

Brazil Information Technology Report Q3 2011

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Abstracts

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Brazilian IT spending is expected to record double-digit growth in 2011, despite a drop-off in government procurements in Q111. Government and retail demand drove most of the growth in 2010, as Brazil's economy powered back, but strong price competition meant that PC revenues growth lagged shipments. Demand for IT products and services is projected to increase at a compound annual growth rate (CAGR) of 13% over the forecast period, making Brazil one of the best-performing global IT markets. A National Broadband Plan, and modernisation ahead of Brazil's hosting of the 2014 FIFA World Cup and 2016 Summer Olympics, should drive demand for IT products and services.

In 2011, consumer PC sales are expected to continue to remain a major IT market driver, thanks to economic growth and low unemployment fuelling consumer confidence. Brazil is thought to be one of the most promising regional markets for cloud computing, with growing demand in sectors such as retail, finance and healthcare.

Industry Developments

In December 2010, Brazilian states and municipalities began to receive funds awarded under President da Silva's 'computer for every student' programme, Prouca. Computers are made available to participating regions at subsidised prices of between BRL344 and BRL377, including delivery and installation. Vendors reported an upturn in government IT spending in 2010, boosted by computer procurements by the ministry of education and schools.

The Brazilian electrical and electronics industry association Abinee has called for tax breaks to bring down the price of domestically produced tablets. Abinee has forecast

that the price of tablets could fall to under BRL1,000 (US\$598) in 2011. The MEC had also previously suggested the inclusion of tablets in digital inclusion programmes.

In October 2010, the government announced a new investment strategy to drive modernisation, with IT set to benefit. The government has earmarked US\$344bn for the four-year plan to modernise its infrastructure, and IT vendors are hoping to secure additional business as a result of the increased government spending. The plan is expected to drive substantial investment in IT.

Competitive Landscape

The Brazilian IT services market is competitive with multinationals such as IBM, HP, Accenture and Indian vendors Infosys and Tata Consultancy Services (TCS) competing with local players such as Politec, CPM Braxis and Stefanini. In September 2010, European IT giant Capgemini announced that it would buy a majority stake in CPM Braxis, Brazil's largest IT services firm. US consulting firm Accenture said that it would set up two new Brazilian centres focused on providing business processes and IT services to the energy and agribusiness sectors respectively.

In the first quarter of 2011, Brazil's biggest PC-maker Positivo Informatica lost its domestic PC market lead to US rival HP having been the sales leader in Brazil for more than six years. HP had reported strong growth in the Brazil market in 2010, cutting into Positivo's share of shipments and, by the third quarter, surpassing it in revenues from PC sales

Vendors in the Brazil market are increasingly focused on cloud computing opportunities. Microsoft has reported high potential interest in the cloud-based version of its Dynamics CRM 2011 software. The company expects cloud computing to represent 30% of all CRM installations in Brazil by 2014. In May 2011 the company announced a partnership with IT services provider Logica to offer cloud computing services in Brazil.

Computer Sales

Brazilian sales of computer hardware are projected to grow around 15% in US dollar value terms in 2011, although price competition continue to place pressure on margins. In the first quarter of 2011, vendors reported double-digit growth in shipments, with the consumer segment counting for around two-thirds of sales, and businesses around one-quarter.

There remains considerable growth potential as the current level of computerisation is low, with PC penetration estimated at around 30 % and expected to increase to above 40% by 2015. Greater affordability combined with more credit options, lower interest rates and tax concessions have driven sales. There is a sizeable grey market, although evidence suggests that this has been falling in recent quarters to less than 40% of unit sales.

Software

Brazil's software market is projected to be worth US\$4.7bn in 2011, with more robust growth compared with 2010. Software CAGR for 2011-2015 is projected at around 16%, reaching a value of US\$8.5bn by 2015.

The software sector's current growth is being driven partly by stronger demand for ERP solutions from SMEs, with an estimated addressable market of 400,000 small businesses. The majority of demand is currently, in functional terms, for ERP and supply chain management. Brazil is thought to be one of the most promising regional markets for the utility software model, with demand in the retail, finance and healthcare sectors.

IT Services

Brazil's IT services market is expected to continue to grow strongly in 2011, with total spending of around US\$11.1bn as the economy continues to grow rapidly. Brazil's economic growth will drive continued increased spending on IT services and the award of the 2016 Olympic Games to Rio de Janeiro and Brazil's hosting of the 2014 FIFA World Cup will drive substantial investment. Another area of opportunity will be organisations looking for help in utilising efficiencies from cloud computing. IBM has estimated that 54% of its country revenues come from IT services, slightly more than its global average. Brazil has an ambitious plan to become one of the world's top IT outsourcing destinations, but will have to overcome a number of challenges to achieve this.

E-Readiness

The World Economic Forum's latest IT report ranked Brazil 53rd in the world in the area of 'degree of preparation to participate in and benefit from information and communications technology', placing Brazil fourth in the region behind Chile, Barbados

and Mexico. The government recently said that 37mn elementary school children in Brazil should have access to broadband by 2010

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