be around 2.5%. In Q1 2019, Saudi Arabia's GDP grew by 2.2%, while it was the only developed economy to be going through a deflationary period.

The UAE and other Gulf countries are suffering from pressure on oil prices while the crisis of the Qatar boycott continues. There has been some easing of restrictions, but no resolution in sight. New visa rules to allow expats to stay longer in UAE are designed to make the region more attractive to foreign workers.

South Africa

GDP in Q4 2018 was 1.1% and the economy showed zero growth in Q1 2019. Inflation was up from 4% to 4.4% and unemployment is very high at 27.6%.

Load-shedding has had a major impact on the economy: ESKOM (the electricity supplier) has now suspended this until further notice and has also secured loans to improve its service – although the problem was caused by massive corruption. Xenophobia, in the form of attacks on foreign nationals and looting of their businesses, has increased and created further instability.

The South African rand has declined against the US dollar, causing an increase in the cost of imports, and major corporates have been cutting costs putting jobs at risk.

3. IT INDUSTRY

The quarter kicked off with the biggest tech event in the world, CES, and the largest for the mobile industry, MWC. The latter was dominated by talk of 5G and foldable smartphones. Commercial/consumer smartphones with 5G capability will be released this year, helping to drive digital transformation for businesses as employees become more mobile and connected. Some vendors may have work to do on foldable phones in the light of the teething issues thrown up by Samsung's Galaxy Fold soft launch.

3.1. 5G launches

We are living in the period of 5G launches.

The first announcement at Mobile World Congress came from Rain, a data-only operator based in South Africa. "This move has made South Africa one of the first countries in the world to launch 5G," Rain said in a statement. It will release 5G mobile-phone products later this year, and plans to further promote 5G-enabled applications. In the first phase of the rollout, Rain has deployed several 5G sites in Johannesburg and is delivering services using the 3.6 GHz band.

The announcement from South Korea came later but deployment there has been happening at great speed since the official launch of its 5G network on 3 April. According to press reports from Yonhap news agency, the country reached the milestone of one million 5G subscribers in June 2019. Korea Telecom VP Lee Pil-jae has said that he expects more than three million South Korean mobile customers to switch to 5G by end of 2019.

On 30 May 2019, EE (a mobile network owned by BT) launched 5G services in six cities in the UK – London, Cardiff, Belfast, Edinburgh, Birmingham and Manchester. At the same time Vodafone launched commercial 5G services in two countries, Italy and Spain. They are deploying equipment from Nokia and Huawei in five Italian cities – Milan, Turin, Bologna, Rome and Naples. The launch of its commercial network in 15 Spanish cities was scheduled for 15 June.

In the same week, Etisalat launched 5G service and smartphones in UAE. The initial effect will be to enhance mobile broadband and 5G wireless and it will also impact government smart-city initiatives.

3.2. Digital transformation

There is a huge and sustained interest in digital transformation across the global IT industry; large companies, especially, are aware that they must invest in this area if they are to be competitive in the future. This area will be the focus of our 2019 ChannelWatch™ reseller research which is to be published in September 2019.

The benefit to the channel can be seen in the growth of related categories. In Germany, for example, enablers for the new business-process topics (Industry 4.0, digital transformation) drive the product categories with the highest growth. In Italy, distributor revenues from the main enablers of digital transformation grew well in Q1 2019: the mobile computing sector increased by 7% YoY – notebooks by 5%, tablet by PCs 9%. As part of the IoT sector, smart home and office products took off with 227% YoY growth thanks mainly to the performance of smart lighting and electrical devices which increased by 275%. The server computing segment also grew by 17%, with integrated systems (including hyperconverged systems) up 59%. Wearables were up by 96% (with smart watches at 111%) and security software grew by 1%. The cloud is becoming a concrete reality as blockchain and artificial intelligence applications take hold. Digital transformation is also one of the key areas for many distributors and vendors in Russia. Some large and influential IT companies, e.g. LANIT, have it as their main focus seeing it as a driver of future growth.

Governments are also driving change with a big focus on digital transformation, AI, IoT and smart cities. Following the elections in South Africa, it is expected that government spending in this area will take off, and the Dubai government has recently committed to going paperless by 2021.

The telecoms giants who are rolling out 5G also play an important part in digital transformation. For example, Singtel has unveiled plans to launch an AI-powered IoT network over Microsoft Azure, targeting key enterprise customers with its announcement saying that “The new platform combines intelligent connectivity and cloud capabilities for IoT to accelerate enterprise digital transformation. Insights-driven artificial intelligence (AI) provides performance-based metrics for informed business decisions.”

This change brings great opportunities. Increasing cloud adoption means Australian organisations are turning to the channel for cloud-management services, citing gaps in the cloud-skills market. According to research from Telsyte, 37% of large organisations have outsourced their cloud management to third parties. There’s more to come: Telsyte said the cloud infrastructure-as-a-service (IaaS) market is expected to reach \$1.2 billion by 2022. The number is based on current cloud spending and further increases in IT budgets, with organisations spending \$688 million for cloud IaaS in 2018, and budgets expected to increase at an average of 6% this year, up from 4.8% in 2018. The research firm said cloud maturity is “rapidly increasing” in Australia, where 84% of organisations have a strategic approach to cloud computing and 24% mature practices that can move workloads from on-premises to cloud. Use of multi-cloud setups has increased, with 77% of organisations using more than one cloud platform and 49% at least four. Meanwhile, Microsoft has launched new hubs for Australian partners in its partner portal, with the aim of adding more Australia-specific content, unveiling Australia Partner Hub, setting up an “Australia zone” in the Microsoft Partner Community (MPC), and moving the Microsoft Australia blog to its partner website.

3.3. Investment plans

Big investment announcements remind us of the vibrancy of the technology industry.

- In April, Samsung Electronics announced “Semiconductor Vision 2030”: an investment in the system semiconductor industry of \$114 billion by 2030. It aims to retake a lead in the semiconductor industry currently dominated by other non-memory semiconductor manufacturers such as Intel and Texas Instruments.
- In a related initiative, Samsung Electronics has also expanded investment in their Montreal AI lab where the key focus will be R&D on AI applied to system semiconductors for the next generation (for example, on-device AI).
- After suffering product shortages from September 2018 due to unforecast demand, in January Intel announced its intention to spend \$11 billion on a new manufacturing facility in Israel.
- Also in January, Apple announced it will spend \$1 billion on its new campus in Austin.
- The Singapore Exchange is first in line to roll out the Amazon-Managed Blockchain – a fully managed service designed to create and manage scalable blockchain networks. The deployment comes as the offering is made generally available, with other early adopters including AT&T and Nestlé.

The major uncertainty in investment is the future of Huawei's business in the US, Europe, and other countries dependent on US influence and power. Is what is happening all part of the greater China–US conflict? Will there be resolution of this company's current challenges when the larger conflict is (hopefully) resolved?

On a smaller but still significant scale, Cisco is targeting Australia with \$61 million investment in digitisation over the next three years. As well as investing in digital transformation projects, it will promote STEM (Science, Technology, Engineering & Maths) skill development and take advantage of critical infrastructure. The IT giant announced the investment as part of its Country Digital Acceleration programme, which will see Cisco work with the Australian government, industries and community organisations. The programme will cover four key areas focusing on “growth, skills development and innovation in industries where Australia is placed to be a global leader” according to the prospectus. The first area is digital government, which will introduce programmes for schools and higher education, health, infrastructure and other government departments. Next is digital industry programmes involving collaborations with local companies, particularly mining and agriculture, to develop digital capabilities that Cisco hopes will have a positive impact on Australia's GDP. The third area is digital SMB programmes such as investments in start-ups, entrepreneurs and venture funds in the hopes of creating new SMBs and giving them access to digital technologies. The final focus is supporting national infrastructure development through, for example, services that stem from the NBN (National Broadband Network), 5G, IoT and AI.

3.4. Focus on Singapore

Singapore is a world leader in technology and the main hub for multinational companies looking for a base in APAC. In this review, we focus on some of the impressive ways in which Singapore is leading the technology revolution.

Singapore, the smart nation, is clearly ready to embrace this fourth revolution. It boasts 10,000 Wi-Fi hotspots, 93% fibre-to-the-home coverage, 100% 4G coverage ... and mobile-phone penetration is over 100%! IoT infrastructure (a low-power wide area (LPWA) wireless network) has been in place for a few years. In 2017, local telco M1 introduced a narrowband IoT (NB-IoT) network, the first of its kind in Southeast Asia. Since then, other local telcos (Singtel and Starhub) have also launched NB-IoT networks. UnaBiz used Sigfox LPWA technology to offer a nationwide alternative to the telco's NB-IoTs, and this too launched in 2017.

One of the key concerns of any IoT project is security. So, in March, in order to help businesses continue to develop the technology safely, Singapore's Infocomm Media Development Authority (IMDA) published its Consultation for IoT Cyber Security Guide. IMDA says the guide builds on the concepts introduced in ITSC TR64: Guidelines for IoT security for smart nation – produced by the Singapore government's Information Technology Standards Committee – and provides further details on the implementation of IoT security through case studies.

Singapore continues to attract key companies thanks to its local talents, stable political situation and its strong private- and public-sector collaborations. Key IT players have recently launched new AI and IoT research centres in Singapore:

- Cisco – an innovation centre for cyber-security and IoT
- Huawei – a cloud and AI innovation lab
- Salesforce – an AI research centre, its first based in Asia.



Smart Nation initiative

In 2014, the Singapore government launched its Smart Nation initiative and laid out plans to build a digital economy, digital government and digital society. They have vowed to use technology to transform Singapore, especially in these key domains: health, transport, urban solutions, finance, and education.

Transport – autonomous vehicles

Singapore is second in the world and top in Asia in terms of its readiness to adopt autonomous vehicles on the strength of its government, infrastructure and consumer acceptance, according to a report by KPMG.

However, instead of pushing for individual cars, Singapore is prioritising driverless buses. The Singapore government has previously said it will introduce self-driving buses and shuttles in selected areas in 2022. In March, Volvo launched a full-sized autonomous electric bus with Nanyang Technological University. The 12 m long bus was the first of its kind, according to Volvo. ComfortDelGro (a transportation company that currently operates buses and taxis) is running another trial of a self-driving shuttle bus service that can carry 15 passengers at the National University of Singapore's campus.

A further example of how Singapore is transforming its current economy and industry is in the operation of its port – one of the world's busiest. It already uses driverless trailers and 200 driverless cranes to unload cargo. A new port, currently being built in the west of the country, will feature almost 1,000 of these driverless cranes and vehicles.

Finance

The launch of RazorPay is aligned with the Singapore Smart Nation aim of becoming a cashless society.

In July 2017, the PayNow platform was launched by the Singapore Association of Banks. It enables instant peer-to-peer transfers between customers of participating banks by simply entering a mobile number.

It since has been rolled out to the corporate sector.

Singapore has a multitude of other cashless options:

- **contactless cards**
- **smartphone wallets** such as Google Pay, Apple Pay and Samsung Pay
- **mobile wallets** using QR codes including GrabPay from Grab (a regional ride-hailing champion), Singtel Dash (a partnership between local telco Singtel and Standard Chartered Bank) and DBS PayLah (run by a local bank)
- **application payment services** (run through QR codes), especially the Chinese AliPay, WeChat Pay, and more than 20 others.

With so many e-payment apps available, merchants had to display multiple QR codes. To simplify QR payments, the Singapore government introduced the Singapore Quick Response Code (SGQR) standard, which combines multiple QR payment codes into a single SGQR code so enabling merchants to accept payments from multiple providers while displaying only one code.

Singaporeans, therefore, have access to a great many cashless payment methods and the transformation to a cashless society is well underway. However, according to a recent survey, less than half the population think it is feasible to stay completely cashless long-term – or even for more than about three days. Singapore banks, and other digital payment providers wanting to drive more cashless transactions, still have a long journey ahead. Offering interesting incentives could be the way: DBS, for example, is offering cashback on contactless payments, although there is a catch – you only get cashback if you limit your cash withdrawal to SGD400.

4. CHANNEL PERFORMANCE HIGHLIGHTS Q1

4.1. UK

a) Category

Country	Size of sector	Sector	% Growth
UK	1	Mobile Computing	8.4%
	2	Software & licences	-2.7%
	3	Telecommunications	17.9%
Country	Growth rate Q1	Sector	% Growth
UK	1	Security devices	342.6%
	2	Home & Garden	166.5%
	3	Wearable devices	72.3%



The market in the UK and Ireland grew by 1% overall (measured in GBP). This was thanks to a strong January, where revenues were up 7.6%, as February and March both saw declines (of 2.5% and 1.7%). The top two categories, notebooks and smartphones, were the shining lights behind the growth with revenues up 9% and 20% respectively. There was strong growth in notebooks from Apple, HP, Asus and Microsoft but Lenovo was the standout vendor with an increase of 22.7% YoY resulting in £130 million of revenue for the quarter. Smartphone growth was not as a result of Apple (+1%) or Samsung (-31%) but rather vendors from the 'Other' category (most likely dominated by Huawei) who saw revenues up 150%. Another strong performer in Q1 was security software as more businesses and end users looked to prevent cyberattacks. Symantec and F5 Networks helped drive the 14% growth. Toner was one of the big losers, in that it dropped by 22% with HP, the main contributor, bringing in £19 m less than in Q1 2018 – a 31% drop. Desktop computing did not follow its mobile counterpart: desktop revenues were down by 7.2% with Lenovo and Apple both seeing double-digit falls.

b) Vendor

The largest vendor for the quarter, HP, saw a 4% drop compared to the same period last year. This was mostly down to the decline in toner sales noted above. However, two of their largest revenue generators for the quarter, notebooks and ink cartridges and tanks, grew by 7.4% and 11.3% respectively. Cisco had a strong quarter adding nearly £10 million (5.2%) in revenue. Lenovo also saw very healthy YoY growth of 12% thanks to sales of notebooks, monitors and desktop workstations. Also notable were EMC (+31%), Symantec (+95%) and AMD (+152.6%). AMD have certainly capitalised on the Intel supply shortages: their sales of standalone processors have grown significantly with every channel up triple digits.

c) Channel

Sales to SMBs were the big winners, up 10.9%. The other channel to post positive YoY growth was retailer business (6.6%). The most significant drop was for corporate resellers. Despite double-digit growth in January (11.6%), sales to corporate resellers declined by 8.3% and 13.3% in February and March leading to a fall of 4.8% for the quarter as a whole. All other channels posted positive YoY growth for March which goes to show how important a channel this is for revenue generation.

4.2. Germany

MediaMarkt Saturn will lay off 500 employees, mainly from their marketing headquarters in Munich and Ingolstadt. Their holding company, Ceconomy, is currently also considering closing down the non-profitable retail stores as they are under pressure, particularly from online retailers.

a) Category

Country	Size of sector	Sector	% Growth
Germany	1	Mobile Computing	10.0%
	2	Software and Licences	7.2%
	3	Telecommunications	3.8%

Country	Growth rate Q1	Sector	% Growth
Germany	1	Games Consoles	102.7%
	2	Wearable Devices	102.1%
	3	Server Computing	28.4%

The distribution panel shows that overall growth for Germany in Q1 2019 was 4.1%, driven mainly by mobile computing (10% based on revenue), telecommunications (3.8%), software and licences (7.2%) and desktop computing.

In the main product categories, there were disappointing performances from printing consumables (-5.1%), computing components (-11.5%) and disc storage (-7.6%).

b. Vendor

Apple had a strong Q1 2019 with overall growth of 12.5%. There was an 11% growth for notebooks following a long-awaited refresh of products containing Intel's latest processors.

Dell had a great start to 2019 with very strong growth of 48% (based on revenue) driven by new mobile PCs (58%) and desktop PCs (52%) sold with the support of their new channel programme for distributors and resellers.

It was also, once again, a strong quarter for HP (3.9%) and Lenovo (4.3%).

c. Channel

The SMB channel is the largest in Germany and it grew by 5.2% in Q1 2019, whereas the corporate reseller channel disappointed, increasing by only 0.5%. This could be explained by major investments that were made in Q4 2018.

4.3. France

Country	Size of sector	Sector	% Growth
France	1	Mobile Computing	8.8%
	2	Software & licences	15.3%
	3	Telecommunications	39.1%

Country	Growth rate Q1	Sector	% Growth
France	1	Wearable Devices	78.9%
	2	Games consoles	71.3%
	3	Computing components	28.6%

a) Category

The market in the France grew by 9.8% overall in terms of revenues, a very healthy performance and above the 7% registered in the last quarter of 2018. There was double-digit growth of 12% in January which dropped slightly in February and March (to 9% and 8% respectively). Smartphones and notebooks represent the top two revenue categories, with 13.1% and 10.3% of all revenues registered in the French distribution channel. It is worth noting that notebooks have not held the position of leading category since Q2 2018 when smartphone revenues overtook those from notebooks. Smartphones registered an outstanding 42.3% YoY revenue growth in Q1 2019, while notebooks grew by a more modest 5.3%: even though Lenovo, Microsoft, Dell and Fujitsu notebooks all registered double-digit positive growth (with that of Dell being the most significant – a 57% YoY increase in revenues) others fared less well with HP, for example, seeing only 0.6% growth.

Another well performing category in Q1 2019 was data-centre networking which saw revenue growth of 16.8%. The top-selling categories in this segment are network management and security appliances, network expansion modules and SAN switches and directors which all registered impressive growth of 25.2%, 39.6% and 52.3% respectively.

b) Vendor

The largest vendor in the French distribution channel for the quarter, HP, saw revenues fall by 1.5% compared to the same period last year. This drop was fuelled partly by a 16.2% decline in toner sales. Meanwhile, the second most important product group for HP, ink cartridges and tanks, grew by 8.5%. Lenovo, on the other hand, had a very strong quarter and grew 32.9% YoY to gain third position in terms of French distribution revenue ahead of HPE. The growth of this vendor growth was fuelled by sales across many categories including notebooks, desktops, servers, workstations and monitors.

Other notable performances from the top 10 vendors came from Dell (+32.9%), Cisco (+11.3%) and Apple (+7.0%).

c) Channel

Both consumer and business markets grew in Q1 2019. The professional segment, which accounted for 72% of distributor revenue in France, grew by 6.2% but the consumer segment registered 20% YoY growth – more than for any quarter of 2018. There was a slight slowdown of growth in the commercial channels at the end of the quarter with revenue growth dropping from 7% in January and February to 4% in March.

Sales in the corporate channel grew by 10% YoY while those to SMBs grew by 5%. In the consumer channel, the retail channel registered the highest growth with 21%, while the etailer consumer channel grew by 16%.

4.4. Italy

a) Category

Country	Size of sector	Sector	% Growth
Italy	1	Mobile Computing	6.7%
	2	Telecommunications	-8.4%
	3	Software & licences	3.3%
Country	Growth rate Q1	Sector	% Growth
Italy	1	Smart home & office	227.8%
	2	Wearable Devices	102.7%
	3	Audio-video systems	42.1%



Smartphones continued to be Italian distributors' most-sold product in Q1 2019, with revenues reaching 300 million euro despite a YoY fall of 10% and a net revenue loss of 33.5 million euro. In particular, smartphone sales in the SMB channel decreased by 33% (35.6 million euro) compared to Q1 2018. Apple, with a market share of 49.4% (+6 point share) and a YoY growth rate of 3%, consolidated its pole position in Italy, followed by Huawei with a market share of 30.9% and growth of 4%. Conversely, third-placed Samsung lost 62% YoY and an 11.4 point share, giving it a market share of only 8.5%.

The second biggest product category was notebooks which generated 250.3 million euro and experienced a positive performance of 5%. They saw excellent growth of 52% in the corporate reseller channel, although they registered a decrease of 7% in the retail chain channel. HP managed to keep first position with a 26% market share and a YoY revenue increase of 8%. In second position was Lenovo with 23% market share – a five point gain since Q1 2018. Apple registered a YoY decrease of 17% Q1 2019 and remained in third place with 18.5% market share.

It was also a good quarter for desktops which registered a 14% YoY gain of 104.8 million euro with outstanding growth (80%) through corporate resellers. Lenovo took the top spot, reaching a market share of 30.4% (a 12 point share increase) thanks to growth of 89% compared to Q1 2018, followed by HP (24.5% market share), which also performed well (up 7% YoY), and by Apple (16.4%) and Dell (13.9%).

In Italy, there were also positive trends for the following products: tablet PCs (up 9%, and clearly dominated by Apple with a 51% market share), monitors and televisions (which grew by 18% and 28% respectively), servers (up 23%) and network switches (up 12%).

b) Vendor

The top 5 vendors accounted for almost 50% of the distribution market in Italy in Q1 2019.

- Apple was the leading vendor, with 16% market share, thanks to the good performance of the most product categories, in particular, smartphones.
- HP, in second position, reached a market share of 13% and saw a YoY revenue increase of 8%.
- In third position was Samsung with a 7% market share in spite of a disappointing quarter that led to a revenue drop of 23% YoY.
- Huawei, which also has a 7% market share, had a YoY growth rate of 23%.
- Lenovo, in fifth position, was the vendor with the highest YoY growth (39%) of all the top 15 vendors.
- Dell and HPE also registered a remarkable performance in Q1 2019 with growth of 27% and 18% respectively.

c) Channel

The SMB channel slowed down over Q1 2019 in Italy, losing 3.2% YoY and seeing its share drop by more than three points compared to Q1 2018 and 2017. There were falls in all three months of the quarter (of 6% in January, 1% in February and 2% in March).

On the other hand, the corporate reseller channel grew by 11.5% YoY and contributed strongly to overall growth, as did the retailer channel (8.2% YoY growth), especially over the first two months of the year (although in March 2019 it became negative and fell by 4.9%). The retailer consumer channel also performed well in Q1 2019, growing by 17.2%.

4.5. Spain

Q1 2019 was very positive for Spain with growth of 11.5% above the level seen in Q1 2018 when it was 6.8%. However, there are doubts about how the situation will evolve because the Easter Break, May breaks and several elections in Q2 2019 are likely to have an effect, particularly on the corporate channel.

a. Category

Country	Size of sector	Sector	% Growth
Spain	1	Mobile Computing	12.8%
	2	Telecommunications	8.9%
	3	Software & licences	20.9%

Country	Growth rate Q1	Sector	% Growth
Spain	1	eHealth devices	1276.9%
	2	Smart home & office	508.5%
	3	Home & garden	137.3%

- There was 12.8% YoY growth in the mobile computing sector with 14.4 million more tablet PCs and 11.2 million more notebooks sold in Q1 2019 than in Q1 2018.
- Smartphones are still growing and sales increased by 17 million.
- Software and licences, the third largest industry sector, increased by 20.9%, with notably three software categories contributing to this growth: security, operating systems and graphics and design.
- It is interesting to see the growth of smart home and office products: the volume is not large, but the sector is growing.
- Smart watches are bringing 3.8 million euros more to the panel in Q1 2019 with 75.6% YoY growth.
- Scooters are performing very well in the home and garden category.

b. Vendor

- Huawei and Xiaomi are growing strongly and respectively bringing 52.4 million euros and 21.1 million euros more to the panel than last year
- It has not been a good quarter for Apple: revenues are down by 11.3%.

c. Channel

Q1 2019 was strong for the consumer channels with 16% growth for consumer etailers and 12% for retail chains. The SMB channel fared better than the corporate channel as small and medium companies continue to invest in spite of political uncertainty.



4.6. Poland

a) Category

Country	Size of sector	Sector	% Growth
Poland	1	Telecommunications	16.8%
	2	Mobile computing	-5.8%
	3	Software & licences	-0.9%
Country	Growth rate Q1	Sector	% Growth
Poland	1	Wearable devices	173.5%
	2	Smart home & office	71.8%
	3	Data centre networking	29.5%

The distribution panel data shows overall growth of 4.0% for Poland in Q1 2019. As the table above shows, this was driven mainly by telecommunications with growth of 16.8% in this sector offset by the disappointing performance of some other important products.

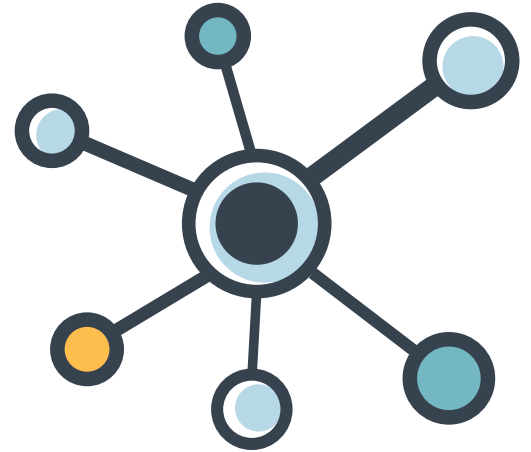
b) Vendor

- HP had a strong Q1 2019 with growth of 12.1%.
- Apple had lower growth than in previous quarters, only 7.5%.
- Xiaomi growth is slowing down and stood at 53.9%.
- Intel growth picked up by 26.4% after losses in previous quarters.
- There were losses for:
 - o Lenovo (14.8%)
 - o Dell (9.8%)
 - o Microsoft (5.2%).

4.7. Russia

Panel sales dropped by 4.2% in Q1 2019 after Q4 2018 had seen growth of 8.6%.

Country	Size of sector	Sector	% Growth
Russia	1	Mobile Computing	-14.0%
	2	Printing consumables	-12.9%
	3	Computing components	-24.2%
Country	Growth rate Q1	Sector	% Growth
Russia	1	Wearable devices	177.1%
	2	Scanner imaging	158.0%
	3	Removable storage	61.1%



4.8. Turkey

Country	Size of sector	Sector	% Growth
Turkey	1	Telecommunications	-20.1%
	2	Disk storage	-5.4%
	3	Software & licences	7.6%
Country	Growth rate Q1	Sector	% Growth
Turkey	1	Electronics	489.7%
	2	Smart home & office	301.2%
	3	Removable storage	44.7%



a) Category

In Q1 2019, there was growth in 14 categories each with a revenue of more than \$1 million.

The top 25 categories accounted for 82% of total revenue in Q1 2019, and five smaller/other categories also saw revenue growth (disk arrays, graphics cards, office application software, motherboards and USB memory cards).

The fastest-growing category in 2019 Q1 was smart bands and activity trackers which had a turnover of \$120,000.

b) Channel

Turnover in the retail channels and the SMB channel are very similar to each other. However, there was a serious decrease in sales to the corporate channel in Q1 2019 and its market share also declined significantly.

4.9. Australia/New Zealand

- The Australian smartphone market saw a record decline in smartphone shipments in 2018. Data from IDC revealed the country's smartphone market declined 9% YoY with just under 8.2 million shipments in 2018, compared to 9 million shipments the previous year.
- The Australian networking infrastructure market was stagnant in 2018 with declines in sales of enterprise routers and wireless local area networks (WLAN). The enterprise router market was down 6.2% at A\$459 million, due to lower spending from service providers preparing to upgrade to 5G; while WLAN sales were down 11.9% to A\$261 million, with a five-year low in consumer and retail sales and enterprises holding off on the new 802.11ax standard. Research from IDC revealed the overall networking infrastructure market grew by 0.81% in 2018, with the declines in router and WLAN sales countered by growth in the Ethernet switch market. Sales of these devices to enterprise customers increased by 10.1%, with a five-year revenue high of A\$857 million in 2018. The growth was fuelled by an increase in shipments of high-speed (25, 50 and 100 gigabits per second) ports.
- Meanwhile, IDC reports that Australia's PC shipments declined 2.5% YoY in Q4 2018, compared to an increase of 9.6% in Q3 and 8.9% in Q2 of the same year. The monitor market, however, grew 8.3% YoY over the same period, but the 2018 calendar year saw ten-year high of 10.4% growth compared to 2017.

4.10. Argentina

It is difficult to highlight anything specific happening in the IT distribution industry when the economy is so challenging: right now, all distributors are trying to survive the storm and hoping for better days. Generally speaking, the enterprise sector is doing better than the consumer sector, and we are also seeing a general shift towards value in distribution.

Q1 2019 YoY panel sales are down 26% so the market is doing slightly better than in Q3 and Q4 2018 in which it was showing overall sales drops close to 40%. Sales of network switches are up 20% YoY and SSD (solid state drive) sales are up 62%. Large format displays showed growth in every quarter of 2018 and the trend is continuing with a 64% YoY sales increase in Q1 2019 YoY (Samsung is the dominant vendor). There was a very good performance from desktops, with only an 8% drop sales over the quarter, whereas notebook sales are in line with the panel average and fell by 22% YoY.

One of the worst performing categories is graphics cards. A 55% YoY drop in Q1 2019 combined with a 66% drop in Q4 2018 clearly shows that, even when the gaming market is expanding, these are considered premium components and sales are hit badly during economic downturns. Also struggling have been all the printing categories, with drops of 30% or more in YoY sales, and USB memory and memory cards, which showed drops of 45% and more. All these categories already had a very difficult Q4 2018.

HP & Lenovo are still way ahead of other vendors in terms of overall market share (all categories included), followed by Samsung & Dell. Lenovo still dominates the notebook market and has maintained its 50% market share in Q1 2019 while HP remains at 25%. For desktops, HP is still ahead but its market share has dropped from 33% in Q4 2018 to 22% in Q1 2019 while Lenovo's has remained at around 20%. On the display front, Samsung still has almost 50% of the market, although their market share has dropped around 6% in the last two quarters, while Acer and Philipps steadily increased their share over the last year and, in Q1 2019, they held 10% and 14%, respectively.



5. 2019 Outlook

As there are some major uncertainties in the global economy, CONTEXT stands by its start of year prediction that overall growth in the channel will be between 3% and 6% in 2019.

The big impacts on the year so far are:

Positive

- Digital transformation leading to increasing sales of related IT value products.
- GDPR providing a stimulus to drive the security category.
- Government investment in countries such as UAE driving growth.
- Post-elections boom in South Africa leading to a boost in activity.

Negative

- Continued uncertainty around Brexit.
- The ongoing US and China trade issue.
- Weakness in consumer product demand.
- The impact of Easter and May breaks.
- Falling exports in Singapore that indicate a slowdown.
- Fears of a correction in the Australian property market, which has seen national house prices fall 8% from their 2017 peak. This is a significant area of uncertainty: the RBA (Reserve Bank of Australia) has revised its consumption growth forecast for the coming year down from 3% to 2.75%. The announcement saw the Australian dollar slide as much as 0.5% to its lowest rate since early January.
- While the hope is that we have seen the worst of the crisis in Argentina and the situation will get steadily better throughout the year (analysts estimate the country should return to growth in the last quarter of 2019), it does all depends on the presidential election: continuity will be good for the economy, but if there are changes... who knows what will happen – it is Argentina!





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