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MARKET ANALYSIS

Russia Hardcopy Peripherals 2008-2012 Forecast and 2007 Vendor Shares

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IDC OPINION

After a decline in shipments in 2006, the Russian hardcopy peripherals (HCP) market resumed growth last year, and totaled 5,267,845 units worth $1,232.23 million. A key feature of 2007 was the stabilization of the importation process, as a result of which many vendors resolved their problems with product availability. On the threshold of presidential elections, many governmental organizations and state-owned enterprises succeeded in expending their IT budgets, which had visibly grown on account of rising oil prices.

- Laser products were the most popular on the HCP market in Russia in 2007. Shipments of monochrome laser printers and MFPs priced <$250 demonstrated the highest volume growth in the country last year. Large companies and governmental organizations purchased a significant share of these devices. Additionally, sales of entry-level laser devices via retail channels to SMEs and home users rose last year.

- The rapid switch to multifunctionality on the inkjet market has been due primarily to considerable price cuts on MFP devices. The difference in average sales prices (ASPs) between inkjet single-function (SF) printers and inkjet MFP devices narrowed to an unprecedented $13 last year.

- The market will continue to grow at a relatively swift pace, although not as rapidly as at the start of the decade. IDC anticipates that demand from the corporate segment for midrange and high-end laser equipment with lower total cost of ownership (TCO) will increase in 2008. Moreover, the color laser market will continue to expand, principally on account of a host of affordable new offerings from manufacturers of printer-based models.

- Vendors on the Russian market should seek to communicate more effectively with home and business end users by organizing promotional events, advertising campaigns, and educational seminars. This will result in a greater awareness of existing HCP technology among such end users and thus motivate them to purchase and utilize new advanced equipment and document management software solutions.

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Central and Eastern European Hardcopy Peripherals: Market Analysis

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Methodology

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Executive Summary

The Russian hardcopy peripherals (HCP) market returned to a state of growth in 2007, expanding 20.1% in volume and 2.0% in value year on year. (There had been a decline in shipments the year before.) Total shipments reached 5,267,845 units worth $1,232.23 million. The market was driven by investments in state-owned organizations that resulted from extensive federal budget spending, fueled by revenue from oil exports. The market in 2007 was also driven by increased consumer consumption and ongoing HCP products price reductions.

Last year, inkjet shipments increased 11.6% in volume and totaled 2,113,245 units worth $220.20 million. The trend of replacing SF printers with MFPs continued. As a result, the unit share of inkjet MFPs amounted to nearly two-thirds of the total inkjet peripherals market. Nevertheless, total inkjet market revenue fell 2.1%. This was due to the fact that prices generally had been reduced, and that unit growth was registered only in the <$100 price band. As previously, the majority of sales occurred in the home segment.

Laser technology led on the total market last year, demonstrating 30.4% unit growth. Laser technology sales revenue went up just 5.0%, however, due to the higher market demand for low-end products. The laser MFP shipments growth rate was almost double that of laser SF printers and copiers (about 45% and 23%, respectively). Color laser unit sales, although accounting for only a small share of the total laser market (just under 4%), experienced year-on-year growth of 88.0%, thanks primarily to the appearance on the market of several new models priced <$500. Demand for laser printers and MFPs exists in all end-user segments in Russia, from state-owned corporations to home users.

After a decline in 2006, the SDM market demonstrated moderate growth of 7.1% in unit terms in 2007. This was the result of a replacement phase initiated at a number of large financial enterprises. IDC believes that the impact technology market has almost reached saturation point and will hence remain stable over the next few years. Steady flat demand for matrix printers will come from organizations whose business procedures require printing on multilayer media (such as savings books, passports, and transport tickets).

IDC forecasts that Russian hardcopy market growth will abate over the next few years. The declining rate of market growth will mainly be the result of the growing popularity of exchanging and storing documents and images in electronic form on hard disks, compact disks, and memory cards. The fastest-growing HCP market segments will be the MFP laser and inkjet segments, which will expand in unit terms at a CAGR of 15.3% and 13.3%, respectively, during 2008–2012. The narrowing price difference between SF printers and MFPs will be the main driver of the market's gradual switch to multifunctionality. Despite slowing down, the total HCP market is still expected to increase at a CAGR of slightly over 8% in volume and of 6.5% in revenue terms over the next five years due to the growing Russian economy, increases in real wages, and expanding demand for IT infrastructure development.

SITUATION OVERVIEW

Introduction

Economic and Political Environment

Russian GDP grew 8.1% in 2007, and growth should remain strong in 2008, at 7.1%, due to high energy prices and strong domestic demand. The slowing pace of growth will be the result of tightening liquidity due to global market turbulence and of the strengthening ruble, which is damaging the competitiveness of the manufacturing sector.

Inflation accelerated across 2007 as a whole to 11.9% according to the Federal Statistics Service – a significant increase on the 9% of 2006. Last year was by far the best for Russia in attracting investment flows. According to preliminary data from the Central Bank of Russia, foreign direct investment (FDI) soared to $47 billion over the year.

Vladimir Putin's handpicked successor, Dmitry Medvedev, easily won elections in March 2008 and named Putin as his prime minister. The trend toward increased state involvement in the economy is expected to continue, but there will be areas of liberalization, helped along by Russia's expected entry into the World Trade Organization (WTO) in 2008 or 2009.

TABLE 1

Key Economic Indicators for Russia, 2006–2008

	2006*a*	2007*a*	2008*c*
GDP (Real % Change)	7.4	8.1	7.1
GDP per Capita (US$ at PPP)	13,190	14,662	16,247
Consumer Price Inflation (%)	9.0	11.9	13.0
Unemployment (%)	7.2	6.2*b*	6.7
Central Government Expenditure (% of GDP)	16.0	18.1	21.3
Exports (US$M)	303,926	355,465	431,734
Imports (US$M)	-164,692	223,421	291,652
Current Account Balance (US$M)	94,467	78,310	86,172

Note: *a* is actual, *b* is estimate, and *c* is forecast

Source: EIU, 2008

IT Environment

IT spending in Russia totaled $20,953.8 million in 2007, reflecting 27.8% year-on-year growth. Hardware made up the bulk of sales, accounting for 71.7% of the overall IT market, followed by IT services, with 17.4%, and software, with 10.9%.

IDC forecasts that the IT market will continue to grow in 2008, at 22.3% year on year, to reach $25.6 billion. The Russian IT market is projected to expand at a CAGR of

16.6% over the five-year forecast period, with the strongest growth to be seen in the software segment.

Drivers

- **High Oil Prices:** Russia produces in the region of half a billion tons of oil per year, of which the oil ministry expects about 269 million to be exported in 2008. The Russian government reassesses the oil levy frequently and recalibrates it according to world prices, so that the state benefits directly from higher international oil prices. With the oil export levy lifted to $340 dollars per ton from the beginning of April 2008 (equivalent to approaching half the export value), for each $10 a barrel increase in the world oil price, the Russian exchequer gains approximately $9 billion per year.

- **Stable Political Environment:** The close partnership between President-elect Medvedev and outgoing president Putin, who is set to serve as prime minister, greatly increases the prospect of continued political stability over the next four years. This will create favorable conditions for the development of the Russian business sector and hence for IT market growth.

- **Increasing Real Wages:** The real disposable incomes of households continue to rise at a rapid pace by international standards, having grown 10.4% year on year in 2007, according to the Federal State Statistics Service. Real wages rose more rapidly still – by 16.2% year on year. In terms of consumer spending power, these figures must be amended further for inflation and exchange rate fluctuations, both of which add to the rise. In dollar terms, the EIU is expecting nominal wages to rise 25.0% in 2008 after 26.6% growth in 2007; in dollar terms, wages are expected by December 2008 to have increased 380% since 2004.

- **Nationwide Projects:** Several major sectors of the economy, which have suffered from chronic under-investment in post Soviet Russia – namely, agriculture, construction, healthcare, and education – have been specifically targeted by the current administration. Projects have been launched, and, in time, major IT investments are very likely. Such is the slow pace of the Russian bureaucratic machine, however, that major investment may well occur only after the end of IDC's five-year forecast period.

- **Vendors' Direct Presence:** In 2007, the majority of leading HCP vendors started direct import shipments of their goods to Russia, opened their own warehouses, and intensified their direct cooperation with thousands of second-tier partners. HP, Canon, Samsung, Xerox, Brother, and others are delivering their printers, copiers, and MFPs via DDU or DDP schemes, taking upon themselves distributors' responsibilities. By strengthening their local presence, vendors gain better control over product availability, prices, and delivery times. Moreover, vendors operating directly are better able to extend their partner networks, resulting in more serious competition between distributors and resellers.

- **Digital Signature Law Not Yet Adopted:** Russian legislators are far from ratifying the digital signature law. By virtue of this, all non-retail deals, agreements, juridical decisions, and even internal corporate orders must still be printed out on paper and signed. Contracts, bills, and invoices are generated as a result of millions of trade deals every year, providing solid demand for HCP, especially from the financial and governmental end-user segments.

Inhibitors

- **Dutch Disease:** Russia risks suffering increasingly from "Dutch disease", an uncompetitiveness of domestic industry caused by elevated internal prices and a highly valued currency, typical of oil economies. Russia has very strong inflation by international standards, with no sign that this will abate appreciably in the next few years. According to the EIU, industrial real wages rose 14.3% in 2007, while productivity grew 5.7%. Although high internal prices increase the purchasing power of Russian consumers in dollar terms, the downside of this trend will be falling industrial output as producers become less competitive. The effects of this are likely to be disproportionately felt in regional cities, while oil wealth continues to boost the main metropolitan markets.

- **Growth of Inflation in Consumer Market:** According to the Ministry of Economic Development and Trade, inflation in the consumer market amounted to 11.9% in 2007, which is higher than it has been in any of the previous three years. Moreover, according to the EIU, inflation is likely to be aggravated in 2008 by high oil and gas prices, continuing strong capital inflows, and fiscal loosening. Such inflationary pressure will impact negatively on consumer demand. According to preliminary official data, inflation in January and February 2008 combined stood at about 3.5%, making the government's prediction of 8.5% for the full year look unrealistically low.

- **Terms Tighten for Consumer Credit:** Russians are facing tougher conditions in consumer credit, which has ballooned in the country in the last few years, doubling every year and now amounting to an average of more than $500 per capita. Sales of consumer electronics have become to depend quite heavily on payment terms; handset retailer Euroset, for example, reported that a quarter of its sales of mobile phones were on credit terms in 2006. The rise in international borrowing costs as a result of the U.S. credit squeeze and a move by Russian prosecutors to ban additional commission fees charged beyond the interest rate of a credit loan are making consumer lending less profitable for Russian banks and bringing them to focus more on the level of bad debt. Russian Standard, which dominates the consumer credit sector along with rival Home Credit, cut back considerably on the proportion of loan requests it approves in a quarter, while VTB 24, a subsidiary of Vneshtorgbank, one of the most ambitious new players in the loans market, reduced the ease with which some types of credit can be obtained.

- **Digital Imaging Replacing Printing:** For their private needs, people are making less printouts and copies from year to year. Photographs, text documents, articles, and books are conveniently distributed, read, and stored on portable electronic devices such as notebooks, mobile handsets, and SHDs. Equipped with color LCD screens, these devices are becoming more affordable and more popular. Users frequently distribute photos and documents via flash memory cards, compact disks, and the Internet, without printing them. Additionally, a well-developed network of photo studios across the country allows users to print photographs more cheaply and with higher quality than on their home printers.

- **Lack of New Technologies:** For many years, the HCP market has seen practically no significant technological breakthroughs. Vendors' products are similar to each other, offering identical features and functionality. The competition is therefore based on price and marketing. As a result, the margin on reselling HCP products is tending towards zero.

Total Hardcopy Peripherals (HCP)

You will find the following in this section:

- Hardcopy Peripherals Market Development by Technology and Product
- Competitive Analysis: Vendor Share and Growth of Overall Hardcopy Peripherals
- Future Outlook: Forecast of the Hardcopy Market by Technology and Function

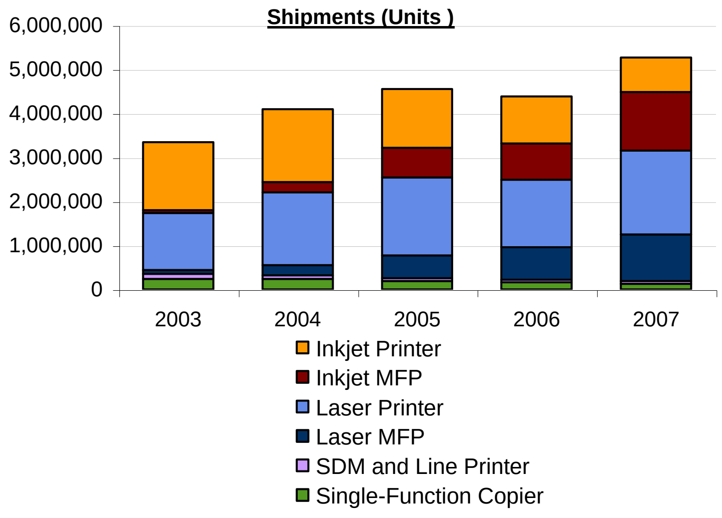
Hardcopy Peripherals Development by Technology and Product

The Russian HCP market volume grew 20.1% to 5,267,845 units last year. Market revenue expanded only a modest 2.0%. This was due to higher demand for low-priced desktop laser and inkjet devices rather than for midrange and higher-end machines.

Given the decline (-3.6%) in HCP unit shipments in 2006, last year's growth (20.1%) looks impressive. Those negative factors that shrank the market the year before – changes in customs regulations, shipments-scheme restructuring, an unprecedented and long period of sub -30ºC temperatures, and delivery irregularities that resulted in distributors overstocking – were absent in 2007. Last year's results prove that the Russian HCP market is still far from saturation and that demand for printing and copying devices (as well as for other types of IT equipment) is not exhausted in the country. As previously, Russian corporate users prefer personal desktop printers and MFPs to midrange and high-end devices designed for centralized document generation within workgroups. Last year, inkjet printer owners (principally home users) started actively replacing their SF devices with MFPs. Laser technology, particularly in the form of entry-level monochrome printers and MFPs, has increasingly penetrated Russian households. In general, the Russian HCP market was driven by demand from large companies, governmental structures, and home users. Historically, the underdeveloped SME segment in Russia has played a secondary role.

FIGURE 1

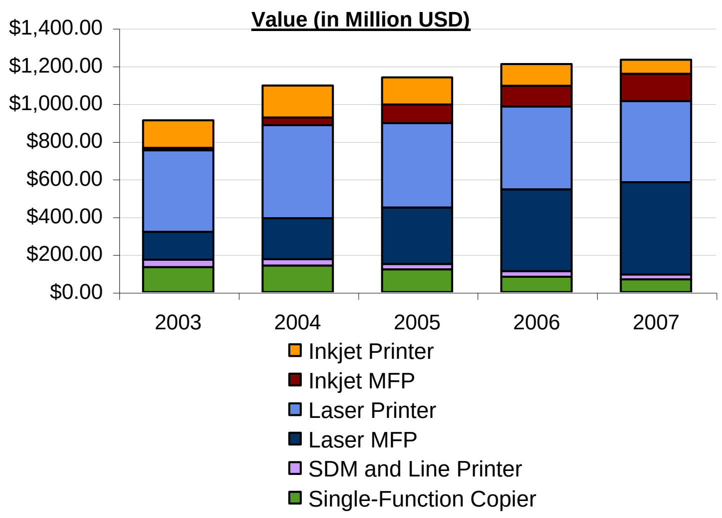
Shipments of Hardcopy Peripherals by Technology and Product in Russia, 2003–2007



Source: IDC, 2008

FIGURE 2

Value of Shipments (US$M) of Hardcopy Peripherals by Technology and Product in Russia, 2003–2007



Source: IDC, 2008

TABLE 2

Shipments and Value of Shipments (US$M) of Hardcopy Peripherals by Technology and Product in Russia, 2007

	Units	Share (%)	Unit Growth (%)	Value	Share (%)	Value Growth (%)
Inkjet Printer	785,724	14.9	-26.6	75.48	6.1	-34.5
Inkjet MFP	1,327,521	25.2	61.3	144.72	11.7	31.7
Mono Laser Printer	1,808,751	34.3	22.0	349.31	28.3	-6.6
Mono Laser MFP	1,038,408	19.7	42.8	417.18	33.9	10.8
Color Laser Printer	94,293	1.8	71.1	62.85	5.1	24.2
Color Laser MFP	22,694	0.4	219.9	71.25	5.8	25.6
SDM and Line Printer	62,050	1.2	6.8	25.84	2.1	-13.4
Single-Function Laser Copier	47,784	0.9	22.9	49.73	4.0	-0.5
Analog Copier	80,539	1.5	-35.6	18.61	1.5	-41.3
Highlight Color and HCS Printer	81	0.0	42.1	17.25	1.4	24.4
Total	5,267,845	100.0	20.1	1,232.23	100.0	2.0

Source: IDC, 2008

Key messages in the table and figures above:

- The transition to MFP technology in the inkjet segment took place much faster than in the laser one due to the significantly narrowed price difference between SF printers and MFPs. On average, this difference amounted to $26 in 2006 and just $13 in 2007.

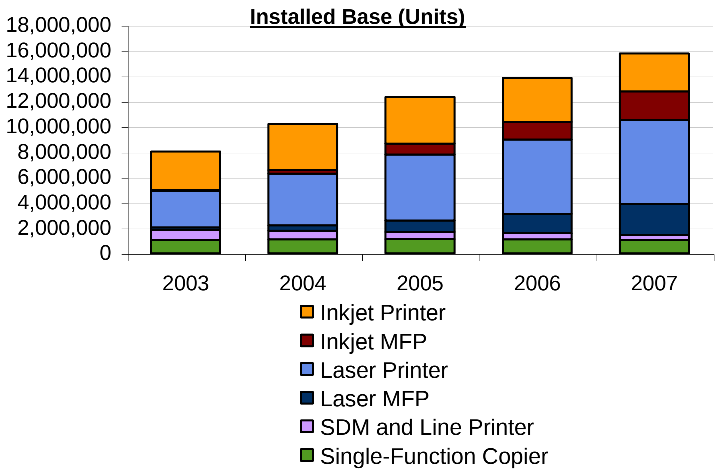
- ISF printer shipments grew year on year in the laser segment. The predicted transition to laser MFPs was slowed down by prevalent user opinions about the unreliability of MFP technology: Many users think that if one function of an MFP breaks down, the others will become unavailable too.

- After a decline in 2006, the inkjet market experienced growth last year, principally as a result of demand in the home end-user segment. Personal computer penetration into Russian households is continuing and positively impacting on sales of home printers, the majority of which are inkjet-based.

- The laser technology unit share of the total HCP market continued to increase last year and totaled 57.2%. It is clear that, compared with inkjets, laser printers and MFPs are better suited to printing text documents: They have faster speeds, make less noise, have a higher recommended print volume, and cost less per page. Given these factors, corporate customers, together with a visible share of home users, prefer laser devices.

FIGURE 3

Installed Base of Hardcopy Peripherals by Technology and Product in Russia, 2003–2007



Source: IDC, 2008

Key messages in the figure above:

- Nearly two-thirds of the HCP installed base in Russia is made up of laser devices, and the share of such devices is increasing every year. Laser printers, copiers, and MFPs are in high demand among enterprises and are increasingly penetrating the home end-user segment – up to 15% of the HCP installed base at homes is made up of lasers.

Competitive Analysis: Vendor Share and Growth of Overall Hardcopy Peripherals, 2007

TABLE 3

Vendor Market Share and Growth of Shipments and Value of Shipments (US$M) of Hardcopy Peripherals in Russia, 2007

	Units	Share (%)	% Points Gained	Unit Growth (%)	Value	Share (%)	% Points Gained	Value Growth (%)
HP	2,341,435	44.4	5.71	37.8	471.93	38.3	4.87	16.8
Canon	1,114,319	21.2	-4.04	0.8	186.39	15.1	-1.41	-6.7
Epson	578,267	11.0	-0.86	11.3	85.22	6.9	-0.85	-9.1
Samsung	577,318	11.0	1.83	44.1	89.13	7.2	1.07	19.6
Xerox	293,036	5.6	-2.12	-13.1	190.75	15.5	-3.04	-14.8
Brother	144,458	2.7	0.34	37.3	26.91	2.2	0.36	22.2
Lexmark	98,604	1.9	-0.24	6.6	12.12	1	-0.13	-10.1
Kyocera Mita	43,842	0.8	-0.09	8	46.7	3.8	0.62	21.8
MB	19,113	0.4	-0.08	-0.6	23.97	1.9	-0.43	-16.5
Sharp	14,484	0.3	-0.13	-18.2	14.94	1.2	-0.57	-30.7
Ricoh	9,292	0.2	0.02	34	23.21	1.9	0.46	34.8
Toshiba	8,856	0.2	-0.02	4.8	9.9	0.8	-0.02	0
OKI	8,659	0.2	-0.09	-22.8	7.07	0.6	-0.08	-10.2
Nashuatec	5,494	0.1	-0.06	-25.3	13.07	1.1	-0.71	-38.7
Konica Minolta	5,023	0.1	-0.05	-19.2	13.32	1.1	-0.09	-5.6
Panasonic	2,605	0.0	-0.02	-13.9	2.47	0.2	-0.02	-6.8
Develop	506	0.0	-0.02	-62.6	2.14	0.2	-0.16	-46.3
Utax	494	0.0	n/a	n/a	0.95	0.1	n/a	n/a
TallyGenicom	461	0.0	-0.06	-85.4	1.67	0.1	-0.3	-68.1
Gestetner (NRG)	291	0.0	0.01	29000	0.39	0	0.03	9,2071.4
Printronix	264	0.0	0.00	20.5	2.16	0.2	0.02	16
Olivetti	232	0.0	0.00	78.5	0.15	0	0.01	84.9
Xante	186	0.0	0.00	0.5	1.44	0.1	0.02	18.1
Oce	45	0.0	0.00	462.5	3.92	0.3	0.25	365.2
Dell	18	0.0	-0.01	-94	0.01	0	-0.01	-87.5
InfoPrint	16	0.0	n/a	n/a	0.11	0	n/a	n/a
IBM	11	0.0	0.00	-75	0.22	0	-0.04	-70.2
Danka	1	0.0	n/a	n/a	0.05	0	n/a	n/a
Others	515	0.0	n/a	n/a	1.92	0.2	n/a	n/a
Total	5,267,845	100.0		20.1	1,232.23	100		2

Source: IDC, 2008

Key messages in the table above:

- Last year, HP significantly strengthened its leadership, demonstrating some of the highest growth rates on the market, especially in the laser segment. The vendor's success was driven by its new second-tier partner program, a number of middle-sized tenders resulting in shipments to the government sector in the second half of the year, and effective laser product pricing control in its distribution channel, which provided good margins to partners at all levels of authorization.

- Despite the fact that Canon's total shipments in 2007 remained almost unchanged year on year, the vendor was able to hold on to second place in volume terms. Its revenue decreased 6.7%, which resulted in the vendor conceding its second place position in market value to Xerox. Canon's modest 2007 results were due primarily to the increased Euro exchange rate; the vendor is still fixing its prices in this currency for distributors. Another cause was the vendor's inconsistent pricing policy, which resulted in partners' margins on low-end products (both in the laser and inkjet sectors) being cut and hence in some of these partners refocusing on Canon's competitors.

- Epson, which is gradually exiting the laser market, increased its inkjets sales and was thereby able to retain third place in the total Russian market in terms of volume. About one-tenth of the vendor's shipments were of devices in the matrix printer sector, which is mature in Russia.

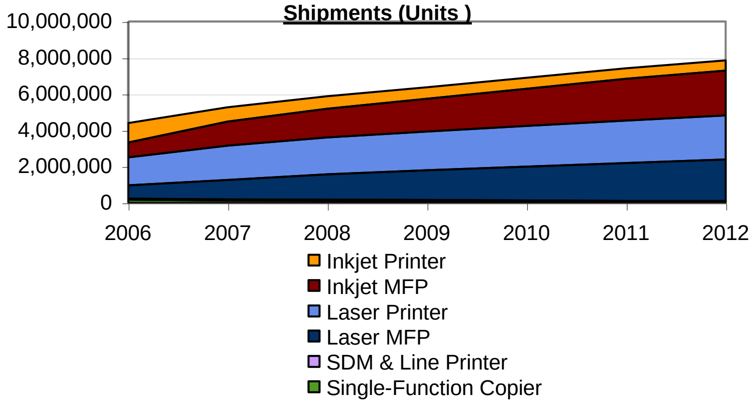
- Last year, Samsung only just failed to overtake Epson in unit terms and remained instead in fourth place both in terms of volume and value. Retaining its strategy of being the price leader on the laser market, Samsung further increased its entry-level laser printer and MFP sales and thus expanded its market share.

- Despite significantly decreasing its shipments last year (mainly of low-end laser printers), Xerox remained in fifth place in unit terms and in second place in value terms in the total market.

Future Outlook: Forecast of the Hardcopy Market by Technology and Product, 2008–2012

FIGURE 4

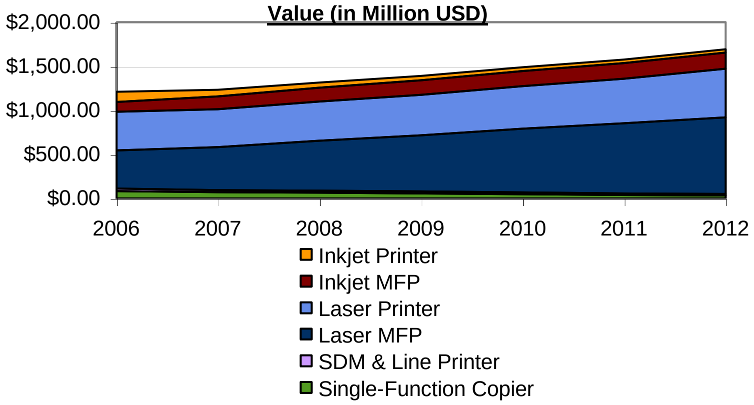
Outlook for Shipments of Hardcopy Peripherals by Technology and Product in Russia, 2006–2012



Source: IDC, 2008

FIGURE 5

Outlook for the Value of Shipments (US$M) of Hardcopy Peripherals by Technology and Product in Russia, 2006–2012



Source: IDC, 2008

Key messages in the figures above:

- In the coming years, IDC expects a further gradual increase in HCP shipments to companies and households, spurred by the boom in the national economy, the rise in disposable income, and the ever-greater affordability of HCP equipment. Market growth will slow down, principally on account of the increasing popularity of mobile imaging devices, which make the storage, exchange, and exhibition of data (including photographs, pictures, and documents) more convenient and user-friendly.

- Although inkjet shipments will continue to grow, the shares of laser printers and MFPs will, as before, expand. Price cuts on entry-level laser models will firmly drive the penetration level of these devices, particularly with respect to small businesses and home offices. The transition from SF to MFP products will continue, primarily thanks to the general narrowing difference between their prices. IDC anticipates MFP shipments will outstrip those of SF devices in 2009.

Inkjet Hardcopy Peripherals

You will find the following in this section:

- Inkjet Market Analysis by Function, Price Band, and Paper Format
- Inkjet Peripherals: Competitive Analysis
- Inkjet Single-Function Printers: Competitive Analysis
- Inkjet Multifunction Peripherals: Competitive Analysis
- Future Outlook: Forecast of the Inkjet Market by Function

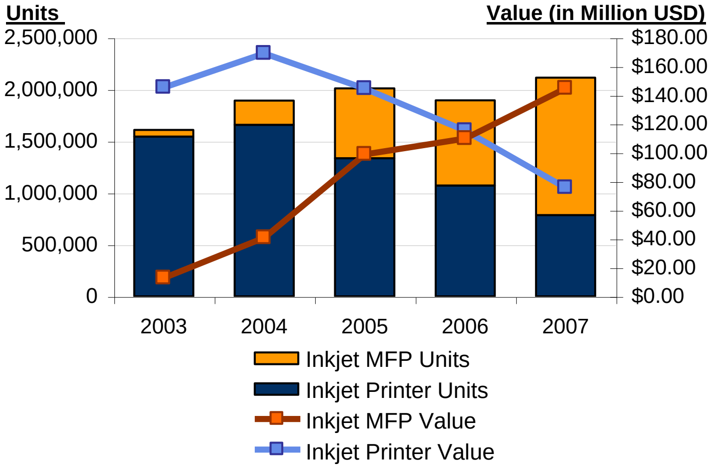
Inkjet Market Analysis by Function, Price Band, and Paper Format

Following decline in 2006, the inkjet market returned last year to a state of growth, experiencing an 11.6% increase in shipments to total 2,113,245 units. Concomitantly, the negative trend in terms of revenue persisted – the market reduced 2.1% to $220.20 million in 2007. The MFP unit share grew appreciably to reach 62.8% of all inkjet sales last year.

The inkjet printer and MFP shipments declines of 2006 were the result of an unprecedented and long period of sub -30ºC temperatures (which made it impossible to deliver inkjet devices and ink cartridges) and of significant changes in customs regulations. In 2007, there was an unparalleled reduction in the ASP of inkjet MFPs: The difference between ASPs for SF printers and MFPs fell to $13. The market immediately reacted to this and exhibited a surge in demand for MFP devices priced <$100. Additionally, the leading vendors in inkjet technology (HP, Canon, and Epson) ran a number of promotional campaigns, mostly involving gifts. These vendors intensified their cooperation with consumer electronics retail networks and thereby assured the availability of their various inkjet products on the latter's shelves. In 2007, as in previous years, the overwhelming majority of inkjet devices sold were A4 format.

FIGURE 6

Shipments of Inkjet Printers and MFPs in Russia, 2003–2007



Source: IDC, 2008

Key messages in the figure above:

- Given that even the lowest-priced inkjet printers and MFPs are capable of printing high-quality photographs, sales growth in the market was registered only in the entry-level segment. Professional equipment shipments (particularly of wide-format equipment – A2, A3 printers) grew on lower pace or declined year on year.

- Due to fierce price competition in the segment, inkjet MFP sales grew far less quickly in revenue terms than in unit terms.

