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LATIN AMERICA MOVES FORWARD

FINDING TECHNOLOGY FUNDING

CATHY ELLIS,
ATLANTA CLASSIC CARS



CISCO.COM/GO/IQMAGAZINE



SMALL but MIGHTY

In Latin America, a storied region of light and shadow, small business is growing. So is the area's optimism.

In Latin America, the overwhelming majority of companies are small. But the dreams? They grow bigger every day. Currencies are stabilizing, inflation is moderate, and debt is being managed. Although interest rates in some countries are high, the foreseeable political future appears orderly. After years of sluggish growth, Latin American economies are expected to hit an average annual GDP growth of 4.8% through 2008. As a result, confidence is growing.

Perhaps most important to small and medium-sized businesses (SMBs) in the region is that two of the primary ingredients for growth—access to technology and the money to buy it—are both becoming easier to obtain. Still, according to the recent 2005 Net Impact study by the Momentum Group, Latin America spends 1.4% of its GDP on IT investments. This is the lowest of the major regions, including Asia at 2.4%, Europe at 3.5%, and the United States at more than 5%.

“A stable macroeconomic climate is key for the region's small companies to flourish,” says Gabriela Baez, a senior manager at Pyramid Research and lead author of a report titled “Seizing the SME Opportunity in Latin America.” She adds, “I think the conditions are much better now than in the last ten years overall for businesses in the region.”

Ricardo Villate, program manager of Enterprise Solutions for IDC Latin

BY G. PATRICK PAWLING

America, agrees. “I don’t see a lot of serious threats on the immediate horizon,” Villate says. “There is always uncertainty, but these days things are much more under control.”

Latin America includes some 33 countries, a combined population of more than 500 million, and three main languages: Spanish, Portuguese, and English. The biggest economies are those of Mexico, Brazil, Colombia, Venezuela, Argentina, Peru, and Chile.

THE STATE OF THE REGION

According to IDC, which analyzes and predicts technology trends, businesses with between 10 and 99 employees



represent 50% of the employers in Latin America. Pyramid Research estimates the ratio of SMBs to large corporations at 13:1, with more small businesses to come.

Baez’s report concludes that “the positive economic outlook for the Latin American region in the next five years will translate into greater numbers of small and medium enterprises [SMEs].”

According to market-research firm AMI-Partners, PC penetration among SMBs in Latin America is about 42% overall, with Brazil at 50% and Mexico at 48%. Broadband penetration is estimated at 11% of all SMBs, compared to Western Europe at 56% and Eastern Europe, the Middle East, and Africa at just 3%.

“The countries that are slower to adopt new technology will be at a tremendous disadvantage [in world markets] for some time,” warns Anurag Agrawal, chief operating officer for AMI-Partners. But eventually, he says, they’ll be able to skip generations of older technology, implementing the latest systems as their initial investments. “Despite problems, there is considerable potential for IT growth in Latin America, especially among the SMBs.”

THE TRENDS

Analysts are seeing positive activity in IT spending and adoption. A Pyramid survey of 400 SMEs in Latin America conducted in January of this year shows the following:

- Some 13% planned to adopt broadband in 2005, with 12% planning to migrate to Voice over Internet Protocol (VoIP) phone systems.
- Companies need to outsource IT management to address limited or nonexistent IT staff.
- More than 30% expect their technology spending to increase this year compared to 2004.
- Wireless use is significant—about 70% of companies subscribe to mobile services.

Only 13% of Latin American SMBs expected to reduce their IT spending in 2005 compared to 2004, according to IDC. AMI forecasts IT spending will grow at an 11.6% compound annual growth rate until 2009. The rate is significant compared to 7.1% for the United States and 6.8% for Western Europe for the same period.

“We expect that SMBs will benefit from the Latin American governments’ willingness to be big IT spenders in the near future,” says Agrawal. “The governments are increasingly using IT as a means to modernize internal processes, improve services, and increase transparency to citizens.”

Another factor in favor of growth: Broadband prices should continue to drop, according to Pyramid.

THE NEEDS AND DRIVERS

“What is wanted is greater productivity and ways to be more competitive, to optimize our resources,” says Carlos T. Pinto, who heads the computer department at Minera



TOP: GEOFF RENNER / GETTY IMAGES; BOTTOM: JOSÉ HERNÁNDEZ-CLAIRE

Michilla, a mining company with about 425 employees near Antofagasta, Chile. Minera Michilla is somewhat ahead of other Latin American companies of the same size in its use of networking technology: It is already using videoconferencing and wireless technology, and it is testing VoIP.

“We need to improve the speed with which we can do things,” Pinto says. “This is what the modern world requires.”

Like Minera Michilla, smaller organizations are focused on adding more PCs, getting broadband, and saving money by implementing VoIP and networking their PCs in order to move information quickly, easily, and automatically. Companies also want to automate and streamline common activities such as handling taxes and human-resources issues. They want to be able to manage growth spurts, adapt to changes, reduce costs, and optimize business practices.

SMBs cite the ability to offer better customer service as their primary motivation for technology purchasing, according to IDC. But SMBs also want the chance to extend their operations further into other countries to expose themselves to the world markets. To do so, they need not only broadband but secure technology such as virtual private networks (VPNs), which allow them to work with larger, technology-savvy partners.

“I think increasing productivity will be very important,”



says Baez. “But another big issue is connectivity so they can participate in the world marketplace and not be trapped in their local markets anymore.” Customers and suppliers increasingly expect to connect to the business in real time, according to recent focus group research conducted by Cisco Systems.

ENCOURAGING SMALL BUSINESSES

THE LARGEST COUNTRIES in Latin America all have programs to encourage small businesses, ranging from efforts in Mexico to dramatically reduce the time it takes to legally incorporate, to training in various other countries in accounting and other basic business skills, to lending and credit programs. These types of programs are becoming widespread in the region.

Governments in the region appear serious about encouraging investment in broadband infrastructure and pushing to make low-cost PCs available. For example, Brazil and Argentina have launched special low-cost, easy-credit desktop PC programs intended to provide Internet-connected PCs to millions of low-income households. Similar programs include Colombia’s Empresas Publicas de Medellin PC project and Peru’s Plan Huascarán. Mexico’s Telmex-Prodigy PC deal is a similar privately sponsored initiative. Most of these programs target individuals or families with an average income of \$200 per month.

Pyramid’s survey shows that SMBs in the region are developing an appetite for “turnkey” services, such as the following:

- Web portals and online publications with content tailored for smaller businesses. For example, BrTurbo Empresas, a Brasil Telecom portal, offers news, tips, and case studies about how to improve productivity. BrTurbo’s Web-hosting product Presenca Web also offers 25 blueprints for companies to create their own online presence, starting from \$10 a month. Other services include a suite of software applications for managing financial and legal affairs or automating administrative tasks.
- Telecom Argentina offers a loyalty program called Club Pymes in which companies accumulate points as they spend, which they can then exchange for products or services. Similarly, in Colombia, Empresa de Telecomunicaciones de Bogotá (ETB) offers Programa de Beneficios–Pymes, which allows customers to trade points for goods and services such as computers, copy machines, motorcycles, and language classes.
- Cantv in Venezuela offers a portal called Punto Pyme, a business advisory center that provides integrated service solutions with partners such as Microsoft, HP, banks, insurance companies, and legal firms. Punto Pyme offers Web hosting and applications allowing small businesses to build an online presence and engage in e-commerce. Punto Pyme also helps clients obtain legal advice, training in Microsoft software, access to credit, and insurance services. Cantv also offers an Internet-and-computer package called Internet Equipado.
- In Mexico, Telmex offers PCs, software, and support for companies subscribing to its DSL product.—G.P.P.



THE CHALLENGES

The region overall faces limited budgets, skills shortages, and tight credit. Because of economic and political uncertainties, Latin American companies tend to be less likely to take risks. The issues and opportunities vary from one country to another.

Argentina and Venezuela, coming back from severe economic crises and double-digit GDP and IT market drops over the 2001 to 2003 period, are expected to grow at high double-digit rates until 2008. Mexico and Brazil are the

largest markets in terms of spending. “Overall,” says Agrawal, “one tends to look at Chile as having the most stable macroeconomic environment.”

Argentina: Inflation is still an issue, but for Argentina—which is coming back from a political and monetary crisis—the direction is up. “We expect the country will grow very quickly in the next three years,” says Villate.

“Argentina has a much higher level of technology uptake than Chile,” notes Agrawal. “They are very retail-dominated and services-oriented, and an ecosystem of companies is springing up to supply them.”

Brazil: Villate notes that although Brazil has the lowest average purchasing budget in the region, it also has the highest number of SMBs. Despite interest rates that are among the highest in the world and a growing trade surplus, the economy appears relatively healthy.

“Here you find the highest adoption of IT in the region among SMBs, and the number of SMBs is around 13 million,” says Agrawal. “A little less than half of all the region’s SMBs are in Brazil, and most of them are in retail and manufacturing.”

Chile: Companies here “are so conservative in nature they will have a difficult time recognizing that they are growing even though they are,” says Villate. Still, he says, Chile is a sophisticated market with a solid economy. Most companies are moving to the “best practices” stage after experiencing solid growth.

With PC penetration only at about 30%, “Chile has yet



TOP: LUIS VEGA / GETTY IMAGES; BOTTOM: FRANS LEVIMENS


to see the fruits, at least in my perspective,” says Agrawal. “This is the next country that is really going to pick up IT.” He adds that Chile’s expected 2005 GDP of 6.1% growth is likely to be surpassed only by that of China.

Mexico: When considering an SMB strategy, Villate would make Mexico the top geographic priority “because of the opportunity.” The technology budgets there are more generous, on average, he says, and the country displays a sophisticated approach to the benefits of technology; many SMBs in Mexico are early adopters.

“In Mexico you’re looking at retail, services, and manufacturing—a lot of it,” says Agrawal.

“The primary challenge we see today is access to investment capital,” says Villate. “That is easing up, but not as much as I would like to see. But I am optimistic. Economies are rebounding and governments are realizing there is strength in the SMB market. And the vendors themselves—companies like Microsoft, IBM, SAP, Oracle, Cisco

Systems, and others—are pushing into the area with incentive programs. You cannot discount the importance of that kind of pushing.”

“Whether [the companies] can afford entire solutions is not entirely transparent,” Villate adds. “But now they realize that technology such as VoIP can save them money and that technology can make their lives easier and make them more efficient.” 

G. PATRICK PAWLING, PRESIDENT OF PAWLING & ASSOCIATES, WRITES FREQUENTLY ABOUT TECHNOLOGY FOR NUMEROUS ORGANIZATIONS.

NEXT STEPS

To read the Net Impact: Latin America report, go to cisco.com/go/iq-netimpactla.

For more information about Cisco programs in Latin America, go to cisco.com and select “Select a Location/Language” from the top right to navigate to a specific country’s site.

FROM CISCO

CISCO’S COMMITMENT TO LATIN AMERICA



As Cisco’s senior marketing manager for SMBs in Latin America, Dario Loriato is focused on the wants and needs of the region’s businesses.

iQ: How are governments helping Latin American SMBs?

Loriato: Most have special lines of credit for smaller organizations. For example, a government bank in Brazil, Banco Nacional de Desenvolvimento, is focused on that segment. The same is true in Colombia with the Banco de la Republica. Both offer subsidized interest rates.

iQ: What benefits are organizations most likely to realize from increased technology adoption?

Loriato: It affects two main areas: process efficiency and communication with employees, customers, and vendors. Having a well-developed process supported by information systems can decrease costs and generate more profit. The benefits include both improved productivity and competitive advantage.

iQ: What are some of the challenges?

Loriato: The two biggest are abundant labor and high interest rates. To grow a business you often need to borrow money. Inexpensive labor makes it more profitable to contract more people rather than invest in adopting technology.

iQ: How is Cisco working with companies?

Loriato: This July, Cisco launched an initiative called Net Impact. Based on research done in each country, it shows entrepreneurs, executives, and government officials how the Internet has impacted businesses in the region.

Net Impact will also guide governments in the investments they make as they introduce small businesses to the digital era. Moreover, Cisco shares its own experiences and findings in technology implementation, such as:

- Becoming more effective in controlling expenses through online reporting
- Connecting with its customers through ERP/CRM, e-commerce, and online support implementations
- Improving employee productivity through mobility tools, like wireless and IP phones

iQ: Can you provide some examples of ways to improve productivity and save money?

Loriato: Web seminars stand out. We had more than 4,000 attendees for two online seminars (Portuguese and Spanish). People were glad they could attend right from their offices because they didn’t have to pay for travel. Likewise, we only spent 1% of what it would have cost to present a live seminar for an audience of the same size.

IP Communications has a strong impact due to lower costs for long-distance calls and phone management. In Latin America, Cisco IP Communications sales for SMBs doubled in the past year.

Security technology is also important to ensure information safety and keep systems working.

Wireless may be the easiest due to its low cost, and it’s a powerful tool because people can access their data and voice system from anywhere inside an office.

And IP-based contact centers help companies interact with their customers in more personalized and efficient ways—while lowering costs.—G.P.P.