IT Hardware and Software

Overview

Despite the turbulence that marked the Brazilian 2011 software market, the sector is expected to show strong growth in software sales in 2012.

Given the forecast for steady growth of the Brazilian economy over the next several years, Brazilian IT spending should increase at a healthy pace. The most significant trend in this sector is the increase of data communication in cellular telecommunications, which is expected to continue growing for the next few years.

Demand for IT software products and services is forecast to grow 10% during 2012, making Brazil one of the best-performing global IT markets. A low computer penetration rate and a growing middle class should keep the software market on an upward path. A personal computer penetration rate of less than 25% indicates plenty of room for software market growth.

Infrastructure investments following the award of the 2016 Olympic Games to Rio de Janeiro are expected to drive new spending on software. As a result, Brazil's software services market, which already has the fastest rate of growth in the Latin American region, is projected to exceed 10% a year until 2015.

According to Gartner Inc., Brazil's accelerating economy and technology adoption make it an outstanding market for technology and service providers seeking opportunities for global expansion. The domestic market for IT investments is forecasted to be at US$16.15 billion in 2012, representing an increase of 13% from 2011

The industrial and financial sectors represent almost 50% of the user market, followed by services, trade, government, agriculture and others. This market is operated by nearly 8,500 companies, dedicated to the development, production and distribution of software and services. Of those companies that work in the development and production of software, 94% can be classified as micro and small companies.

USD millions	2010	2011	2012 (estimated)*
Total Market Size	$13.26	$14.7	$16.15
Total Local Production	$8.73	$9.9	$10.8
Total Exports	$1.74	$1.8	$1.85
Total Imports	$6.27	$6.6	$7.2
Imports from the U.S.	$4.0	$4.2	$4.5

- Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

- *Statistical data are unofficial estimates from trade sources. 2011/2012 figures are estimates.*

Sub-Sector Best Prospects

According to IDC Brazil, businesses with hardware needs should represent the largest share of spending, accounting for 54.5% of total revenue in the sector. Software will contribute 13.5%

and the remaining 33% will be spent on services, an area that is growing in companies which are opting to outsourcing.

The demand for telecommunications software is expected to grow as a result of the convergence of data, voice, and conventional and mobile telecommunication. The most significant trend in this sector is the increase of data communication in cellular telecommunications, which is expected to continue growing for the next few years.

There is a new trend for acquisitions in Brazil to merge IT, infrastructure, network and telecommunications. The unanimous opinion shared by analysts is that the trend shows a movement towards consolidation and convergence of technologies. As Brazilian IT companies mature, they are attracting the interest of competitors and capital investment funds.

Within the software segment, 37% of the market represents purchases of enterprise applications such as CRM, ERP or SCM solutions while systems infrastructure solutions, such as platforms for administrating and running software assets, contribute 36%.

E-commerce is gradually becoming part of the daily routine of Brazilians as companies overcome the initial lack of trust that usually accompanies new business concepts. The sector's growth perspectives for this year are 40%, with a sales volume of US$7 billion. With an eye on such forecasts, E-commerce companies in Brazil have made investments to finance their expansion while adopting measures to lessen capital costs.

The "Business to Business" (B2B) segment is still small in Brazil and is only concentrated among a few large companies. Brazilian companies know they must rush to catch up with the rest of the world. Although a large number of Brazilian and multinational companies have made significant investments to develop e-business platforms, results indicate more time is needed for this segment to take hold in Brazil.

Market Trends – Software

For the first time, notebook sales are greater than those of desktops in the Brazilian market. The demand will motivate the launch of more specific software applications. The new generation of smart phones with high processing power will increasingly become the computer of the future.

In Brazil there are an increasing number of companies seeking information and knowledge on cloud computing. Demand for international collaboration, security, CRM, storage, and productivity will accelerate in 2012. Virtualization and consolidation of infrastructure investment will continue as a priority in business. New solutions will lead to a profound change in the operation and delivery of IT solution as suppliers will release specific and targeted offers for the Cloud environment in 2012, with the rapid proliferation of offering of Platforms as a Service (PaaS) and Infrastructure as a Service (IaaS).

The following represent **key Brazilian local suppliers:**

Company	Main areas of operation
Akwan	Search engines; systems for organizing information
Apyon	Productivity solutions for application development process
CMP	Business intelligence data warehouse
Cyclades	Out-of-band management platforms

Cyrnel	Solutions provider for financial institutions
Disoft	Management of credit operations via the internet
Easycae	Automation and optimization of the engineering design process
Epsoft	Information processing
EverSystems	Development of financial transactions solutions
Impactools	IT solutions for the insurance industry
Itautec	Finance systems
Light Infocon	Web solutions related to document management
Microsiga	Corporate management systems (ERP/CRM)

Market Entry

A low level of customer service still exists on the part of vendors. Delivery delays are common, often without a formal explanation to the client, or without the retailers assuming responsibility. Given this environment, companies with high quality customer service standards will certainly have an advantage over many of their local competitors.

The majority of computer distributors in Brazil are Brazilian companies, but foreign distributors have been arriving in Brazil since 1995 and are joining Brazilian dealers/re-sellers to become more competitive.

A strong financial partner is important for computer hardware/software distributors in Brazil; therefore, a number of Brazilian distributors are collaborating with strong banking partners to solidify their financial position. The increased financial resources of these distributors allow them to offer better financing and improved payment terms to their re-sellers. In Brazil, due to the high interest rates on loans, this ability is a distinct competitive advantage.

As the number of re-sellers, value-added re-sellers (VARs), and agents grows and their capabilities improve, more distributors will adhere to the two-tier distribution model. Below is a description of the one and two-tier distribution models that operate in Brazil.

One-Tier Distribution Model

Under this model, the supplier delivers the product to the end-user via agents, VARs, and systems integrators. The supplier does not rely on a distributor to supply re-sellers, who are in direct contact with the end-users. In special cases, the supplier may sell directly to the end-user.

Two-Tier Distribution Model

The two-tier distribution model is the same as the one-tier model regarding the role of the VARs, agents, and systems integrators; but with an additional intermediary. In the two-tier model, the supplier provides the product to the distributor, who then passes the product to an intermediary distribution channel, such as a VAR, agent or systems integrator that has access to the end-users.

Opportunities

The growing Brazilian market will increase the need for system upgrades to absorb a greater volume of business in general. The strong currency rate will favor imports, and we will see positive impacts in the environment of infrastructure with a focus on IT consolidation and optimization.

Server virtualization, which is already a reality in the medium-sized and large enterprises, will continue growing in 2012. Research shows that 89% of medium and large companies expect to invest in server virtualization over the next years.

Storage and Memory: In order to absorb a volume of data that grows 30% per year, the proliferation of virtual machines, and the increased use of new applications such as CRM and business intelligence, Brazilian companies will invest heavily in memory and storage solutions.

Network: The increase in data traffic arising from the expansion of virtualization and the use of mobile devices in corporate networks will positively affect the market for switches and wireless LAN networks in 2012. The security of mobile devices will also become a priority. ICT Vendors will have to seize the opportunities created by Brazil's hosting of the 2014 World Cup and 2016 Summer Olympic Games, especially for command and control center and intelligent transportation solutions.

Web Resources

- Brazilian Association of Software: http://assespro.org.br/
- Brazilian Association of Software Companies: http://www.abes.org.br/