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Current trends of the IT & Telecom distribution in SPAIN

2008
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Study

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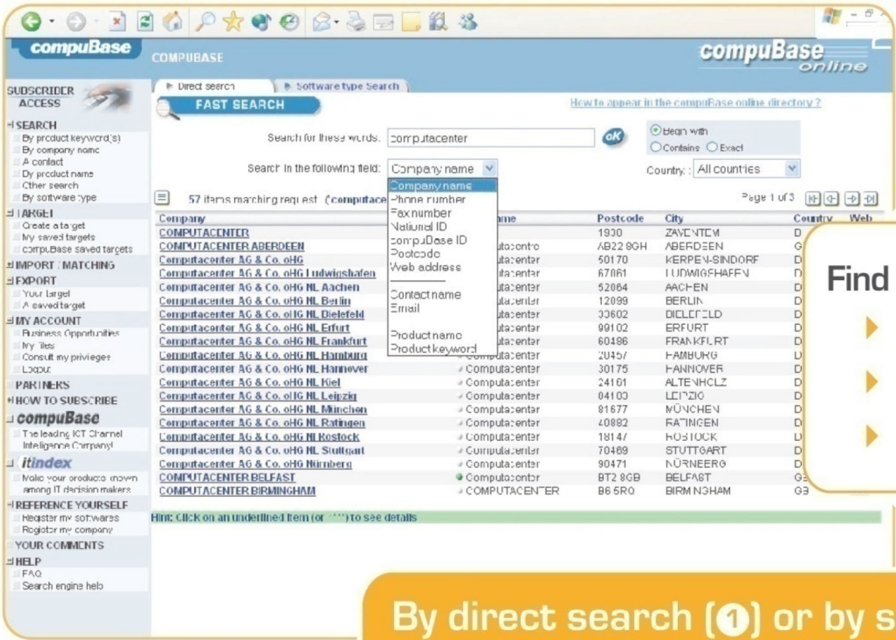

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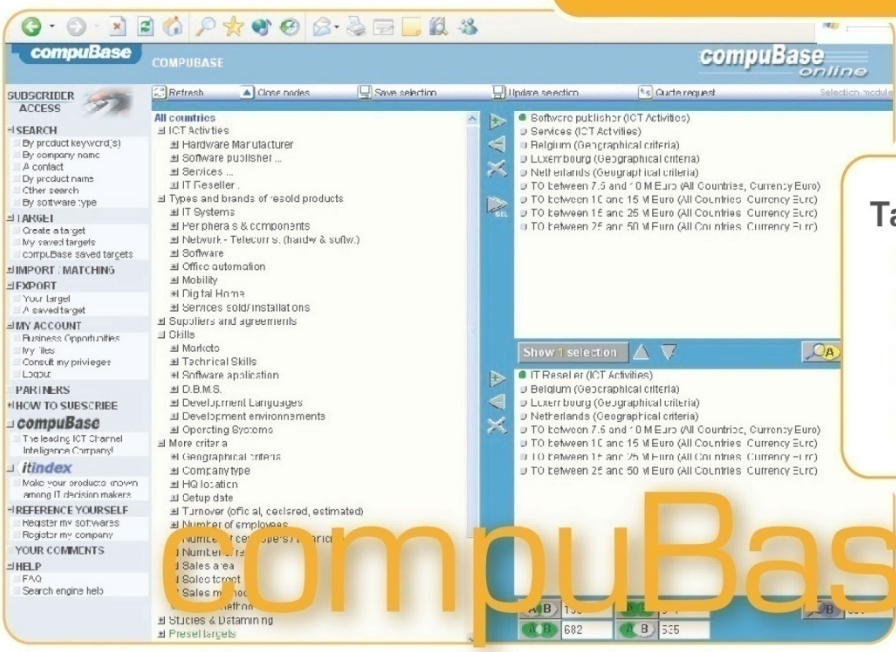

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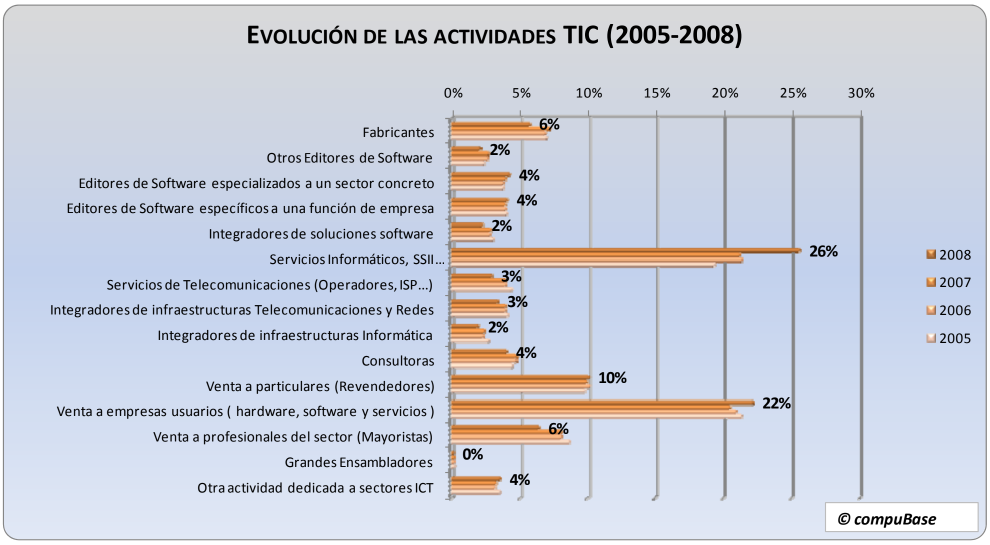
Evolution of the ICT activities

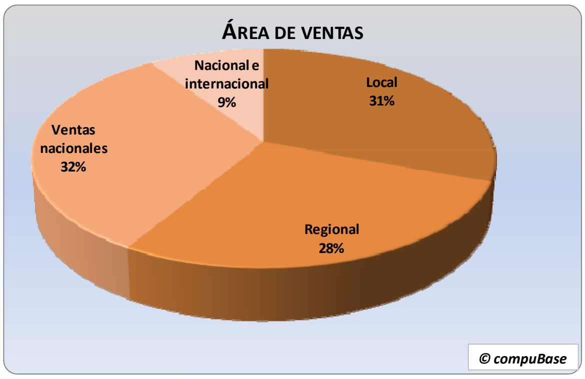
The Spanish distribution network as an integrating part of the Western European model possesses a well-known particularity of its own: the market's granularity. Though less dense in volume than the Italian model, this specificity finds its reflection in the dynamic of the distribution channel strategies.
These past few years have been witness of some radical changes in the layout of the IT & Telecom business. The common split of the IT activities is rather similar to any other European model: 40% of the actors are service companies, 39% of them are dedicated to reselling and only 11% of the total are software publishers; the manufacturers are even less numerous as they represent 6% of the market players.
If we take a good look at the following chart showing the split of the actors by activity, its dynamic indicates an obvious tendency of orientation towards services; this activity has recorded a 7% increase vs. 2005. At the same time, the number of B2B resellers has also evolved in a positive way, while the number of wholesalers has diminished during the same period.



Sales area

The split of actors by region indicates a strong concentration tendency of the ICT activities, especially in the two most important growth poles: the capital region and the Catalan region; they represent altogether 49% of the distribution actors. As for the other IT & Telecom players, they are scattered in the remaining Spanish regions and follow the implicit law of economic development: the economic growth in one region determines a consequential presence of the distribution actors. Another 10% of the actors are therefore present in the Andalusia region, while regions like Melilla or Ceuta have some important lacks concerning the presence of IT distribution actors.

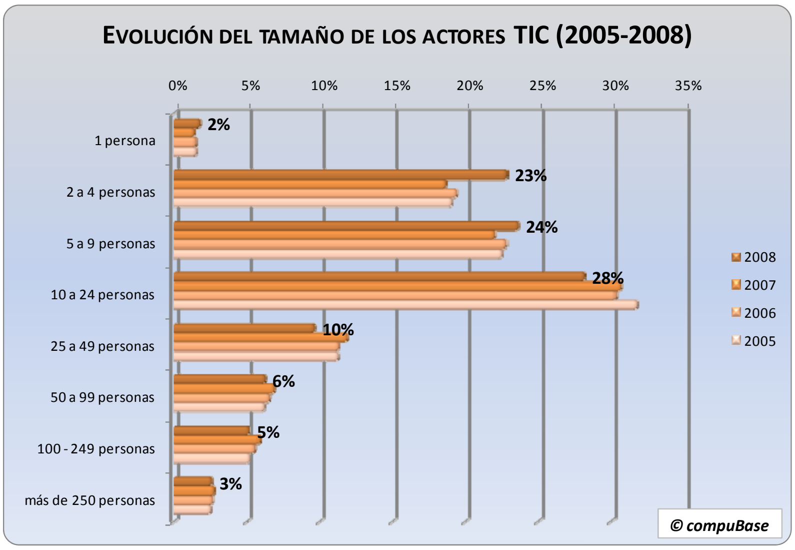
At the same time one can notice that the regions tend to win more and more in terms of weight when compared to the market evolution in the capital region. Various ICT activities are oriented outside the two economical poles, especially when it comes to resale. Only 29% of the total number of actors operating in Madrid and its surroundings do resale as main business activity. They are more oriented towards manufacturing and there is logic in all this, as most of the headquarters are situated around the capital region. In all the other regions, the actors are more oriented towards reselling and services as main business activities.



Following the same business model, the actors orient their sales towards local and regional markets. 59% of the actors address these two markets. Only 9% of the actors are oriented towards international markets. They are spread in a homogeneous manner if we take into account their main activity; the service companies are the most numerous. 32% of the actors addressing the market are represented by this type of companies; their presence remains significant especially in Iberia and in the Latin American countries. Only 10% of them are wholesalers.

Evolution of the size of the ICT actors

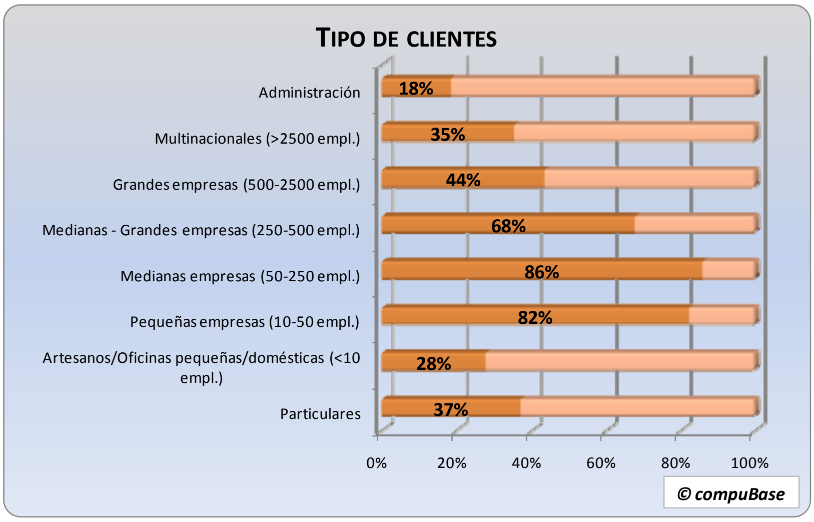
When referring to the market's granularity, one can notice that the size of the IT & Telecom Spanish players is less representative and that the ICT distribution is concentrated around the SMBs. The 2-4 employees companies are 4% more numerous than four years ago. Overall, the number of SMBs has diminished of 4%, mainly due to the decrease in number of the 10-24 employees companies; they represent after all the thickest part of the SMBs in the channel (and totalize now 39% of the SMBs in the channel).



One also can detect a slight reduction of the large sized actors, while the small size companies become more present on the market. A small sized firm is usually associated to a state of fragility and to certain rigidity when it comes to unexpected changes in the ICT environment. This impacts directly their own business and favours the concentration, in order to better surmount the hard times and the market's toughest requirements. As a result, the current period is marked by a concentration of the number of actors in the Spanish distribution. The competition is rude, the network becomes more and more dense and under such circumstances only the strong survive. A lot of mergers and acquisitions take place during this period (and the process is far away from being achieved), characterized by a visible slow-down of the economic activity. This will certainly impact (even indirectly) the ICT distribution, especially due to a decrease of the purchase power.

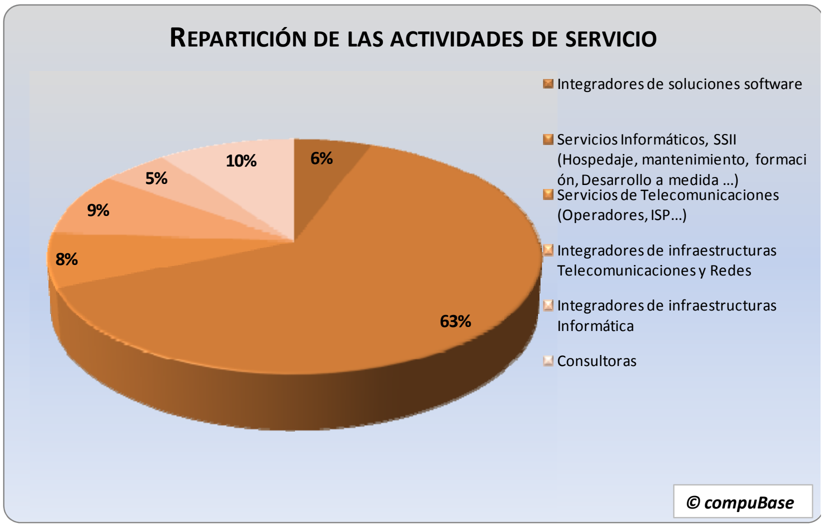
Type of clients

The domination in number of the SMB companies in the channel is not something new. The market's granularity also impacts the type of targeted clients. More than 80% of the actors have their offers oriented towards SMBs.



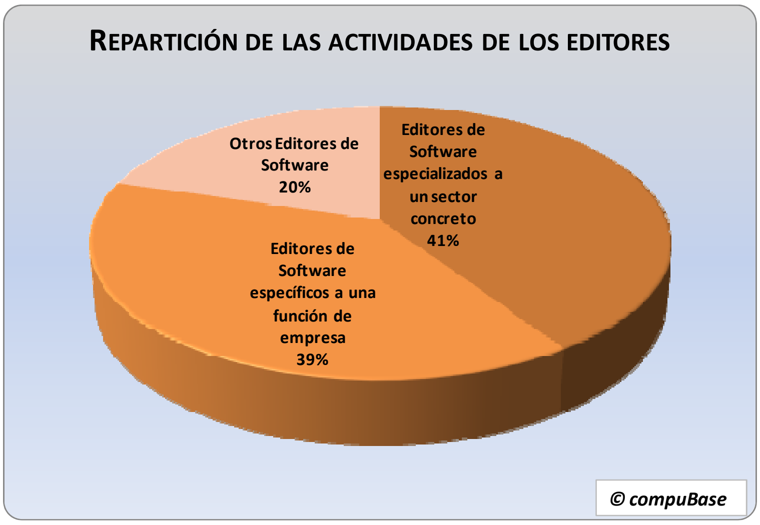
When analyzing in detail the ICT activities, one can state that the service companies dominate in terms of volume; the activities of one company become more and more complex, requiring further expansion of the current business models.

Allocation of activities



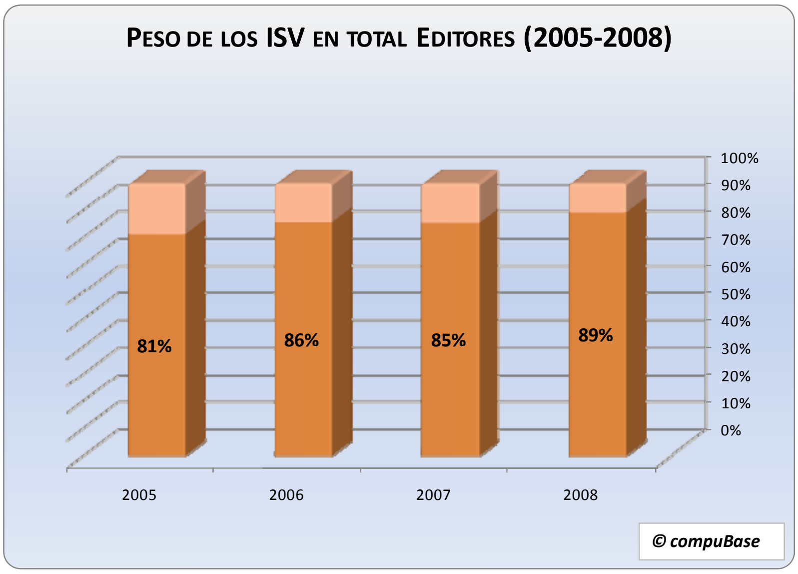
The companies involved in the delivery of financial services have recently recorded a growth in number, more than 10% in the past four years. The financial sector remains one of the most dynamic and the demand in the sector grows consequently.

Opposite to services, the number of software publishers is reducing when compared to the actual size of the distribution channel. This is another consequence of the concentration phenomenon taking place on the Spanish market. Nevertheless, it doesn't impact directly the growth in the sector; on the contrary, the statistics underline the fact that their activities are more specialized and they are in a perpetual seeking for the critical size.



ISVs

We distinguish among the software publishers the most abundant population composed of ISVs. They represent in average 84% of the total number of software publishers. Outside the capital region and the Catalan region, they are also present in Andalusia and in Valence (with 9% and 10% respectively of the ISVs presents in these two mentioned regions). They are composed of publishers specialized in a vertical sector and publishers specialized in management and production software.
Nevertheless, the core of the ISV activity is related to developing solutions dedicated to vertical markets. The issues linked to the security and integrity of data transmission find themselves in strong correlation with the progress achieved in the sector and with the use of the most sophisticated tools.



A more consistent presence in volume of the ISV actors corresponds to a necessity of specialization by sector of activity in order to satisfy all the specific demands of each SMB.
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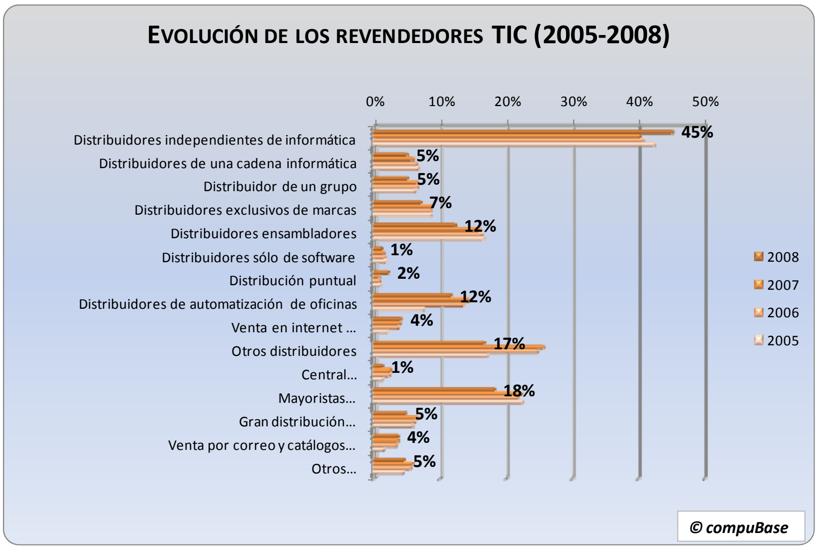
Evolution of ICT resellers

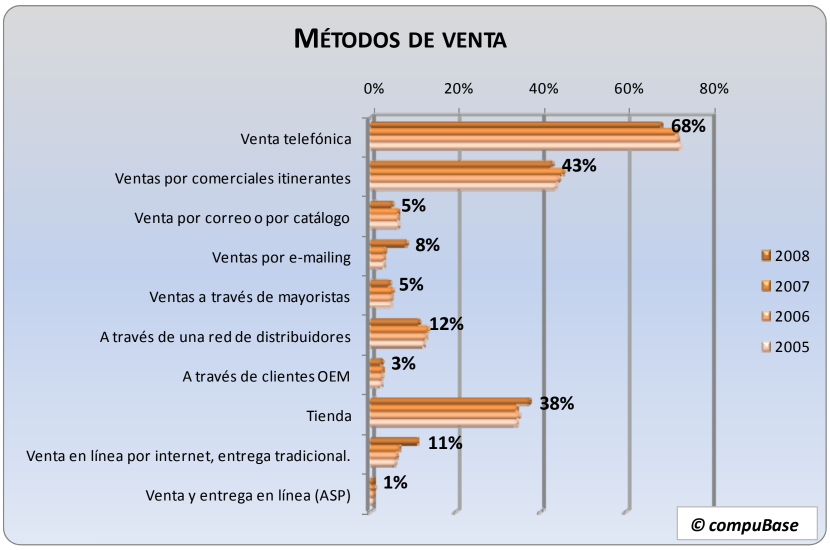
The sector of ICT resale has also witnessed some change in these past few years. The exclusive distributors have lessened in volume; the number of wholesalers has followed the same trend.



Sales methods

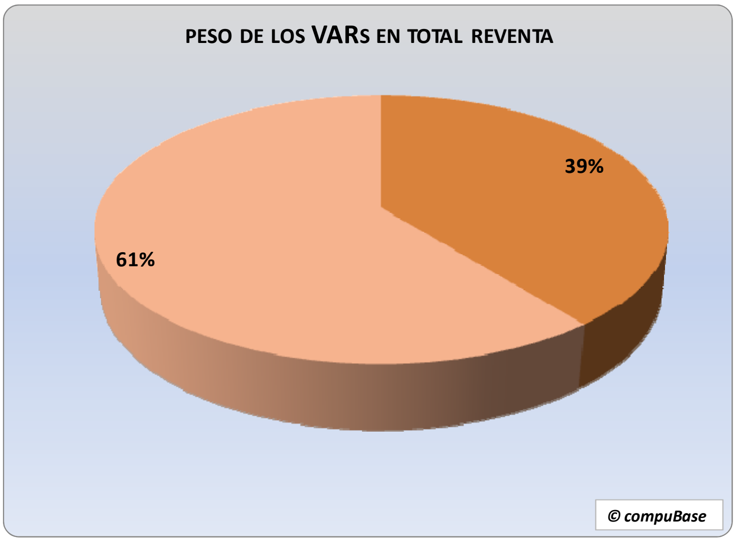
The sales methods evolve together with the topography of the distribution players. The telesales and the field sales try to make some room to the brand new methods. The sales via emails have increased by 5%; the same trend goes for the online sales. The specialized shops are also more used as a sales method than it was the case four years ago.

The complexity of the market and of its products supposes nowadays more profound market knowledge and a more important presence of the VARs. Investing in the capacities of the distribution actors is very important, as the concentration will rely on this factor as well. An investment supposes a cost and additionally some recruitment challenges in an environment where the country's population tends to grow older pretty fast.



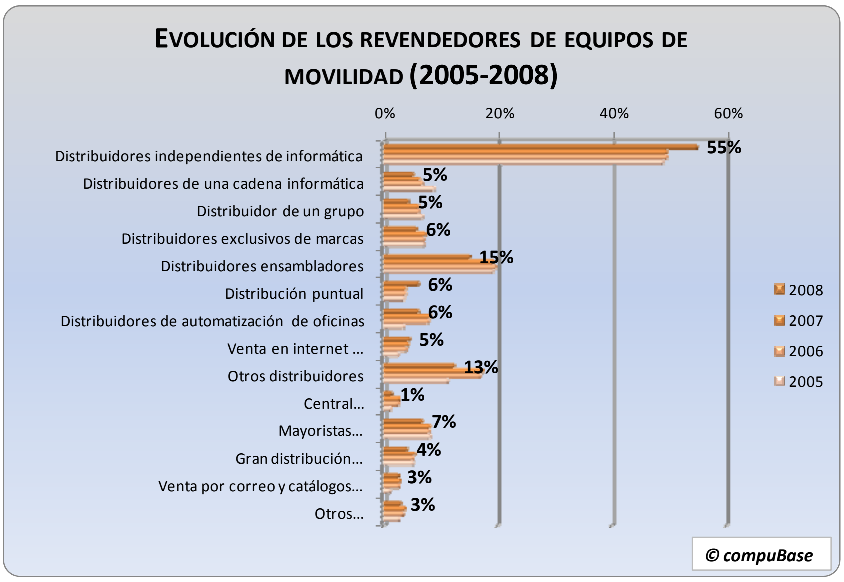
VARs

The VARs are thus more and more present on the market. The distribution channel has to bow to the market's specificities. Their weight in the total resale is represented in the chart below.



Evolution of resellers of mobility equipment

As for the hardware market, the price diminishing contributes directly to widening the distribution channel and consequently the consumption grows significantly in terms of volume. This is a clear sign that the market has reached its maturity phase. The IT & Telecom distribution channel is also affected by these sudden price contractions; the price cutback impacts directly on their sales margin. As a consequence, the distributors specialized in hardware products see themselves obliged to adapt their strategy to the current changing and to orient themselves more on volume and less on a price strategy, as it was the case just two-three years ago. The hardware market is presently pulled by the notebook sales, mobility products, as well as by servers.



Conclusion

If we take a close look at the Spanish market as a whole, we can assume at first sight that it follows the general trends on the market. The maturity stage of the market has a direct consequence on the prices and on the complexity of the activity itself. At the same time, the granularity of the market's players favours the domination of the SMBs in the ICT distribution channel, which continue to represent the heart of the ICT business. The geographical map of the distribution actors is very dynamic, as a concentration phenomenon currently takes place on the Spanish ICT market.

An increase in consumption also leads to concentration of the actors especially when it comes to the mass products. In parallel, the specialization in the niche market determines the widening of the distribution Channel, more actors on the market and a new cycle starts on...

CHANNEL OPTIMISATION

IMPROVE YOUR ROI ON NEW PARTNERS

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- the strengths and weaknesses of your channel
- the potential of revenue per product and per reseller
- partners according to resemblances

New

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- Compare your position with other market players.
- Benchmark your channel and competition.
- Understand your distribution network's strengths and weaknesses.

Channel Benchmarking is an operational market study and analysis solution that will allow you to reduce marketing costs by equipping you with greater knowledge of your partners (micromarketing).

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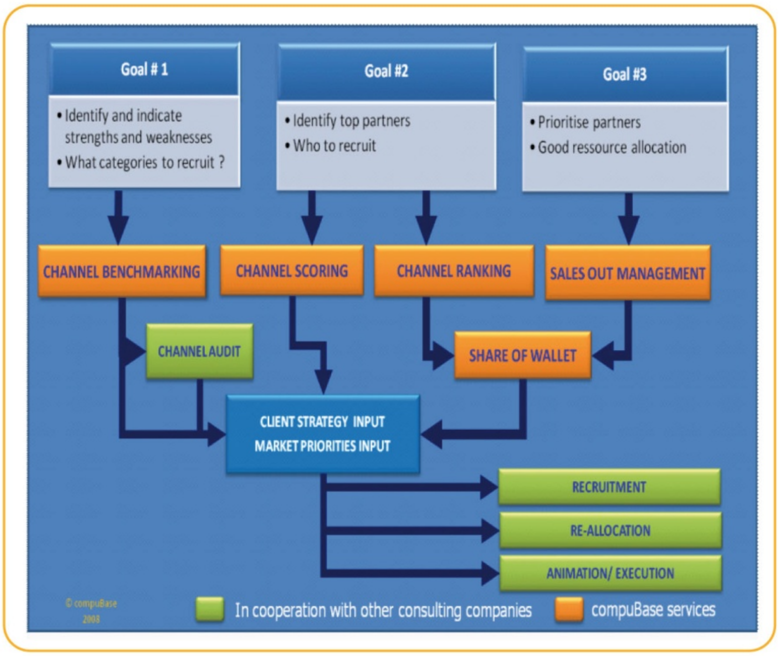
- Identify your top partners for each product category.
- Tune your marketing and strategy according to the position of resellers vs. vendor's sales and business opportunities.

Channel Ranking provides a list of companies ranked by Business Opportunities.



Channel Scoring and Mirroring

- Take your good partners and find in our database those who match their qualities.
- Merge the qualitative and quantitative approaches to manage each reseller according to its potential.
- Set up scores according to the recruitment priorities.

Channel Scoring optimises sales team resources. It is the basic of a fully new partner approach.

Channel Mirroring helps finding partners according to resemblances. It is a qualitative approach.

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