

## Chinadotcom Acquisitions Hinge on China's Outsourcing Potential

Kristian Steenstrup, Dion Wiggins, Yvonne Genovese

Through acquisitions, Chinadotcom seeks to evolve from a reseller into a developer of enterprise resource planning (ERP) software. The company plans to exploit China's potential to become a center for software development.

## NEWS ANALYSIS

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### Event

On 4 September 2003, Chinadotcom announced that its subsidiary CDC Software Holdings will acquire Ross Systems, which provides process-manufacturing ERP software for \$69 million. Chinadotcom expects to close the acquisition in 1Q04 if the U.S. Securities and Exchange Commission approves.

On 9 September 2003, Chinadotcom announced that CDC will acquire a majority interest in supply chain management vendor Industri-Matematik International.

### Analysis

Chinadotcom wants to capture a larger market share in mainland China among midtier, locally owned, process-manufacturing companies. The vendor aims to increase Ross' China and Asia/Pacific revenue from 10 percent to 30 percent through 2005. Chinadotcom seeks to become a global business application provider. Its goals correspond with Gartner's forecast for the ERP market in China. In 2002, in the face of a global decline in the ERP market, China's ERP market grew by 20 percent. We forecast that it will grow faster than any other in the Asia/Pacific region and will join Australia and South Korea as one of the three largest markets by 2007.

The Ross acquisition may have the indirect long-term benefit of circumventing the buying policy recently announced by the Chinese government, which favors Chinese-made software. However, by moving some of its software product development to China, Ross primarily seeks to cut development costs. The company believes that China has the potential to become a major outsourcing center for development.

If the new ownership does not limit development or customer support, Ross can capture a large share of targeted batch-process manufacturers in Chinese markets. Ross' acquisition by a non-western, non-traditional ERP company will differentiate it from other companies that have targeted China. We believe that a software product that combines a North American lineage with strong local ownership and stewardship will benefit customers in China. The package will have more functional maturity than local packages in the batch-process industry and will be better adapted to local conditions than other foreign packages. Chinadotcom will realize its growth potential if it can exploit development in China, and its strength as an owner, across the globe.

**Recommendations:** Since the deal gives Ross more viability in a tough market, it will benefit customers. But customers should monitor the company's development plans because its development resources may be skewed toward China in the short term. The company's global growth may be constrained by Chinadotcom's immediate lack of Ross-trained salespeople and implementation staff.

**Analytical Sources:** Kristian Steenstrup, Dion Wiggins and Yvonne Genovese, Gartner Research

### Recommended Reading and Related Research

- "China Attempts to Block Foreign Software in Government " — China's plans to require all of its government ministries to run China-made software by year-end 2003 may inadvertently handicap the government. **By Dion Wiggins, Andrea Di Maio and Kristian Steenstrup**

- "ERP Requires More Than Just Partnerships in China" — Partnerships between foreign enterprises and Chinese vendors are crucial for success in China's ERP market; however, knowledge and communication are even more critical. **By Louisa Liu**

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