

## COVID-19 deals a major blow to Asia's technology sector

### What impact will the COVID-19 outbreak have on technology vendors and the channel?

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- The COVID-19 outbreak will hurt Q1 sales in APAC, especially of smartphones, PCs and component products.
  - But customer adoption of cloud-based services will increase as more people use videoconferencing and collaborative and online tools to execute business continuity plans and reduce travel.
  - Vendors are focusing on partner training and maintaining close communication with customers and partners.
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Technology vendors and channel partners in the Asia Pacific region face the unexpected challenge of coping with the sudden outbreak of COVID-19 (coronavirus). The crisis was largely unforeseen, even in mid-January. Most leaders this year were anticipating disruption from political instability and natural disasters, not an epidemic. Major technology and partner events around the world were cancelled soon after the World Health Organization (WHO) declared a global health emergency. China has taken the brunt of the social and business impact so far, but the rest of Asia Pacific and other regions around the world will face similar problems if the virus continues to spread. As of 20 February 2020, the WHO has said that new cases in China are falling but also warned that any apparent trend must be interpreted very cautiously. Worldwide, there are now over 75,000 confirmed cases, with over 56,000 yet to recover. Over 98% of cases are in China. The immediate effects on supply chains, workflow disruption and lower spending will result in an economic downturn if restrictions on travel and factories remain. The extent of the downturn will depend on how widespread and protracted the virus becomes.

The smartphone, PC and component sectors have been greatly affected as prolonged closures and labor shortages have brought Chinese manufacturing plants to a halt (see Canalys report, [“Global PC market to fall by 3.4% in 2020 in best-case scenario”](#), published 20 February 2020). Aviation, insurance, manufacturing, retail, transport, tourism and trade are among the hardest hit sectors, in addition to import and export industries, in which China plays a key role in production and consumption. Partners in Australia are pessimistic, having already faced several big problems recently, including the Australian bushfires and fallout from the US-China trade war. Lower technology sales in Q1 are expected across Asia, including China, Hong Kong, Australia, Japan, Singapore and likely the rest of the Southeast Asian countries. Indonesia has yet to report any infected cases. India remains a bright spot in Asia Pacific at this time, with channel partners expecting healthy growth in Q1 2020.

### Disruption and reinvention of business operations

**Decline in domestic spending:** The virus outbreak forced an extension to the Lunar New Year holidays (until 9 February) in China and placed more than a dozen Chinese cities on lock-down – an unprecedented move by the Chinese government that prevented the movement of people and goods. This led to a sharp sales drop at one of the busiest times of the year. Citizens were told to stay indoors and factories were shut down. Apple, Samsung, Microsoft, Tesla and Google closed their retail shops, contact centers, and corporate and contract offices in China, though ecommerce operations remained available. Google also closed offices in nearby Hong Kong and Taiwan. The outbreak drove up prices of household items, such as food and even toilet paper, in areas where prices or supplies are not controlled. Consumers have cut down on non-essential spending and companies will shift spending

to vital expenditure. Though the holidays have ended, many companies and factories in China, including Apple and Tesla, are operating below 100% capacity as they need permits to ensure that they provide workers with enough protection to resume operations. They are also facing labor shortage issues.

**Global supply chain disruption:** Vendors and distributors have warned customers of shortages and shipment delays due to affected operations in China and Hong Kong. Likewise, channel partners have received notifications from key PC vendors over the last two weeks that their PC and parts shipments can be expected to take up to 14 weeks – over three times the usual delivery time, depending on where partners are located. Those currently holding inventory are expecting low stock challenges once existing stock runs out. In some rare cases, partners were unable to get estimated arrival times, highlighting the uncertainty that exists in supply chains. Components and parts under warranty have been given priority. Customers and partners will be forced to get their supplies from elsewhere to sustain business, with grey and black markets benefiting. Beyond shipment challenges, getting products' technical validations and certifications was difficult when offices in China were closed. In hindsight, the shift of supply chains to outside China last year may have helped some vendors to mitigate stock supply issues, if they are not reliant on rare metals and plastics from China. Huawei has been one of the few large vendors that continued operations in China.

**Rise in remote workspace collaboration and online cloud tools:** Workspace collaborative solutions, such as Microsoft Office 365 and Teams, as well as Slack and Cisco WebEx, became essential for office workers as companies executed business continuity plans. One of the interesting outcomes of this outbreak could be that Chinese companies come to embrace remote working (in-office working remains the cultural norm today). VPN issues were one of the top IT problems received in these two months, with some having trouble accessing VPNs and other companies not having VPNs to begin with. Social media has been an important means by which the citizens of Wuhan have shed light on their situation. Others resorted to gaming to relieve the boredom. The use of such tools is accelerating cloud uptake and increasing the importance of online collaboration tools.

**Event and meeting cancellations:** Cisco Live Melbourne, Fortinet Accelerate Barcelona and Mobile World Congress (MWC) Barcelona were all cancelled in the same week. Microsoft Ignite Taipei and Singapore then followed. Intel's channel event in Italy and Facebook's Global Marketing summit in the US, both in March, have also been cancelled, while IBM became the first sponsor to announce it is pulling out of the RSA Conference to be held in San Francisco at the end of February. Black Hat Asia was postponed to later in 2020, while other organizers have turned to an online live broadcast format. In addition to government-imposed air travel bans in and out of China, vendors such as AWS, Google, HP Inc and LG have also put restrictions in place for their own employees, also covering Hong Kong, Macau and Taiwan. These events are huge marketing expenses and key for meeting influencers and decision-makers, which will cause delays in purchasing decisions. Event organizers, sponsors, hotels, restaurants and taxi firms in host cities are also affected.

**Offline classes suspended while new online classes launched:** Cisco communicated via written updates and webinars that it has closed its CCIE lab exam centers in Beijing and Hong Kong (targeting an early March reopening) and postponed the global launch of its new CCIE certifications from 24 February to 27 April. Affected candidates were given exam vouchers and/or redirected to other facilities wherever possible. Existing CCIE certifications will run until 26 April while certifications at the Associate, Professional and Specialist levels will move to the new portfolio unaffected on 24 February. As per the Chinese government's guidance, Pearson VUE (a test service provider for many vendors' IT certifications) temporarily closed its test centers in China and suspended exam delivery via its third-party China test center networks until the end of March. Separately, Digital China and VST ECS in China have set up free online courses for partners and are offering remote work and collaboration solutions at discounted prices.

**Cyberattacks using fear and Singapore's fake news law:** Cybercriminals have reportedly shifted attacks to focus on targeting the receptiveness of individuals to click on articles, information and links about COVID-19. For example, there were phishing emails allegedly from the WHO prompting users to enter their email addresses and passwords

to get helpful safety advice, which gave the cybercriminals access to their email accounts. Some MSSPs have reported a fall in attacks against organizations during the last month. In Singapore, a fake news law has been useful for managing falsehoods and community panic. The government created a WhatsApp system to update citizens on the COVID-19 outbreak and highlight fake news in circulation. It also invoked the Protection from Online Falsehoods and Manipulation Act to issue correction directions to several parties, including Facebook, regarding related false claims.

## Coming together to overcome the crisis

Vendors such as Microsoft, Cisco, Dell Technologies and Lenovo in China have sent out encouraging and timely communications. These include giving monetary donations, free equipment and licenses, and working with partners to offer resources, such as 24/7 support, to help authorities and medical healthcare teams in affected areas. In addition, they are supporting partners and customers through changes to their channel policies. Among its efforts, Lenovo is giving unlimited 100-days free Microsoft Office Business edition licenses for SMB customers. VST ECS in China also set up a dedicated team, led by its CEO, to support partners and customers in affected areas. Veeam has reached out to its employees, customers and partners in China to make sure they are well, and it expects business to pick up in the second half of 2020. It kept communications with partners active via a WeChat channel (adding more content than usual on products, benefits, market trends and updates in the last two weeks) and focused on partner training through the release of more online training sessions and webinars. A new online certification released saw a third of its partner attendees come from China.

Huawei, which has a lot to lose, being heavily dependent on China for enterprise technology sales, is certainly among the vendors doing its best to ease the crisis for its partners. It announced measures including:

- Revision of Q1 2020 distribution sales targets based on the degree of impact due to the outbreak.
- 30-day credit extension to Silver and Gold partners and 60-day credit extension for Hubei partners (those most affected as Wuhan is at the epicenter of the COVID-19 virus).
- Providing financing services for partners as needed through financing partners.
- Prioritizing product availability to distributors.
- Warranty extension of three months for distributed products in Q4 2019.
- Hubei partners may access additional services, beyond their usual scope, to support customers as necessary.
- Launched numerous online classes to support the continued training of partners.

This is a time when having a Chinese lead in the large Chinese market is important. Western leaders are less likely to grasp the intricacies of Chinese sentiments and communications in this unusual period, especially if they are usually based outside of China.

## Lessons and opportunities

Individuals who are quarantined or under travel restrictions are spending this down-time focusing on internal improvement: training, reviewing processes, developing plans, etc. For vendors, this is also a good opportunity to launch new online training and certifications, as well as review existing processes for internal transformation. Constant communication with partners, employees and customers remains important to ensure they feel supported. An industry feeling Q1 sales pressure will be more eager to catch up in the coming quarters. Annual business plans will need to be reassessed as they review the impact on the supply chain, services support and potential customer sentiments. Vendors can explore on a case-by-case basis to adjust quarterly targets and tier requirements or create

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a plan to support partners' recovery. Being prepared and making sure customers are supported in uncertain times will build trust and goodwill that spreads word-of-mouth recommendation for sales.

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