Argentina: IT Hardware 2006 - Market Overview

Silvia Yaber
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Summary

Argentina's IT market – including hardware, software and services - reached US$ 2.5 billion in revenues, showing a 29 percent increase in 2005 vis-à-vis 2004. The market is expected to increase 25% in 2006 and 21% for 2007. The hardware segment accounted for the majority of the growth. Hardware sales increased 24% in 2004 and 38% in 2005. According to Trends Consulting, the hardware sub-sector will grow a minimum of 25% in 2006, led by PCs and notebooks, without considering the thrust that a new potential financing program might cause in the sales of PCs, as it was the case of Mi PC in 2005. The sale of desktop computers in 2005 increased 42 percent from 2004, bringing the market to 6 million units installed. The number of PC units sold in 2005 reached 1.2 million, surpassing the record figure of 1 million PCs sold in the year 2000. The sale of notebooks grew 80% in 2005. Multifunction equipment and printers sales also increased approximately 40% in 2005 while other peripherals increased 35% and consumables 25%. State-of-the-art small computers and communication devices, such as smart phones and the latest PDAs, followed the same two-digit growth trend. A direct relationship exists between the purchases of such items and the exponential increases in demand for broadband/Internet access.

Market Overview

Since 2004, investment in technology has been soaring after years of low investment. Argentina's economic recovery since the crisis of 2002 has been striking with 9 percent GDP growth in 2003, 2004 and 2005. Growth is projected to be 7% in 2006 and 5% in 2007. The economy is also experiencing consumption growth based on rising real income levels and industrial output in the last two years. Argentina has a tech savvy population, which significantly contributes to the constant increase in the demand for IT hardware products and new, state-of-the-art technologies.

In terms of revenues, the hardware segment grew 15% in 2005 and is expected to continue growing at the same rate in 2006 and 2007. In terms of units, the sale of PCs grew approximately 41% in 2005 and is expected to grow 44% in 2006. The sale of notebooks is expected to almost double in 2006, outselling desktop computers. The driving force behind the increased demand for notebooks is mobility and connectivity. Trends Consulting forecasts a 70% increase in the sale of notebooks in 2007. Sales of servers is also growing but at a lower rate given the changes in the market. Servers are consolidating, giving way to a gradual phase-out of mainframes. Nevertheless, this process is expected to take some time to materialize. Telecommunications companies and banks, among others, have already announced planned investments in IT for the upgrade of servers (units of over $ 200,000) and mainframes for 2006 and 2007.

Four main factors will keep demand for IT hardware high in 2006/2007:

- New investments in the country in a number of industries (e.g. tourism, construction, retail, financial services, etc.)
- the majority of the systems installed need upgrading (5 years old)
- the growth of internet access
- the increasing complexity and convergence of technologies

Two factors boosted demand in 2005, consumer financing options and the continued growth of SMEs. The "Mi PC" Program was a joint private-public initiative, led by Intel and Microsoft, to offer low-cost PCs through the major retail chains, targeting the mid and low income segments of the population. The financing options and the extensive marketing/advertising of the program raised the sales of PCs nationwide, even benefiting those PC models and brands not in the program. On the other hand, SMEs (50-200 employees) invested heavily in computer hardware, communications and internet access during 2005, also supported by a Government financing plan "Pymes en la Red" (SMEs on the Net). According to a recent study by Prince and Cook, it is expected that this segment will continue investing in technology in 2006 and 2007. Over 90% percent of the companies in this segment have broadband access. The surge of new local brands of IT products at affordable prices was also a factor that facilitated the increase in sales of IT equipment in the country in 2005.

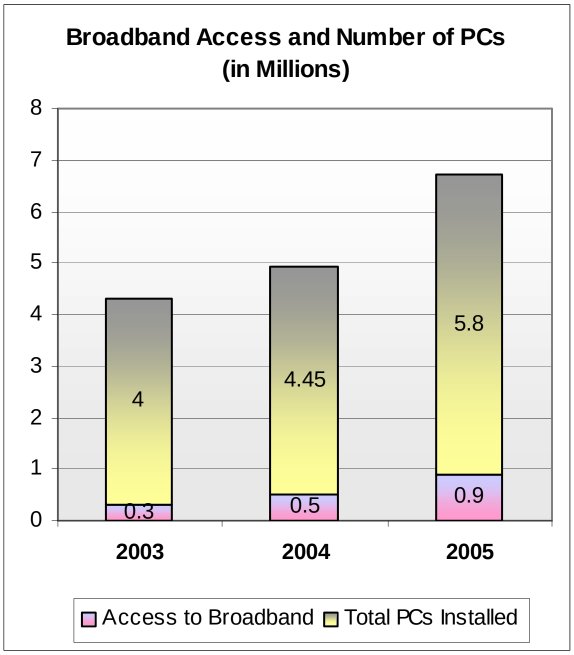
Argentina has the third largest population of internet users in Latin America, with over 10 million, and it is growing at a 40% annual rate. Broadband access doubled in 2005 and is expected to continue at the same rate in 2006 and 2007. This factor, coupled with the expansion and upgrading of technology from the mid to large corporations and government, are the main drivers of a forecasted sustained demand for IT hardware through 2008.

Market Trends

One of the most visible trends in the market since the devaluation in 2002 is the increased assembly of computers in Argentina. The devaluation made imported products three times more expensive for Argentine buyers. This slowed down the investment in technology in Argentina in the early years of this decade. Over the last three years, the largest IT distributors/resellers expanded their sales business to integration by assembling PCs locally using imported components. They target the residential/SOHO/SMEs clones/PC segment, where the cost of lower labor costs has a major impact on the final price. In the corporate segment, the benefit from local assembly does not outweigh the guarantee from an original vendor. Clones account for 80% of the market and international brands have the remaining 20%. Hewlett Packard is the market leader in the import segment, followed by IBM/Lenovo.

In servers, Hewlett Packard is also the market leader followed by IBM. These two brands account for 65% of the market. Sun and Dell follow. The Compaq-HP merger freed up some market share, which was partly taken over by Intel servers. The sale of servers grew 60 % in the first semester of 2005 and the trend is expected to continue throughout 2006 and 2007. In 2005, the United States was the major exporter of servers with 40 percent of the total, followed by Brazil (23%) and Mexico (11%). Servers and multi-systems present good opportunities for U.S. exporters.

International brands dominate the notebook market even though generic products begun appearing in the market in late 2005. Second-brand products from Asia are sold at large retail chains at lower prices than the branded notebooks of similar configuration. In addition, locally assembled notebooks are expected to increase the supply and variety of these products in the market in 2007, reaching a new segment of clients that could not afford imported notebooks before. The increasing demand for broadband access will continue to drive the demand for notebooks and mobile devices. According to IDC Argentina, sales of notebooks for homes in 2005 were the highest ever registered in Argentina. The leading brands in the market are Hewlett Packard, IBM, Toshiba, Sony, Dell, Packard Bell, Fujitsu-Siemens and Acer.



Source: Convergencia Research

The sale of peripherals and consumables for PCs are growing at 35 % and 25% respectively. HP, Lexmark and Epson lead the market for printers. They have local subsidiaries in Argentina from which they manage the IT distribution throughout the country. The fastest growing, best selling product in this segment is the Multifunction printer or All-in-one printer that prints, scans, copies and prints photographs. IDC reports that the sale of HP Multifunction printers grew 64% in the first quarter of 2006 compared to the same period in 2005.

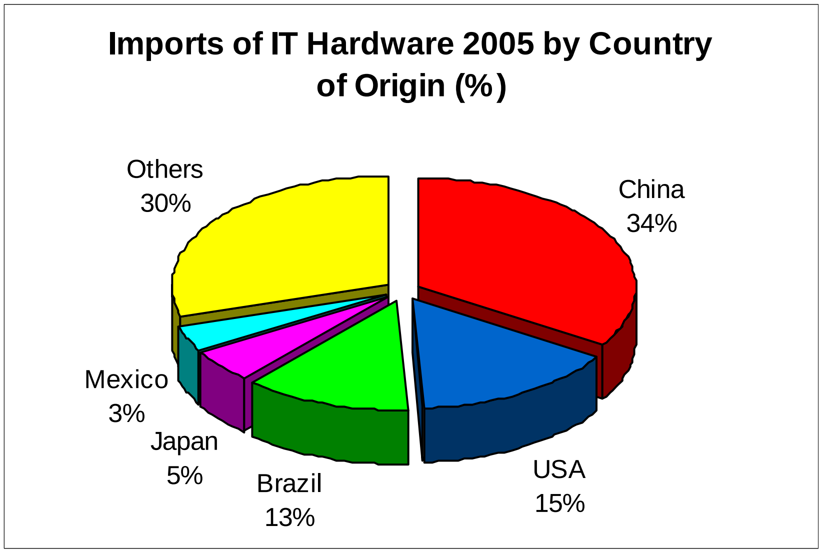
According to IDC, the storage market grew 20% in 2005.

Another important trend is the reduction in contraband/the black market of IT products. Two factors are contributing to this: government tax controls; and the continuous drop in IT prices. Hard drives, microprocessors and memory are the most typical items that are smuggled.

Either imported as a finished product or in parts, PCs, notebooks, printers, servers and multi-user systems are the major source of foreign IT hardware imports. PC components will continue to be in high demand. In addition, consumer electronics, such as digital cameras, MP3, PDAs, CD/CD W, DVD players, DVD-Rom/DVD-W, digital storage devices (Pen Drives) are expected to grow over the next two years. Furthermore, high-end accessories, interfaces, video digitalization products and niche peripherals such as memory readers, hubs, bluetooth/wireless cards/routers have great market potential in Argentina. To summarize, the less volume and mass-oriented products the bigger market potential for U.S. exporters.

Desktops and notebooks account for approximately 70% of the total hardware market. Servers make up 10%; and storage, peripherals, networking and consumables 20%. According to the IT consulting firm Prince and Cooke, total revenues for the IT hardware market in Argentina in 2005 reached $ 1.2 billion.

Import Market

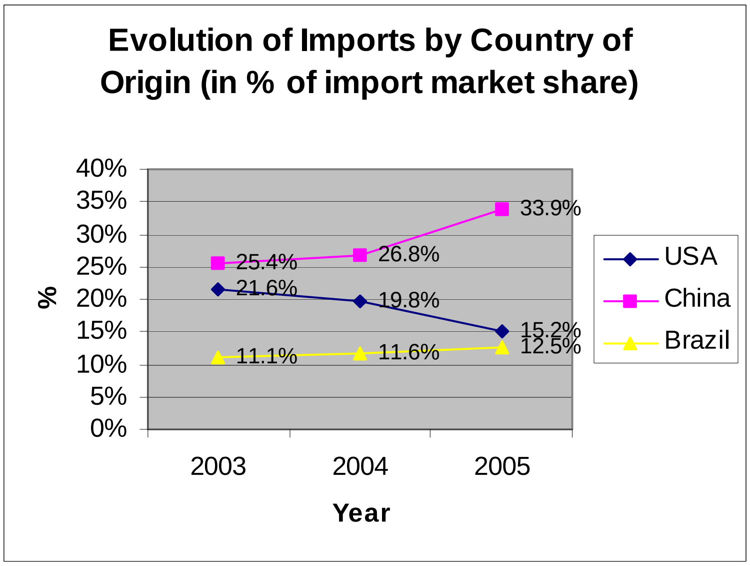


Source: Nosis

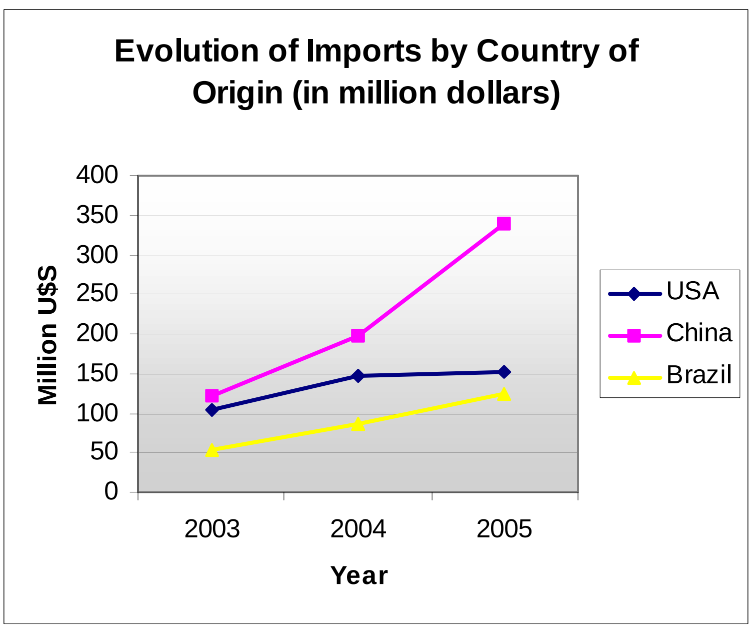
In 2005, China led the imports of IT products with 34 % of the market, followed by the U.S. with 15% and Brazil with 13%. Imports from Mexico and Japan account for 3 and 5% of the import market respectively.

Import duties on products from Brazil, as a member of Mercosur, are 0%. In addition, the Brazilian tax regime allows companies to deduct internal taxes for exporting products manufactured in Brazil. Therefore, Brazilian companies are very competitive. Import duties on products from Mexico are 7 % due to an ALADI Mercosur Agreement. Import duties for PCs from non-Mercosur countries, are 16%. Many non-U.S. products are imported into Argentina from the U.S., via U.S. subsidiaries or large resellers. FOB prices from the U.S. are 5 points more expensive than China prices. However, volume requirements and logistical issues, among other factors, still mean that Argentine importers buy from the United States.

Imports from the U.S. (as market share % per country of origin) have decreased over the last three years. Imports from the U.S. in millions of dollars increased slightly. Imports from China increased significantly during the same period, while imports from Mexico and Brazil also increased, but at a slower rate. The fact that the U.S. market share of IT total imports declined over the last three years while increasing in dollar terms is due to the fact that imports from the U.S. are higher-end/sophisticated technology.



Source: Nosis



Source: Nosis

Over the last 18 months, the exchange rate has been stable, ranging between $ 2.8 to $3.1 pesos to the dollar. According to Argentine Central Bank figures, inflation in 2005 was 12.3%.

Competition

The hardware market has many more players now than it did in previous years. They include international manufacturers, local assembly firms, wholesalers, resellers and retailers. Wholesalers, resellers and retailers are also involved in local assembly of PCs, adding competition to the market. Some of these companies have developed their own brands and tend to position them between the international brands and the clones. During the last year, these companies have been announcing investments averaging $ 2 million dollars each to equip their assembly lines. These local products are marketed as having gone through severe quality controls and stress testing and offer warranties and post sales service similar to those of international brands.

Banghó is one of the most renowned local brands, developed by the company PC- Arts. The company also sells servers, notebooks, monitors and peripherals under the same brand name, but with different levels of local assembly/integration. Other brands include Admiral, Axus, Comodore, EXO, Gfast and Tonomac. Some of the largest companies dedicated to local assembly announced that they expect to double their revenues in 2006 vis-à-vis 2005.

The largest retail chains of IT products, consumer electronics and appliances also launched their own brands and made investments in local assembly facilities of their own. Other products, such as TV sets, DVDs and MP3 players are also sold under Argentine brand names. In response to this trend, the Asian conglomerate Hong Kong, started operations in Argentina in September 2005. Under its business unit “Brandware Retail”, this company which represents 132 Asian manufacturers, is supplying many large retail chains with products that bear their own brand names.

Almost all of the components for assembly are imported. The only well-known case of local manufacturing of internal components is that of Novatech. Novatech Solutions has equipped its production line and laboratory to start producing DDR2 memories in Argentina. It has become the only national company specialized in manufacturing and repairing RAM units for desktop, notebooks and servers.

In branded-PCs and notebooks, Hewlett Packard is the market leader. HP, along with 8 local brands, accounted for 58% of the units sold.

As stated previously, clones represent 80% of the total PCs sold and branded products only 20%. The value of clones is determined by the quality of the components. At present, some clones are offering the latest technology available in world markets. As a result, they have become an irresistible alternative for budget-oriented customers.

The principal component brands used in clones are:

- Monitors: Samsung (1.bestselling) – LG (2)- Phillips (3) - Viewsonic (4) - AOC – Acer – NEC - Proview
- Hard Disk: Seagate – Maxtor – Samsung - Western Digital - Hitachi
- Keyboards: BTC – Microsoft – Genius - Acer – Logitech - GE - Sunshine
- Mouse: Genius – Microsoft - Logitech - A4Tech - Targus
- Microprocessors: Pentium Intel - AMD
- Mother Board: Intel – Asus - ECS - FIC - ASRock – Biostar - Foxcomm - Gigabyte - PC-Chips -
- Floppy: NEC – Samsung – Sony - ALPS
- CD ROM/CD-RW – DVD Rom/DVD-RW: Benq – Samsung – LG – Asus – Pioneer – Lite On – Sony - Aopen
- Video Cards: ATI – Nvidia - Trident - Diamond Stealth – Matrox -Intel –
- Memory Card: Kingston – Corsair – PNY - Viking - Dataram - Simple Technology
- Sound Card: Yamaha – Creative –
- Fax Modem: Encore – Soltrix – Motorola – Genius - PC-Tel - Zoom
- NIC Cards: 3 Com.– Cisco - Cnet – Encore

Market Access

There are no barriers to import IT products per se. The external Mercosur duty on IT products is now around 8% to 16%. The intra-Mercosur tariff is zero, allowing Brazilian manufactured and assembled products to gain market share. In addition to the import duty, importers pay a .5 statistical tax and 21% VAT (IVA).

Some products/items have to comply with certain certifications. Electric products of AC over 50 volts are subject to Resolution 92/98 for Electric Security standards. On the other hand, IT products related to communications, such as wireless routers, have to be certified by the Argentine Government Telecommunications Regulator (CNC – National Communications Commission). CNC approvals may take longer than required for optimum time-to-market delivery by equipment providers.

As for Electrical security, there are some basic requirements:
- mandatory national standard plug (IRAM2073/2063).
- local certification
- market surveillance, applicable to products certified locally.

U.S exporters of PC are encouraged to export them without the power supply unit. In general, importers source them locally.

Imports of used/refurbished products are permitted, however, they have to comply with several requirements that result in a cumbersome and costly process, making it unprofitable. The import duty is as high as 28%; secondly, a certificate of refurbishing by the original manufacturer is required; and thirdly, a new Test per product is requested to comply with the Certification for Electric Security (Resolution 92/98).

The import duties corresponding to the principal PC components and accessories are:

Item/part	Import Duty
Monitors:	12% CDT – 16% LCD
Hard Disk:	8%
Keyboards:	2%
Mouse:	2%
Microprocessors:	0%
Mother Board:	12%
Floppy:	8%
CD ROM/CD-RW	12%
DVD Rom/DVD-RW:	12%
Video Cards:	12%
Memory Card:	12% for PC – 16% Flash Memory, SD, MS, etc.
Sound Card:	12%
Fax Modem:	16%
NIC Cards:	2%

Market Entry

The best way to enter the Argentine market is through a local representative/agent or distributor. For government projects, the tenders usually require companies be incorporated in Argentina, and have a number of years in the market with experience in similar previous projects. It is always advisable to have a local company that can communicate in the same language and that is able to provide technical support in a quick manner and thorough pre and post sales services.

Key Contacts

Government

Secretariat of Communications
Sarmiento 151 4th floor
(1001) Buenos Aires, Argentina
Phone: (54-11) 4318-9410
Fax: (54-11) 4318-9432
Web Page: www.secom.gov.ar
Comments: Secretary of Communications

Comision Nacional de Comunicaciones
Peru 103
(C1067AAC) Buenos Aires, Argentina
Phone (54-11) 4318-9427/4347-9540/9542
Fax: (54-11) 4318-9408/4347-9546

Web Page: www.cnc.gov.ar
E-mail: lawalos@cnc.gov.ar
Comments: National Communications Committee (FCC equivalent)

ONTI – National Office of Information Technology (Oficina Nacional de Tecnologías de Información)
Address: Diagonal Norte 511 5th floor. Of. 505
(C1035AAA) Buenos Aires, Argentina
Phone: (5411) 4343-7458
Email: onti@sgp.gov.ar
Comment: the Argentine Government office in charge of ruling the use of information technology in the Public Administration.

Trade Associations

CICOMRA - Camara de Informatica y Comunicaciones de la Republica Argentina
Address: Av. Córdoba 744 2P. "D"
(1054) Buenos Aires
Tel: (54-11) 4325-8839
Fax: (54-11) 4325-9604
Contact: Alfredo Ballarino, Executive Director
Email: cicomra@cicomra.org.ar
Comment: Argentine Association of Information Technology and Communications

CESSI - Camara de Empresas de Software y Servicios
Informaticos
Address: Paraguay 541 6th floor
(1035) Buenos Aires
Tel/fax: (54-11) 5217-7802
Contact: Carlos Palloti, President
Email: info@cessi.org.ar
Comment: Association of Software and Information Technology Services

CABASE - Camara Argentina de Bases de Datos
Address: Suipacha 128 3 Piso "F" (1008) Buenos Aires
Tel. y Fax: (5411) 4326-7352/0777
Contact: Mr. Patricio Seonane, President
Email: info@cabase.org.ar
Comment: Argentine Chamber of ISPs, ASPs, and other International carriers.
The Argentine NAP is located in its premises.

CASEL – Camara Argentina de Seguridad Electrónica (Argentine Trade Association of Electriconic Security)
Address: Moreno 957 7 floor, Of. 4
Buenos Aires, Argentina
Tel: (5411) 5128-0026

Email: info@casel.org.ar
www.casel.org.ar

CACE - Camara Argentina de Comercio Electrónico -
Address: 25 de Mayo 611 3rd 1
(C1002ABM) Buenos Aires, Argentina
Phone: (54-11) 4119-2334
Fax: (54-11) 4119-2334
President: Marcos Pueyrredon
Email: info@cace.org.ar
Comment: Argentine Association of Electronic Commerce

Market Research

Prince, Cooke y Asoc. S.A.
Address: Ayacucho 1435 - 1°. B.
(1111)Buenos Aires, ARGENTINA
Te/Fax: 54-11-4811-5522
Contact: Mr. Alejandro Prince, President
Email: info@princecooke.com
www.princecooke.com
Comments: Consulting and Market research firm. The company organizes a series of sector events throughout the year of relevant topics of the sector

Carrier & Associates
Address: Av. Lacroze 2321 – 4B
C1426CPI Buenos Aires – Argentina
Phone: 54-11-4899-2149
Contact: Enrique Carrier, Director
Email: info@carrieryasoc.com
www.carrieryasoc.com

Trends Consulting
Address: Rivadavia 413 4th floor. Of. 6
(1002) Buenos Aires – Argentina
Phone: 54-11-4343-8899
Contact: Raul Bauer, President
Email: trends@trends.com.ar
www.trends.com.ar

Grupo Convergencia S.A.
Address: Bolivar 547 3rd floor. Of. 3.
(C1066AAK) Buenos Aires – Argentina
Phone: 54-11-4345-3036
Contact: Germán Rodriguez, President
Email: convergencia@convergencia.com.ar

www.convergencia.com.ar

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For More Information

The U.S. Commercial Service in [Insert CS Office (CITY/COUNTRY)] can be contacted via e-mail at: [Insert AUTHOR'S Email Address]; Phone: [Insert Office Phone Number]; Fax: [Insert Office Fax Number] or visit our website: www.buyusa.gov/your_office.

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