

OECD study compares financial crises' impact on IT

By Charles King: August 10, 2009

The Organization for Economic Co-operation and Development (OECD) issued a study, "The Impact of the Crisis on ICTs (Information and Communications Technology vendors) and Their Role in the Recovery." The study compares the impact of the current economic crisis with that which followed the dot.com bust. It also addresses how ICT vendors fared during the two crises and how their efforts contributed to eventual recoveries. Among the findings:

*Despite a tough start in 2009, relative year-on-year declines were not a great deal worse for ICT players than in 2001-2002, and some sectors have performed better than in the earlier period. Additionally, the ICT sector is also performing considerably better in this crisis than some other industries, including automobile manufacturing.

*In general, despite a very difficult first quarter, large firms in the ICT sector were stronger at the end of Q1 2009 than following the 2001 dot.com bust.

*There have been clear regional differences in the effects of the crisis. Asian OECD countries were especially hard hit, with slumping production and soaring inventories particularly in Japan.

*In the semiconductor industry, production fell rapidly at the end of 2008 and in the first quarter of 2009. However, the crash has not yet reached the scale of 2001- 2002, except in Asian OECD countries, and there has also been a recent sharp upturn in total month-on-month semiconductor billings.

*The revenues of global ICT hardware firms were more affected early in the economic crisis than ICT services firms, as was the case in 2001-2002.

*ICT R&D is declining but is performing somewhat better than employment and certainly better than production and revenues, as was the case in the last downturn. Where R&D is declining, it is lagging turnover and employment, as investments in R&D and innovation are seen as necessary for future competitiveness and the development of new growth areas.

*Though venture capital (VC) slowed markedly from mid-2008, around one-half continues to flow into the ICT sector, particularly in software, new media and clean/ green technology companies.

*Economic stimulus packages affect the ICT sector directly and indirectly. While their immediate aim is to restore banking health and stimulate demand, most governments also plan long-term investments directly related to ICT sector, including "smart" urban systems, transport systems and electricity distribution.

OECD study finds financial meltdowns hit ICT firms hard but offer chances to bounce back.
Mission Accomplished?

The OECD's decision to compare the current global financial crisis to the dot.com bust seems appropriate enough on its face. Both events have taken a deep toll on ICT (or IT) firms and the individuals and organizations that depend on their solutions. But while the IT industry as a whole was at the epicenter of the dot.com bust, the current economic debacle finds IT playing the role of both victim and savior.

However, not every ICT vendor has suffered or benefitted equally. Those with particularly close ties to banks, financial services and insurance firms, including Sun Microsystems,

served as bellwethers for the current crisis and took a vicious early beating in the process. Technologies which offer proven CAPEX/OPEX benefits, virtualization among them, have performed relatively well, as have vendors that play across a broad range of business technologies and services. With few exceptions (Apple among them), the wide, deep reach of the current crisis has turned most consumer-focused ICT sectors into economic war zones.

We found two issues raised by the OECD report to be particularly interesting: 1) the degree to which R&D spending continues to be considered a driver of future growth and competitiveness, and 2) current and future ICT opportunities related to economic stimulus programs and packages. Though we firmly believe that R&D provides the lifeblood of technology, we would hasten to add that there is an often stark difference between the results obtained by "applied" and "exploratory" research: The former aims to develop new or improve existing commercial products while the latter focuses on broader goals and innovations.

Given the depth of the current crisis, it would hardly be surprising if vendors focused much of their research efforts and budgets on commercial projects aimed driving at short-term gains. But pursuing such efforts to the exclusion of exploratory research could potentially injure vendors' ability to develop and deliver innovative technologies with greater long-term value. Players in the VC market clearly focus on this issue and their continued (if somewhat lower) funding suggests a bright future for start-ups in software, new media and green/clean technologies.

Economic stimulus funding is high on most vendors' radar and should provide value for vendors focused on the public sector and public works. What will be especially interesting over the coming months and years is whether IT vendors can deliver on the vision and promise of developing "smart," technology-enabled infrastructures which enhance the quality and performance of areas, such as power utilities, communications, transportation and health care. If they fail, these efforts will likely go down as particularly expensive government boondoggles. If they succeed, they could open entirely new vistas and opportunities for IT.

Getting through tough times requires an intelligent strategizing, careful spending and focusing on long term innovation. But the OECD study suggests that many IT vendors took the difficult lessons of the dot.com bust to heart and are well positioned to ride out the current economic crisis. More importantly, the continuing adoption of technology solutions across an ever widening range of industries and global markets means that this time around IT vendors are not just fighting for their own survival but are also providing their customers the means to survive and even thrive.

Source: eChannelLine