

iMonitor

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Estudo trimestral sobre o
mercado Brasileiro de TI

Letter from Dagoberto Hajjar

The result of this research is a great sign of **CONCERN**.

The growth expectations of the IT market are fantastic. We grew 23% last year, we will grow 22% in 2022 and a further 22% in 2023. We are receiving external investments and many IT companies are receiving capital contributions or being acquired.

But there's another side to the story. We had 10.1% of inflation last year and we will have 10.3% in the next 2 years, and we were unable to pass these costs on to customers. We have a second inflationary effect due to the lack of manpower that raises wages and, again, we are unable to pass on 100% of these costs to customers. These two factors together will make IT companies lose 16.1% of their profit margin. **But... most IT companies don't have 16% margin to lose!**

Anyone who wants to stay in the game will have to understand and worry about MARGIN!

SPECIAL THANKS TO:

This is the 54th edition of the quarterly survey that we do in the IT market and in this edition of the survey we received the support and sponsorship of SkyOne that helped us in the dissemination of the questionnaire, increasing the number of responses, and also in the dissemination of the report. I leave here my GREAT thanks for SkyOne's help

Dagoberto Hajjar

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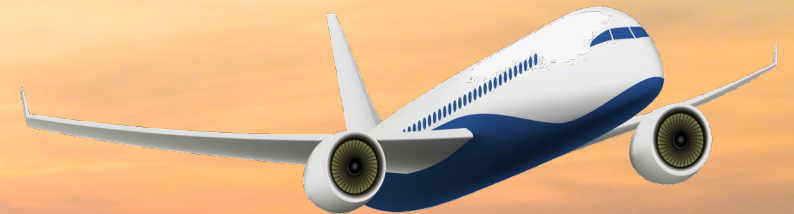
Profile of companies and interviewees

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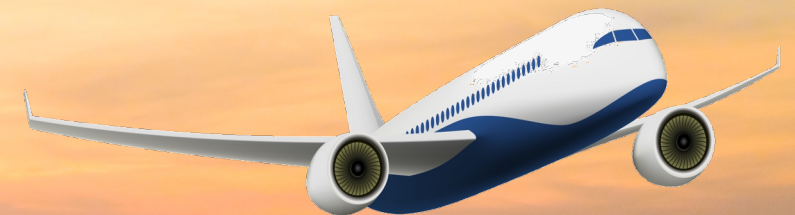
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Dagoberto Hajjar

More than 40 years of business and IT experience

Between 1980 and 1990, he worked at **Citibank** in various technology and business functions. He was one of the first employees in Brazil to be awarded for "Excellence in Services"

In 90 he was invited by **ABN-Amro** to the challenge of implementing an agency automation system based on client-server technology, then completely innovative for the time

For 10 years, he worked at **Microsoft** with great achievements and great success, exercising, among others, the activities of Internet Director, Marketing Director, and Strategy Director. Received, from Bill Gates himself, the award for Microsoft's best employee - the first time this award had been awarded to a "non-U.S."

In **2002**, he founded **ADVANCE**, which today has more than **2,500 clients**, more than **500 consulting projects**, more than **20,000 trained professionals**, more than **50 research** carried out in the Brazilian market, **6 published books**, **8 ebooks** and participation as a speaker in more than **150 lectures**

Graduated in Mathematics and Nuclear Physics from USP



ADVANCE CONSULTING

With more than **2,500 clients**, **500 consulting projects** and **20,000 trained professionals**, ADVANCE is a \$

We are proud to serve from large companies to start-up, including



Our customers say we are excellent at solving complex situations and increasing sales

**Our goal is to help our customers SELL MORE and BETTER,
for this we operate in 3 vectors of business growth**

SALES VECTOR

Implementation of **sales processes, with training and qualification of the team and managers** to ensure that all opportunities generated are taken advantage of, increasing sales



SELLING MORE AND BETTER



MARKETING VECTOR

Creation of **demand and opportunity generation devices**, and actions for each stage of the sales funnel, shortening the sales cycle and increasing conversion rates



STRATEGIC VECTOR

Development of **the company's strategy** to ensure drivers and integration between marketing and sales

ADVANCE Research Center

ADVANCE conducts **quarterly** research in the IT market to analyze the **perception of entrepreneurs with the market moment**

We have been doing this research since 2008 and **historical data** allows us to establish **trend algorithms**, helping to establish **predictions**

Our **goal** is to help **IT entrepreneurs** with **facts and data** so they can make **better decisions**



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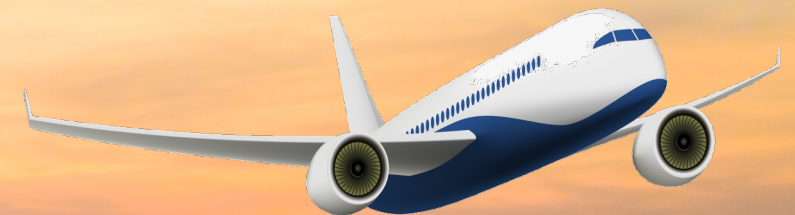
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Executive Summary

- **2021 was a year of many changes**
 - On the one hand we had **record growth of 23%** in the year
 - On the other hand, we had **inflation of 10.1%** - which has not happened since 2015
 - On the one hand, we have an increasing number of **startups** bringing new technologies to the market
 - On the other hand, we had a large number of companies entering "**financial concern zone**"
 - Alongside all this, we had record IT companies being **invested** or **acquired**
- **We will have good years of IT sales**
 - Applying **ADVANCE's mathematical models to historical data**, we see that the IT market is at another plateau of growth:
 - Between 2012 and 2016 we had an average of 5% growth
 - Between 2017 and 2020 we rose to 10% growth
 - We believe that we will have from 2021 to 2024 averages of 20% growth
 - This new growth plateau is justified by:
 - 5G completely changing the technology and the way companies talk to their consumers
 - Technology Deficit Reducing IT Investments in Education, Health, and Retail
 - Increased IT consumption:
 - In smaller companies (SMB - small and medium business)
 - Analysis tools and satellite products to enterprise management system (ERP)
 - IaaS (Infrastructure as a Service), cloud and security offerings
 - Software Factory and Developer Allocation
- **2022 will be a year of growth of 22%**
 - It is an excellent result if looked at in isolation
 - It's worrying when you think:
 - That the expectation of entrepreneurs was for growth of 24.5% 3 months ago
 - That IT entrepreneurs think **inflation will be 10.3% in 2022 and 2023** and companies cannot pass 100% of the costs on to customers
 - That the war in Ukraine is beginning to show signs of concern in the global economy and in the **shipments of technological and agricultural inputs** to Brazil
 - Lack of manpower is inflating the salaries of IT professionals - and companies **fail to pass on** 100% of costs to customers
 - The major concerns of entrepreneurs for 2022 and 2023 should be "**recurring revenue**" and "**margin**"
 - Most companies with revenues below USD 3 million/year do not have the culture to look at the **MARGIN** and may be strangled by inflation
 - The Ukrainian war acted as a trigger for us to study and better understand inflationary weaknesses
 - Maybe without the war we'd get run over without seeing the train coming

Executive summary - about 2020 and 2021

- **2020 was a very good year, despite all the insecurity**
 - We had a growth of 7.5% in the first quarter (compared to the same period of the previous year)
 - The crisis began on 24 March. The second quarter showed growth of 5.1%. Historically the second quarter is the weakest of the year, so the crisis hit the IT market in a less relevant quarter
 - The third quarter registered 10.3% growth
 - The fourth quarter registered **13.1% growth**, exceeding all expectations and signaling that 2021 will be a lush year for IT
 - **We ended 2020 with 10.4% growth over 2019**
- **Impact of the crisis in 2020**
 - Companies with an annual turnover of less than R\$16 million grew, on average, 10.2% and companies with a turnover of more than R\$16 million grew 12.9%, so smaller companies suffered MORE than larger companies
 - Larger companies already had the experience, processes and tools to work in the home office, and typically sell to larger companies - and all started to speak very well through the home office. Smaller companies had to learn to work remotely, and they sell to smaller customers - who were not easily accessible
 - The demand for technology was intense. Unfortunately, many companies were unable to meet the demand due to a lack of labor
- **Companies with CLOUD products and services have seen EXUBERANT GROWTH**
 - IaaS (infrastructure as a service) grew 28.9%
- **Strategies adopted by IT companies in 2020:**
 - 45% of companies put focus on selling on the basis that it is the PREFERRED strategy of IT entrepreneurs when the market is difficult
 - There was no increase in indirect sales (channels), that is, IT companies chose to make sales directly
 - HOWEVER, there was an increase in interest of companies by channels, that is, understanding that channels could be an excellent selling alternative for the future
- **2020 was a MILESTONE in the life of IT companies. Entrepreneurs have learned the importance of rapid change and this knowledge will be key in 2022 where they will have to think about MARGIN and OPERATIONAL EFFICIENCY**

Executive Summary

▪ Polarization of IT companies

- Since the beginning of the crisis we have noticed a polarization of companies, that is, companies doing very well and companies doing very badly. This effect was mild until 2014, medium in 2015 and drastic in 2016, causing money to change hands quickly
- In 2017, polarization was decreasing, quarter-to-quarter
- We ended 2018 with the lowest rate of companies retracting since January 2014
- In 2019 we had weak growth in the IT market, and consequently, polarization increased, that is, money changing hands and going from companies that had a strong retraction to companies with strong growth
- In 2020 we had the COVID crisis:
 - 17% of companies had lower results than in 2019; 76% had higher results than in 2019; 13% with growth above 30%
- In 2021 we had:
 - Insignificant number of companies with downturns - this is the first time this has happened since we've been doing the surveys
 - 29% of companies with growth between 15 and 29%; 23% of companies with growth greater than 30%
- In the first quarter of 2022, billing results remained very close to the end of 2021:
 - Insignificant number of companies with downturn
 - 25% of companies with growth between 15 and 29%; 24% of companies with growth greater than 30%

▪ Investments made in hiring

- In the second quarter of 2015, the crisis began to "hit" IT companies, 34% of companies reduced the number of employees, reaching very close to the percentage of 37% of companies hiring
- In 2016 we had 44% of companies firing against only 30% hiring
- In 2017 the situation reversed and we had 28% of companies firing against 42% hiring
- In 2018 we had 23% firing against 50% hiring
- In 2019 we had 20% firing against 56% hiring
 - Companies that fired in 2019 had a lot of difficulty growing and rehiring in 2020
- In 2020 we had 22% of companies firing against 47% hiring
 - Companies that fired in 2020 are having a hard time growing and rehiring in 2021
- In **2021** we had 5% of companies firing against 72% hiring
- For **2022** we had a very good expectation, with only 2% of companies firing against 79% hiring
 - Unfortunately, the first quarter of 2022 has already shown changes and we had 13% of companies firing against 59% hiring

Executive Summary

▪ Change in Business Model - Going to CLOUD

- Since 2016 we have seen two changes in business models in the IT market:
 - Software companies going to SaaS
 - Hardware companies going to services including CLOUD offerings. From 2018 there was a great acceleration in the migration of this group
- The mantra became "**search for recurring revenue and intellectual property**"
- In 2019, 2020 and 2021 the companies that grew the most were IaaS (infrastructure) and SaaS (software) - consolidating the CLOUD MARKET
- **For 2022 we will have an average growth of 22% with the highlights:**
 - Cloud companies (IaaS, PaaS and SaaS) growing above market average and with **GOOD PROFIT MARGINS**
 - Service companies with growth limited by lack of manpower
 - Traditional products and services companies (hardware and software) with below-market growth and **POOR PROFIT MARGINS**
- There is great interest in traditional technology companies (hardware and software) migrating their business models to the CLOUD, but there are many questions about "how to make" the transition. Entrepreneurs have questions about sales structure and compensation, and how to aggregate services to increase margins

▪ Companies with high growth rate

- Every time we have a crisis in the market we see polarization and money changing hands
- There are well-defined characteristics that show which companies will have a high growth rate in times of crisis
- In the 2008/2009 crisis (sub-prime), companies with a high growth rate had "**business maturity**", that is, they were companies that analyzed the market (opportunities and threats), designed or **redesigned a business model** to meet demand in a differentiated way, correctly chose a **portfolio of offers**, established a **plan with strategies and actions**, structured the marketing and sales areas, and had **GREAT discipline** in the execution of the plan
- In the 2015/2016 crisis (Dilma), companies with a high growth rate had "**business maturity**" and **INNOVATION**, that is, they sought new products and services, new commercial modalities or new forms of customer service
- In the 2020 crisis (Covid), companies with a high growth rate had "**business maturity**", innovation and **SPEED**, that is, they designed a short-term plan, executed quickly, learned from mistakes, adjusted the plan and moved on to new execution
- In 2021 we learned that attracting and retaining talent is part of the organizational culture and not just an HR activity, and that we need new sales arguments so that customers do not "stall" before 2022 - a year with many electoral surprises

Quarter-to-quarter growth history

- **Financial results for 2017**
 - The **first quarter of 2017** had **7.7% growth** over the same period of the previous year
 - The **second quarter of 2017** had **6.3% growth**
 - The **third quarter of 2017** had **9.1% growth**
 - The **fourth quarter of 2017** exceeded all expectations by registering a **15% increase in growth**
 - **2017 ended with 10.5% growth over 2016**
- **Financial results for 2018**
 - The **first quarter of 2018** had **10.8%** growth over the same period of the previous year, stating an expectation of good results for 2018
 - The **second quarter of 2018** had **7.5%** growth confirming the trends of the last 3 years where the second quarter is always the weakest
 - The **third quarter of 2018** had **11.5%** generating excellent expectations for the end of 2018
 - The **fourth quarter of 2018** was **12.6%** higher than expected
 - **2018 ended with 10.9% growth over 2017**
- **2019 financial results**
 - The **first quarter of 2019** had **2.0%** growth over the same period of the previous year.
 - The **second quarter of 2019** had **7.5%** surprising positively
 - The **third quarter of 2019** had **10.0%** continuing to surprise positively
 - The **fourth quarter of 2019** had **14.0%** exceeding all expectations
 - **2019 ended with 9.6% growth over 2018**
- **Financial results for 2020**
 - The **first quarter of 2020** had **7.5%** growth
 - The **second quarter of 2020** had **5.1%** growth with a strong impact of COVID
 - The **third quarter of 2020** had **10.3%** growth signaling that technology is essential for survival for the crisis
 - The **fourth quarter of 2020** had **13.1%** growth surprising all expectations
 - **2020 ended with 10.4% growth over 2019**
- **Financial results of 2021**
 - The **first quarter of 2021** had **15.7%** growth
 - The **second quarter of 2021** had **26.5%** growth
 - The **third quarter of 2021** had **20.5%** growth
 - The **fourth quarter of 2021** had **27.5%** growth
 - **2021 ended with 23.0% growth over 2020**
- **Financial results of 2022**
 - The **first quarter of 2022** had **21%** growth, again beating the historical record for the quarter

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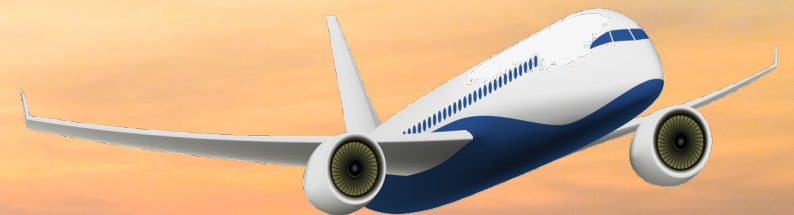
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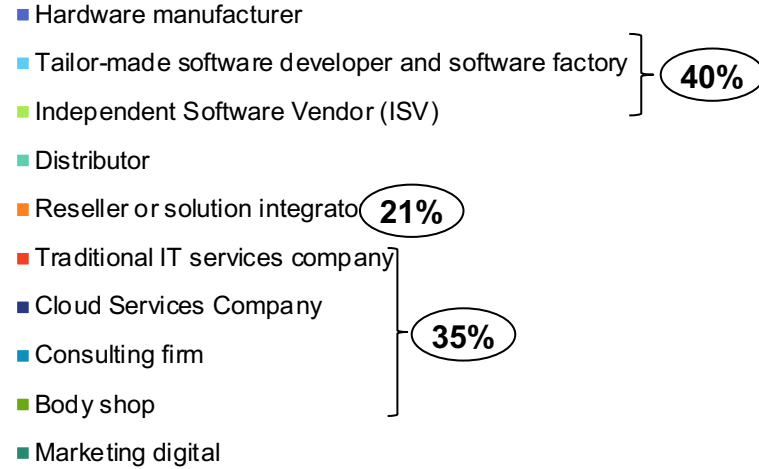
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Profile of the companies surveyed

main activity

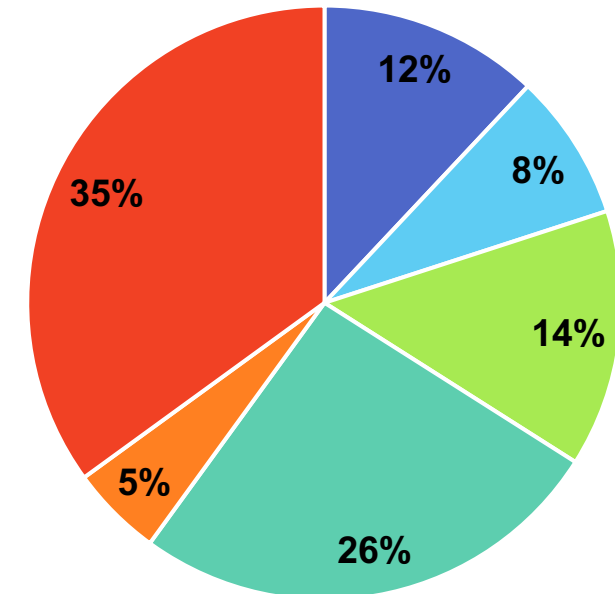
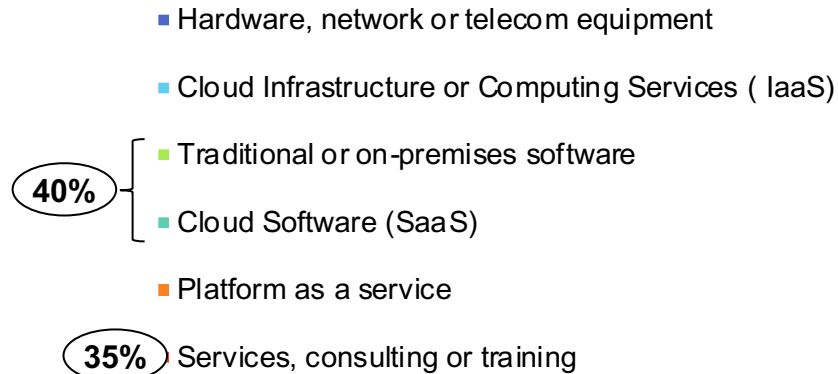


40% software
21% reseller
35% services

IaaS = 8%
SaaS = 26%
Cloud services = 12%

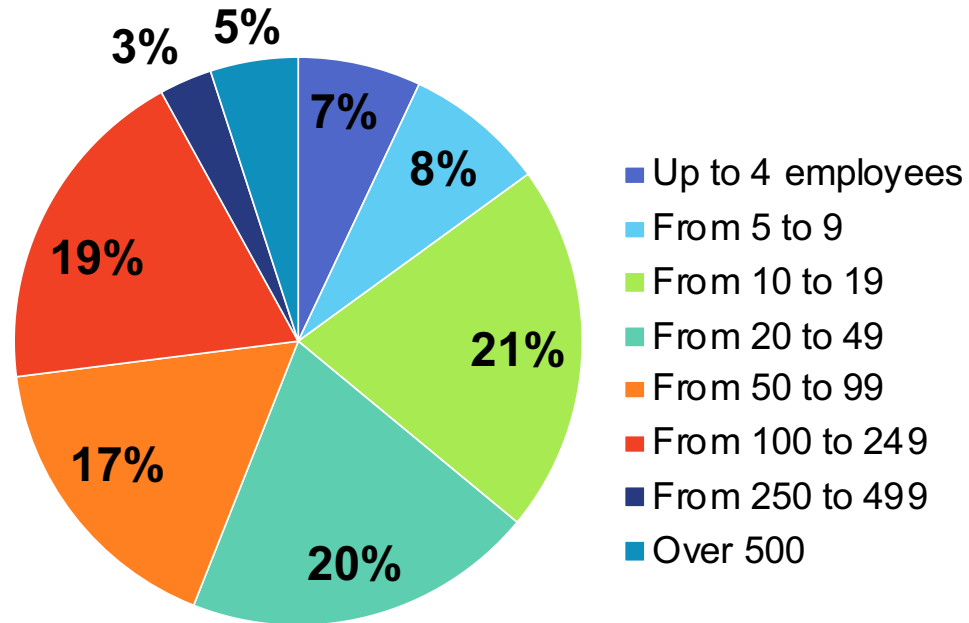
Total Cloud = 46%

main offer



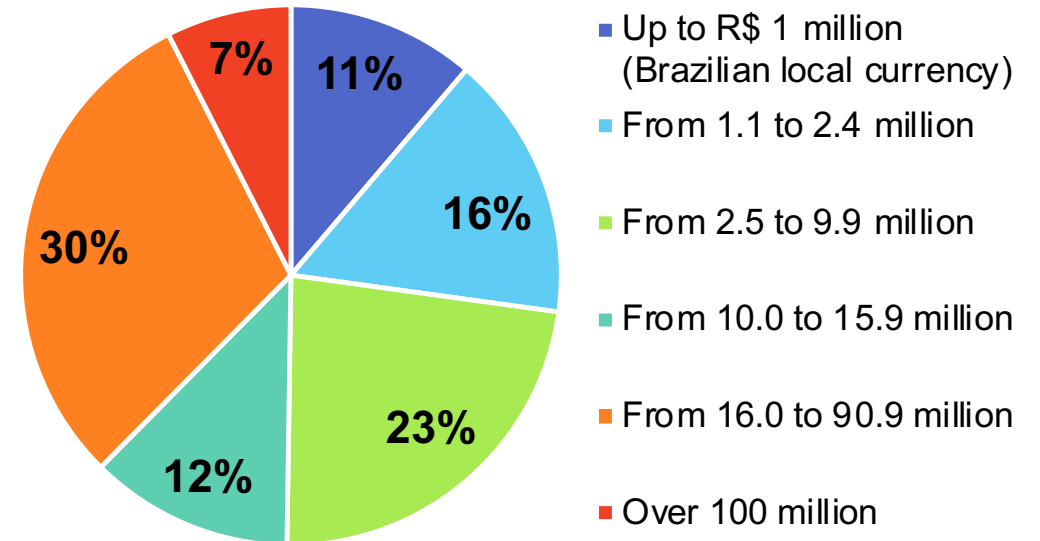
Profile of the companies surveyed

Number of employees in Brazil



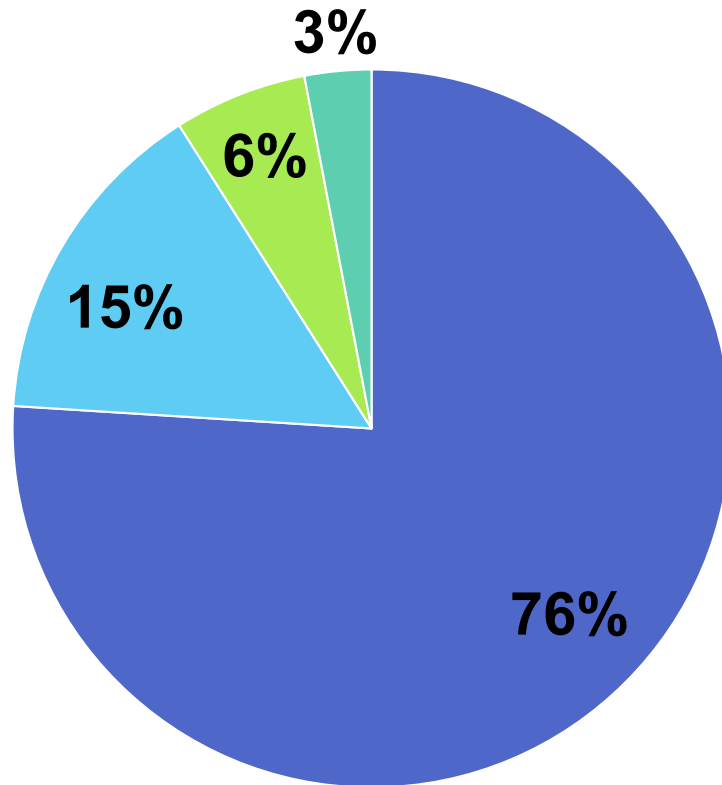
7% with up to 4 employees
49% with less than 50 employees
36% with 50 to 250 employees

Revenue in 2021 in Brazil



11% with up to R\$1 million
27% with up to R\$2.4 million
50% with up to R\$10.0 million
7% as more than R\$100 million

Profile the interviewees



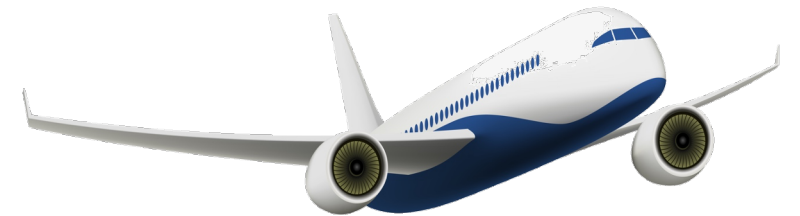
91% of respondents are C-Level

■ Partner / Owner / CEO / President

■ Director

■ Manager

■ Sales professional



We have
information from the
pilot and co-pilot

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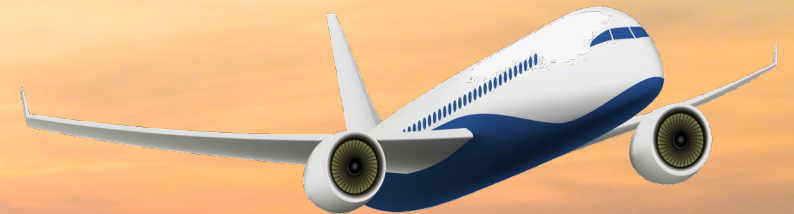
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Results in 2020 and 2021

Growth of the IT market

Growth compared to the previous year	Grand Total	Hardware	Software	Services	IaaS	PaaS	SaaS
Growth 2020	10.4%	4.7%	7.7%	9.4%	28.9%	21.0%	18.2%
Growth 2021	23.0%	15.2%	18.8%	21.6%	34.5%	22.0%	31.5%

Growth compared to market average

2021 was a great year:

- The market had a historical record of growth of 23.0%
- Companies made investments in 2020 so that employees worked well in the home office and in 2021 they reaped an increase in productivity and EBITDA
- Sellers learned how to approach and negotiate with customers digitally, increasing the efficiency of the sales process

Changes in the business model of companies

- **Hardware** sales have been reducing year-on-year as opposed to **IaaS** growth
- **Traditional software** sales have been reducing year-on-year in contrast to **SaaS** growth
- The **lush growth of IaaS** opens up excellent sales expectations of **SaaS** and **Services** in 2022 and 2023

The sale of Services is being negatively impacted by the lack of manpower

- Companies are seeking process and automation to meet high demand

Results in 2020 and 2021

The impact of the crisis on smaller companies

	General average	Companies with revenues LOWER than R\$16 million	Companies with revenues GREATER than R\$16 million
Growth 2020	10.4%	10.2%	12.9%
Growth 2021	23.0%	19.4%	25.2%

Here's a surprise!

Before the pandemic, smaller companies (revenues below R\$16m) grew above the market average. We said that they were agile, with greater capacity for innovation and reaction to the market

In 2020 the game turned around. **Larger** companies already had the experience, processes, and tools to work in the home office, and typically negotiate with larger companies where the buyer works well in the home office. **Smaller** companies had to learn to work remotely and "skated" a lot in the beginning

The **surprise** comes in 2021 when the performance of larger companies is much better than that of smaller companies. Some factors that contributed to the good performance of larger companies:

- Greater power to hire professionals, "stealing" them from smaller companies
- Increased investment in marketing to be found by new customers and have sexy messages to attract them
- Greater investment in sales, with new structures and professionals trained with digital sales techniques
- The customer is remote, so instead of buying from a smaller company in their neighborhood, they end up opting for a large company in a large center

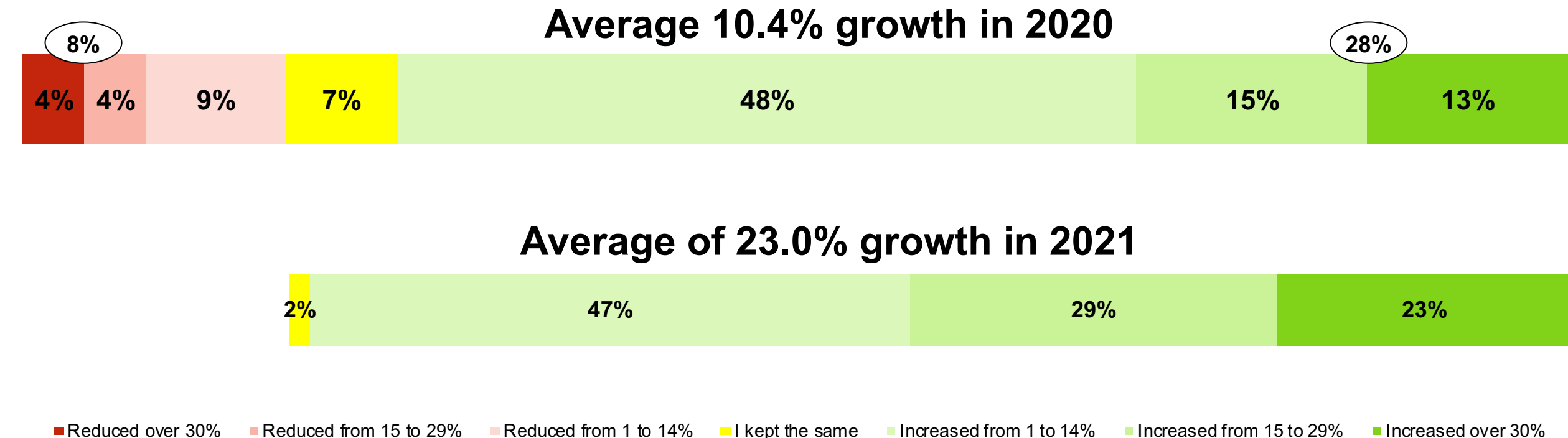
We had many companies that skipped the R\$16 million divider, full-bodied the big team...

Polarization in the growth of IT companies

For the first time in history we had a year (2021) with an insignificant number of companies with retraction

The percentage of companies with **more than 30% growth** was from 13% in 2020 to 23% in 2021 !!!

The percentage of companies with **growth from 15 to 29%** went from 15% in 2020 to 29% in 2021 !!!



Quarter-to-quarter growth

Historically we have:

- Good first quarter, weak second quarter, very good third and fourth quarter

In 2019 we had a weak first quarter with the effect of the presidential elections

In 2020 we had the impact of the pandemic in the second quarter, but with a rapid recovery

In 2021 we had:

- Fantastic first quarter, lush second quarter with good sales results for government
- **GREAT third and fourth trimester!**

In 2022 we started the year with record growth of 21%

Quarter	2016	2017	2018	2019	2020	2021	2022
First	10%	8%	10%	2%	8%	16%	21%
Second	3%	6%	8%	8%	5%	27%	
Third	5%	9%	11%	10%	10%	21%	
Fourth	1%	15%	12%	14%	13%	28%	
TOTAL YEAR	5%	11%	11%	10%	10%	23%	

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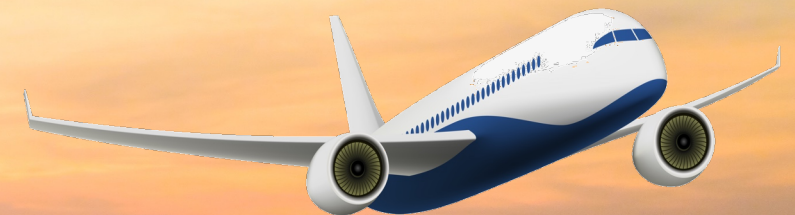
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Historical data:

Critical factors

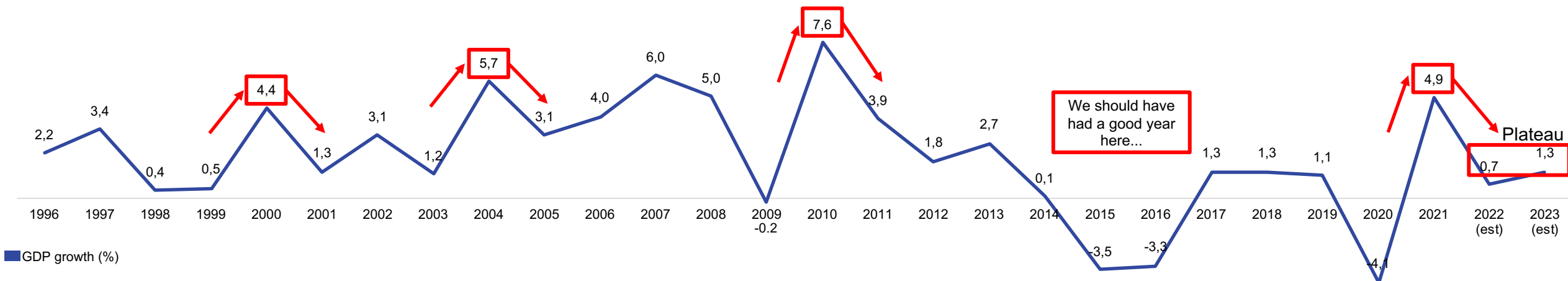
- Brazil is known for "**chicken flight**"
- In 2009 we had the "**little**" crisis with -0.2% growth in GDP
- However...it seems that there was a "**damming**" that emptied in 2010 generating **7.6% growth** (historical peak)
- Following we had 4 very bad years (2011 to 2014) resulting in a major recession (2015 and 2016)

Market Fears:

- That 2020 has caused a "damming" flowing in 2021 generating 5.0% growth
- **That we'll have three or four bad years ahead of us.**

Increased market insecurity and fear:

- In December 2021, entrepreneurs were much more optimistic...
- **The war in Ukraine generates insecurity of global economic impact, inflation and lack of technology inputs**

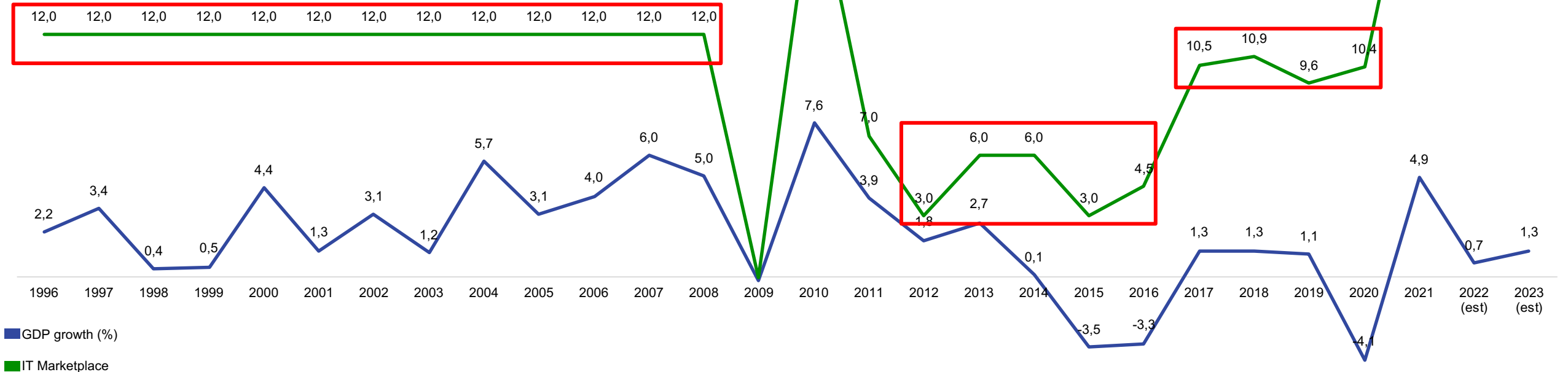


Historical data: GDP and IT market

4 Growth Plateaus

Reasons justifying the Fourth Plateau:

- **5G** completely changing the technology and the way companies talk to their customers and consumers
- **Technology Deficit** Reducing IT Investments in Education, Health, and Retail
 - From 2005 to 2020, Brazil invested the equivalent of 2.1% of GDP in IT; in the same period, the USA invested 3.9%
 - In 2020 investment grew to 3.0% and in 2021 to 3.6%, signaling that we will reduce the historical deficit
- **Increased IT consumption:**
 - In smaller companies (SMB - small and medium business)
 - Analysis tools and satellite products to enterprise management system (ERP)
 - IaaS (Infrastructure as a Service), cloud and security offerings
 - Software Factory and Developer Allocation



Historical data: GDP and IT market

In December 2021, entrepreneurs estimated:

- A growth of **24.5%** for 2022
- Low impact of **the World Cup** on IT sales
- Known impact of the effect of presidential **elections**

What changed:

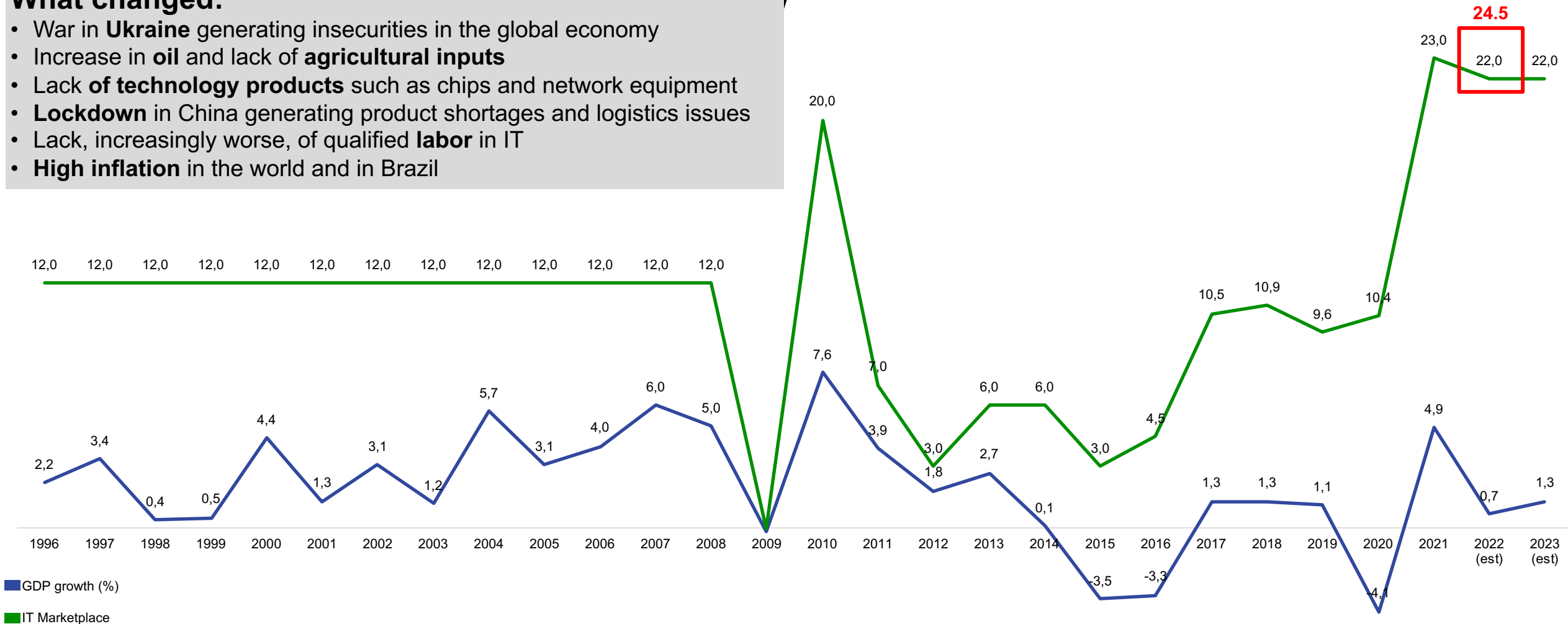
- War in **Ukraine** generating insecurities in the global economy
- Increase in **oil** and lack of **agricultural inputs**
- Lack of **technology products** such as chips and network equipment
- **Lockdown** in China generating product shortages and logistics issues
- Lack, increasingly worse, of qualified **labor** in IT
- **High inflation** in the world and in Brazil

Result:

- **Reduction** of the expectation from 24.5% to 22.0%

ADVANCE Bet:

- In the worst case we will have **20%** but we believe in 22%



Historical data: GDP, IT market and inflation

Critical factors

- Inflation was "killer" in 2015 and 2016 generating **negative REAL growth** in the IT market
- The government forecasts 7% inflation for 2022, but there are many doubts....

Fears of the market and IT entrepreneurs:

- Entrepreneurs **believe** in 10% inflation for 2022 and 2023
- May the effects of the Ukrainian War be as long as the pandemic



Great Danger

In 2021 we had inflation of 10.1%

- Entrepreneurs were able to pass, on average, 7.5% to the consumer customer
- Therefore, there was an average loss of 2.5% of profit margin

IT entrepreneurs believe in:

- Floating exchange rate around 5.0 until the end of the year
- IT market growth by 22% for 2022 and 2023
- Inflation rate of 10.3% for 2022 and 2023
- An average transfer to the consumer customer of 7.5% generating a reduction of 2.8% in margin per year

So, ...

- Between 2021, 2022 and 2023 we will have an average reduction of almost **8.5%** in profit margin

This is a silent thief who comes into your house and steals your money... by the time you wake up it will be too late!!!



The second "inflation"

The lack of manpower in the IT market is known for a long time

- All kinds of professionals are missing: programmers, developers, sales, pre-sales, marketing, operations

The pandemic allowed remote work and broke the geographical barriers:

- **Large companies** with more attractive remuneration packages started to hire professionals "from the countryside"
- The unfavorable exchange rate to Brazil, allowed **American** and **European** companies to contract "temporary" services

The result,

- An average wage inflation of 10% for **technical professionals**
- An average pass-through of 7.5% in costs to consumer customers
- **A loss of 2.5% of margin per year, that is, 7.6% in 3 years**

We are talking about losing **8.5%** margin due to **inflation**
7.6% MORE due to the increase in **salaries** of the technical team
TOTALING 16.1% margin...

Most impacted companies (in order of impact):

- Traditional software development
- Mobile or cloud software development
- Cloud infrastructure (planning, design, architecture, migration and managed services)

16.1%
margin

Challenges for 2022 and 2023

Pilot an airplane with 2 turbines



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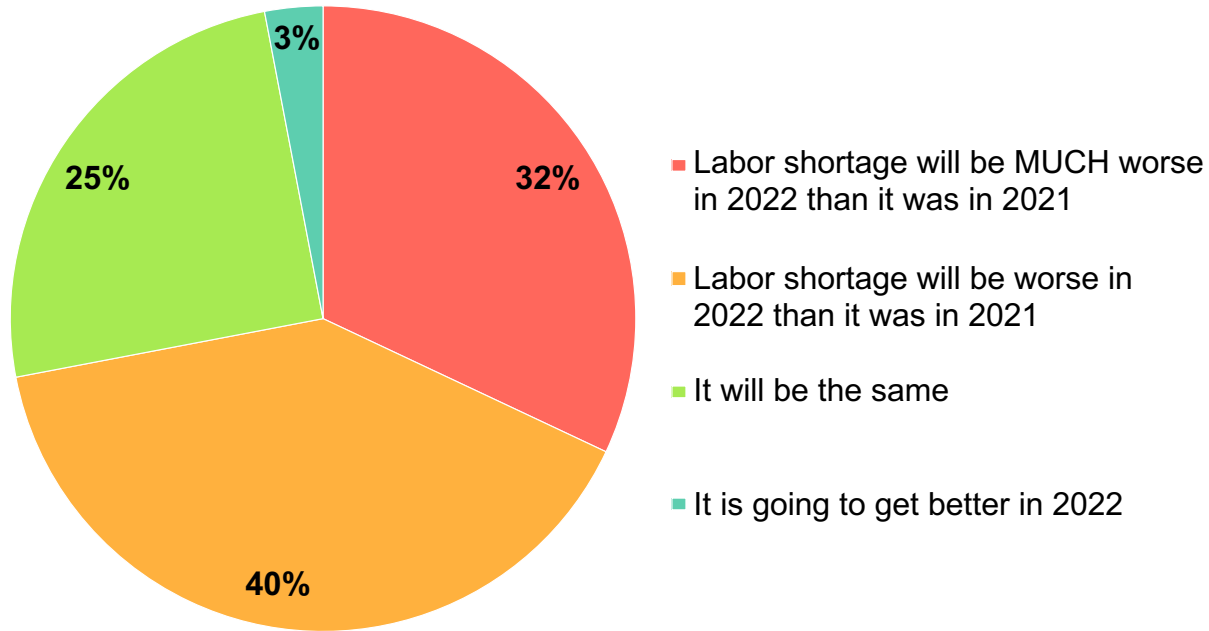
Most companies with revenues below R\$16 million/year have:

- "creative accounting" including monthly profit distribution
- Little familiarity with DRE and financial analysis
- "Weak" concepts about profit margin, contribution margin and EBITDA

So, these companies realize that the MARGIN turbine is bad when:

- Lack of cash throughout the year
- When he arrives at the end of the year and sees that he has nothing to "scrape in the pot"

Impact of labour shortages



72% of IT entrepreneurs think labor shortages will be WORSE in 2022 than in 2021

Basic Cake Recipe

Everyone should do...

What MANY companies are doing to minimize impact:

- Attraction with better marketing discourse about the company
- Retention with better benefits
- Internal training and capacity building
- Program for trainees, young apprentices and hackatons
- Partnership with universities and education centres

These entrepreneurs think that lack of manpower is a problem that must be solved by HR

Advanced Cake Recipe

Increases margin
Reduces business risk
Increases competitiveness

What FEW companies are doing to minimize impact:

- Use low-code or no-code development tools
- Use of libraries or API brokers including systems integration
- Create processes, procedures and documentation to replicate activities
- Automation and intensive use of software to increase productivity
- Robotization of processes and use of artificial intelligence

These entrepreneurs think strategically about how to gain efficiency and turn lack of labor into a competitive advantage

Expectations for 2022 and 2023

Growth compared to the previous year	Grand Total	Hardware	Software	Services	IaaS	PaaS	SaaS
Growth 2019	10%	5%	8%	10%	12%	10%	14%
Growth 2020	10%	5%	8%	9%	29%	21%	18%
Growth 2021	23%	15%	19%	22%	35%	22%	32%
Growth 2022	22%	11%	15%	20%	32%	22%	31%
Growth 2023	22%						
Turbine 1 - growth compared to market average							
Turbine 2 - average business model margin							

Traditional **hardware** and **software** companies (on-premises) have the 2 bad turbines (recurring revenue and margin) in addition to being low on fuel, so the flight may be short...

- **Traditional hardware** companies want to change the business model but encounter difficulties in “mental model,” “business culture,” and the compensation system
- **Traditional software** companies have to make huge investments to modernize their solutions and some the account just doesn't close

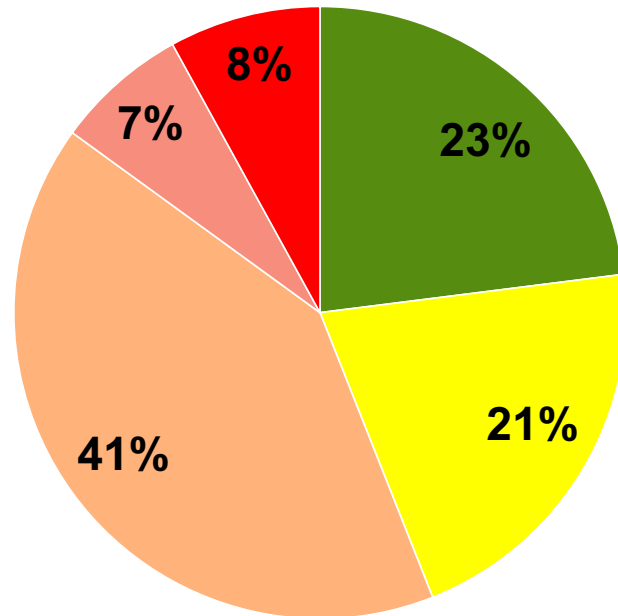
The **service companies** have a bad turbine - high demand, and the growth is impacted by the lack of manpower

CLOUD companies (IaaS, PaaS, SaaS) have the 2 good turbines. There is a large window of opportunity in recurring revenue growth, but you have to keep a CLOSE eye on the MARGIN TURBINE

Hardware Sales Challenge

Since the beginning of 2021, several sectors have been suffering **from delays in delivery** or **lack** of technology inputs, chips, network equipment, backup, servers, etc.

- The war in Ukraine and lockdown in China can make this crisis longer than entrepreneurs think...



What entrepreneurs think at the moment:

- The worst is over and now it's going to get a little better
- The situation will be virtually resolved by the end of this year
- The situation will remain the same until the end of this year
- The situation will be WORSE by the end of this year
- The situation will remain bad in 2023

Some entrepreneurs took advantage of this moment of great **turbulence** to **RETHINK** their business model and offer CLOUD



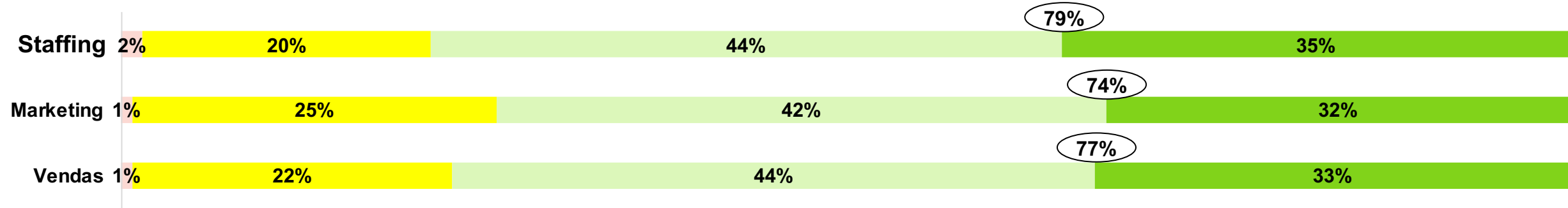
Investments planned for 2022

Here we see another clear sign of **CONCERN** from IT entrepreneurs

In the survey done in January 2022, entrepreneurs were extremely **optimistic** and **confident**

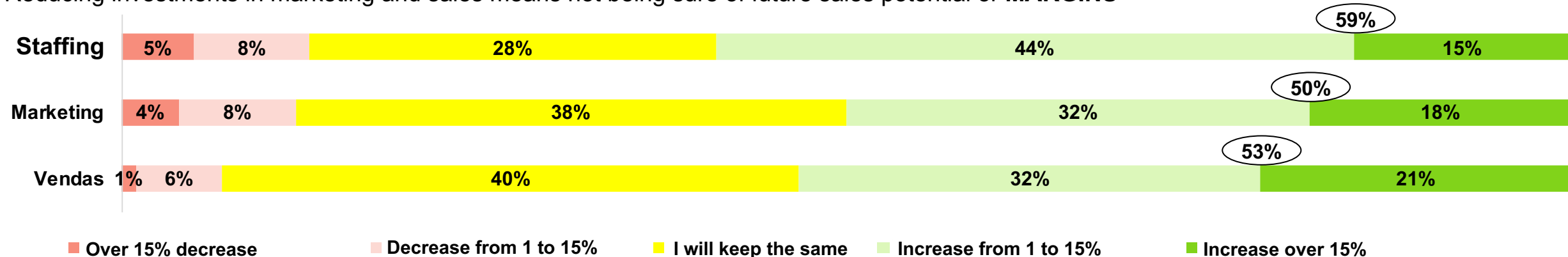
Only 1-2% planned to reduce staff and investments in marketing and sales

- 79% of entrepreneurs plan to increase hiring
- 74% planned to increase investments in traditional and digital marketing
- 77% planned to increase investments in sales



In this research, May 2022, we see a very different scenario

- Reducing the number of employees, when we have a shortage of labor in the market, is the "last card" that the entrepreneur should play
- Reducing investments in marketing and sales means not being sure of future sales potential or **MARGINS**



Key challenges for 2022 and 2023

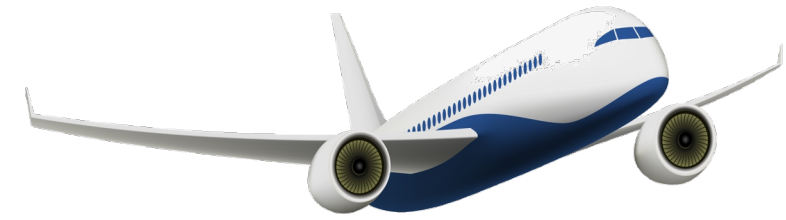
According to the entrepreneurs interviewed



Increase sales

Invitation to watch the **Sales in Action** program program where Dagoberto Hajjar interviews great IT sales personalities who talk about their 5 golden tips to increase sales performance

<https://www.advanceconsulting.com.br/sales-in-action>



Turbine #1
Sales Increase
Recurring revenue

Interviewees:

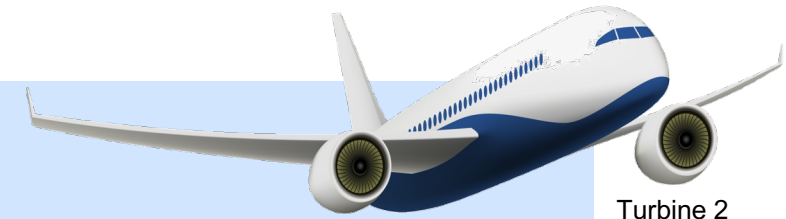
- **Alexandre Maioral**, President of Oracle
- **Carlos Carnevali**, former VP of Cisco
- **Cleber Moraes**, President of AWS
- **Dominic de Souza**, director of Gartner
- **Franklin Lights**, VP of Microsoft
- **Jorge Sukarie**, CEO of Brasoftware
- **Luciano Idésio**, VP of Thomson Reuters
- **Marcelo Lombardo**, CEO of Omie
- **Paulo Cunha**, President of AWS
- **Renata Rico**, VP Salesforce
- **Ricardo Brandão**, CEO of SkyOne
- **Roberto Arruda**, SkyOne Director
- **Sandra Vaz**, VP of RedHat
- **Severino Benner**, CEO of Benner

Golden rules most cited by respondents:

- **Study** and know your territory and your customers well
- Tell **success stories** or **use stories**
- **Focus on the customer**, on helping the customer, on selling
- **Selling is a science**, not an art
- Get a clear and realistic view of the **pipeline**
- Have **good planning** and **excellent execution**
- **Focus on high performance**
- Have **passion** for what you do
- **♪ Have fun ♪**

How to increase the efficiency of the sales team

According to the entrepreneurs interviewed



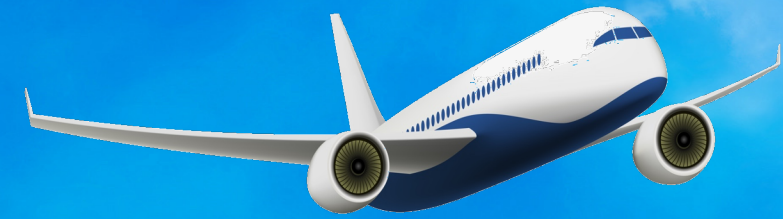
Turbine 2
efficiency in sales
MARGIN

Basic cake recipe (everyone should already make it)

- Implement **SDR** to prospect opportunities more efficiently and cheaply
- Implement **CRM** tool and culture for **pipeline** control
- Allocate a **sales administrator** to support the sales team, analyze the funnel and propose improvements
- **Train and train** the team in consultative sales methodologies

Advanced Cake Recipe (to increase margin)

- Have a **manager** analyze, plan, control execution, and mentor salespeople
- **Map the market**, needs and opportunities (target market or target segment)
- Have a good **sales plan** with designation of territories, portfolios and accounts
- Define **basket of performance indicators** for seller and link to compensation
- Have **chart of accounts** for the main accounts of the base or target accounts
- **Align marketing** to generate demand and opportunities according to what is in the sales plan
- Have a structure aligned between sales, **pre-sales and after-sales** (customer success)
- Implement **FORECASTING** tool and culture
- **Train and train** the team in advanced approach, qualification and negotiation techniques
- “**Oxygenate**” underperforming salespeople



Into the clouds!

The journey of cloud companies

Companies offering CLOUD products and services are discovering new categories of services with more attractive **MARGINS** and thus evolving their business model

Even software development companies are now offering professional services and managed services to compose recurring revenue and **MARGIN**

profit margin

lower



largest

Job Category

Resale of consumer CLOUD and business support services

Consumption with billing, reserved instances and spot services and business support

Sale of complementary third-party applications

Including security monitoring, alarms, cost management, adherence to security and governance best practices, visualization applications and data analysis. Typically, third-party applications are bundled within managed service offerings

Professional Services

Planning, design, architectural construction and migration

Managed services

Support, operation and optimization

Sale of value-added intellectual property

Partner's intellectual property, using proprietary software development and engineering capability to provide software applications specific to vertical or horizontal business

% of CLOUD revenue

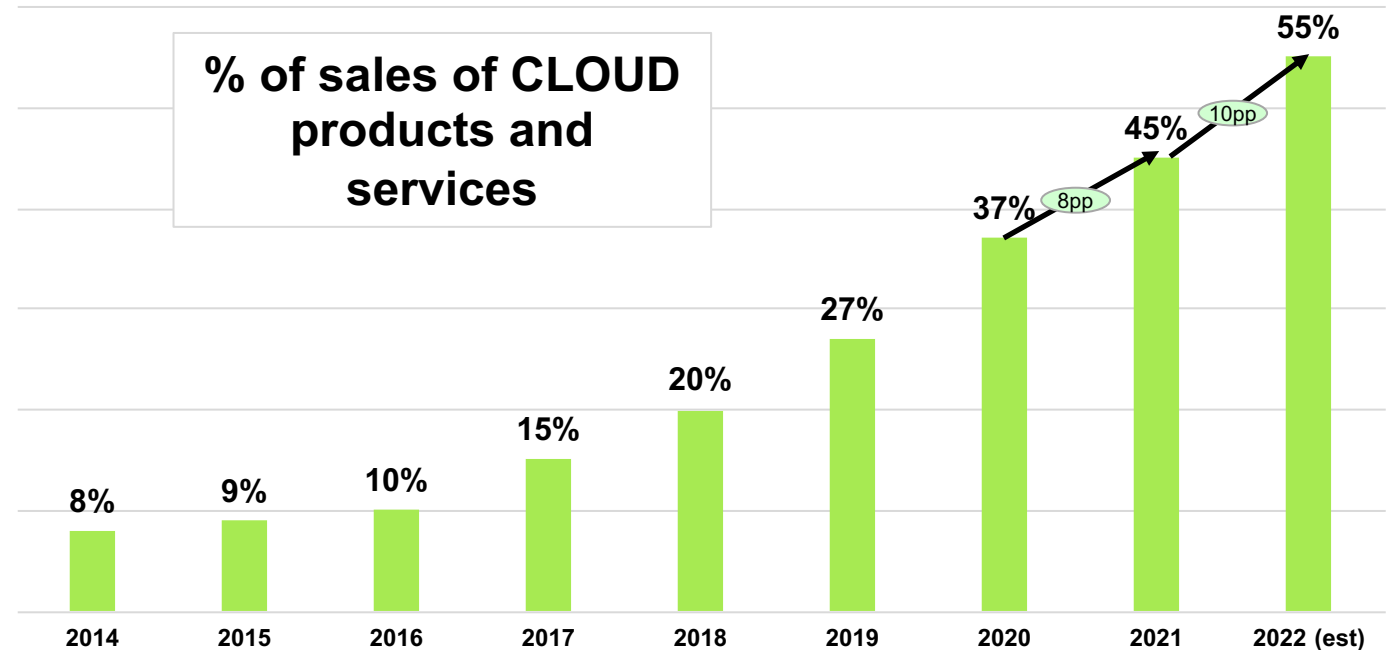
The pandemic accelerated the process of **digital transformation of companies**, increasing demand and supply of CLOUD products and services

Projects of 3 years happened in 4 months...

At first the offer, of buying and selling CLOUD, was in basic services (computational resources and storage)

Right now, both buyers and sellers are EXPLORING new categories of CLOUD SERVICES

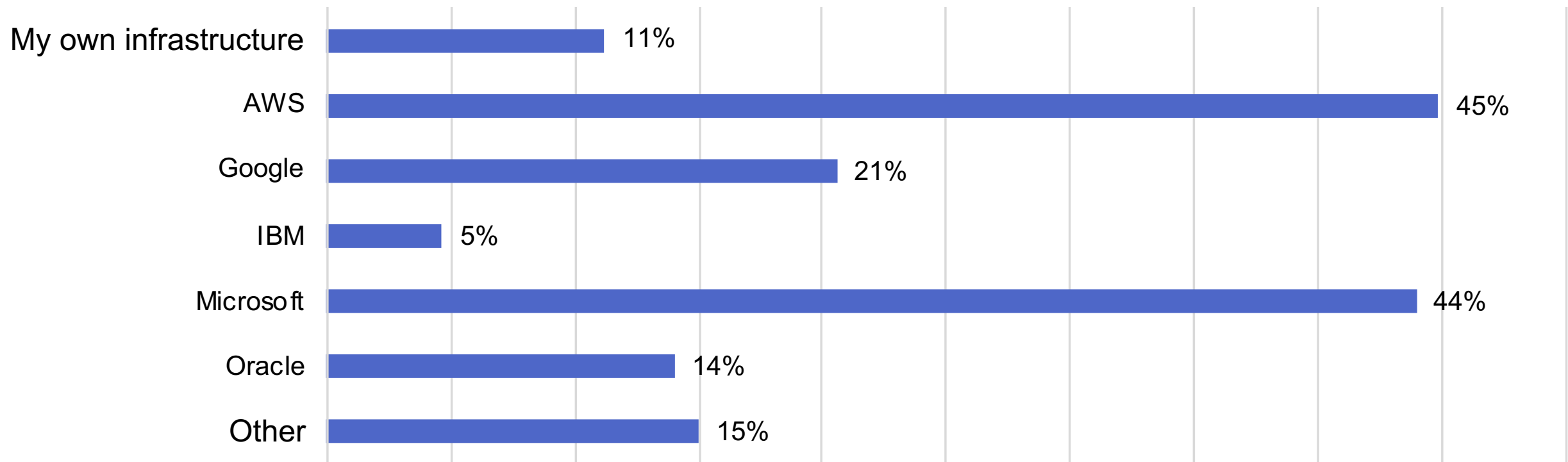
Entrepreneurs' estimate is to end 2022 with an average of 55% of revenue coming from CLOUD products and services



Preferred Providers of Respondents

In the survey we did in January 2021 we had 22% of respondents **“using their own infrastructure”**

According to the interviewees, the change was due to market demand for increasingly sophisticated CLOUD **services categories**, tools for **account management**, **cost management**, **increased security** with the application of **best governance practices**



CLOUD SOFTWARE

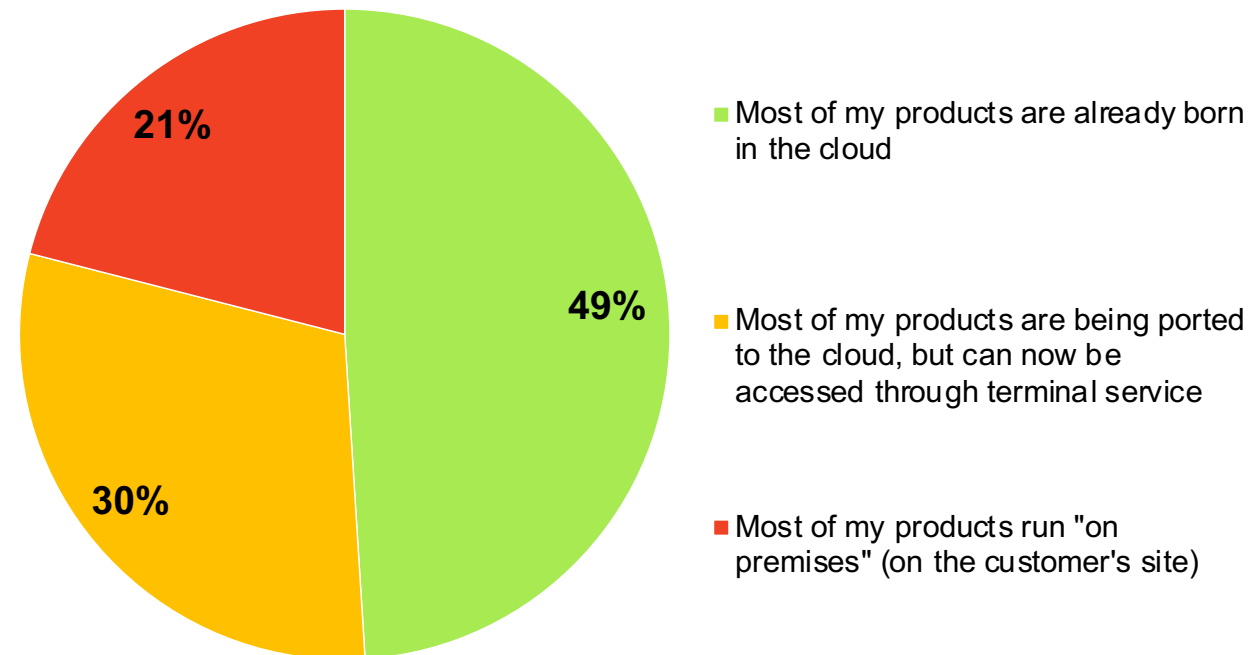
We have 21% of the companies interviewed where most of their products run "**on premises**", according to the interviewees are solutions:

- That require customer-server efficiency, such as call-center or contact center solutions, and solutions for hospitals
- From conservative customers who prefer the "local" solution as small and medium-sized retailers
- Linked to the physical and local server, such as security software or backup
- Where the government somehow requires local software to comply with regulatory requirements

On the other side we have 49% of companies where most products (software) **were already born in the cloud**

We have 30% of companies surveyed looking **to migrate their software** to the cloud. These companies report that migration projects will be long and expensive

- Many begin with satellite modules or "parts" of the software to gradually migrate
- Many begin with database optimization or swapping to achieve financial gains

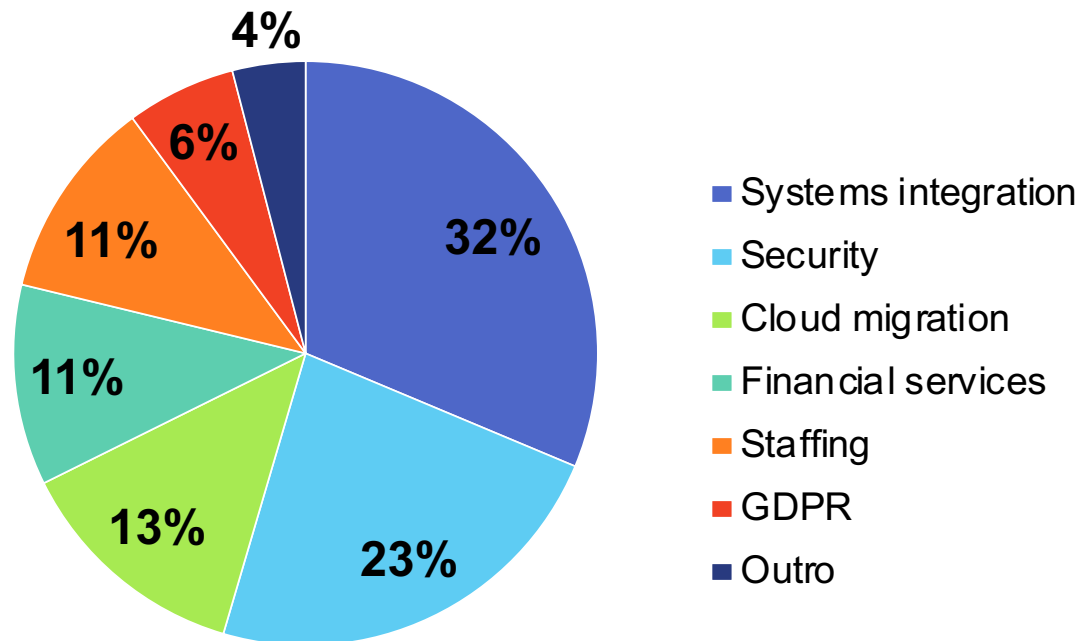


Biggest challenges in digital transformation

Formerly the software was "**monolithic**", but today it needs to be **integrated**

System integration remains the biggest challenge for software development companies, resellers and integrators

- We have an increasing number of smaller software and more specialists who need to be integrated with other corporate software ("we are living in the app era")
- Developers and developers will have to develop in an "integrated" way or using large "API brokers" even to be able to increase their development performance



Agenda

About ADVANCE and this survey

Executive Summary

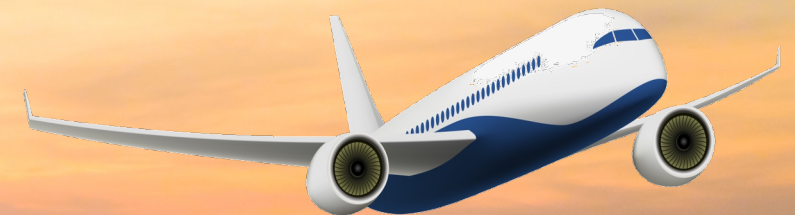
Profile of companies and interviewees

Business results in 2020 and 2021

Expectations for 2022 and 2023

IT market benchmarks

My conclusions



History: sales strategy at customer base

Base selling is the **PREFERRED strategy** of IT entrepreneurs when the market is difficult

- The sale on the base, typically, is easier, faster and has a lower cost of sale

Years where the **sales strategy at the base** was adopted:

- 2015 and 2016 in the Dilma crisis
- 2020 in the uncertainty of what the market would bring with the pandemic

Years in which the **base expansion strategy** was adopted:

- 2017 and 2018 where the market was very prosperous
- 2019 was a year that entrepreneurs knew would be difficult, but they maintained the EXPANSION, perhaps mistakenly

By 2022 IT entrepreneurs are adopting EXPANSION:

- Sale to new customers and new market segments
- Selling to new geographies directly or indirectly (using channels)
- Sale of products and services

Sales Strategy	2015	2016	2017	2018	2019	2020	2021	2022
Sale at the base	62%	46%	24%	21%	16%	45%	30%	15%
Expansion	38%	54%	76%	79%	84%	55%	70%	85%

Background: Indirect Sales Strategy

When the market is **DIFFICULT** we see two movements in indirect sales strategies:

- Companies that already work with channels end up seeing that the channel is "slow" at the time of crisis, and end up accelerating their direct sales process, saving the margin they would pay to the intermediary
- Companies that do not yet work with channels look at indirect sales strategy as an alternative to addressing the difficulties they are having with direct sales. Implementing a good sales system through channels certainly takes more than 6 months

When the market is **GOOD** we see two movements in indirect sales strategies:

- Companies that already work with channels train and manage their channel so that they work at maximum potential
- Companies that do not yet work with channels do not look at channels as an alternative, prefer to sell directly

The "**interest**" in working with channels takes **1 to 2 years** until the channel is selected, recruited, trained and generating results. It is a long-term strategy and **should not** be changed every year.

	2016	2017	2018	2019	2020	2021	2022
Companies that already work with channels	42%	48%	53%	48%	48%	52%	45%
Companies interested in working with channels	28%	25%	13%	21%	28%	25%	21%
Already working + interested	70%	73%	66%	69%	76%	75%	66%

Background: strategy for internationalization

From **2008 to 2017**, exports were inversely linked to domestic market demand, that is, **when the domestic market improved, exports fell**

From 2017 we started to see the index of companies that export grow much more due to the companies and businesses Start-ups than due to the domestic market, representing a **MATURATION of the market**

In **2020**, the pandemic forced replanning and encouraged companies to **focus on domestic markets**

In **2021 and 2022** the Brazilian domestic market will be highly promising, again encouraging companies to establish priority for the national territory

	2016	2017	2018	2019	2020	2021	2022
Companies that already export	15%	12%	13%	16%	17%	18%	19%
Companies interested in exporting	35%	30%	30%	31%	30%	25%	22%
Already working + interested	50%	42%	43%	47%	47%	43%	41%

Investments in marketing and sales

Around the year 2000, entrepreneurs had as a guideline that IT companies invested:

- 1% of marketing revenue - which was basically institutional, making brochures and events
- 10% to 15% of sales revenue - including all expenses of the sales team

The Internet began to change the way the IT consumer market sought information and articulated its purchases. In 2011/2012 we started talking about digital marketing that was even more important in a time when buyer and seller were working from home

Also in 2011/2012 we started talking about the role of SDR (Sales development representative) generating qualified leads for the sales team. In most IT companies, SDR is in the marketing framework

Then sales budgets began to move to marketing

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Traditional marketing (including staff)	2.5%	2.5%	2.0%	2.5%	2.5%	2.6%	0.9%	1.6%	1.5%
Digital marketing; (including SDR costs)	0.9%	1.9%	3.0%	3.9%	4.5%	3.8%	4.5%	3.9%	3.8%
Sales team (salary, commission, training and activities with customers)	10.2%	10.0%	10.0%	9.8%	9.6%	9.5%	8.0%	7.0%	6.5%

IT market benchmarks for 2022

Investments in marketing and sales change a lot as the business model of the IT company

In particular, the pandemic has greatly changed the dynamics of buying and selling technology, requiring digital marketing and sales through digital means

Many IT companies still have old marketing and sales structures, with inadequate costs and results...

% of turnover invested in 2022	Hardware	Software	Services	IaaS	PaaS	SaaS	Total
Cost of the marketing team	0.9%	1.2%	2.4%	2.3%	4,6%	4.4%	2.3%
Cost of the sales team	15.5%	4.7%	6,1%	5.7%	9.3%	8.0%	6.5%
Traditional marketing activities and campaigns	0.5%	0.6%	2,0%	2.3%	1.9%	1.7%	1.5%
Digital marketing activities and campaigns	0.5%	1.2%	4.4%	7.9%	9.7%	5.4%	3.8%
Activities done by the sales team	0.5%	1.0%	3,2%	8.0%	3.8%	4.3%	3.0%
TOTAL	17.8	8,6%	18.0	26.1	29.3%	23.7 %	17.1%

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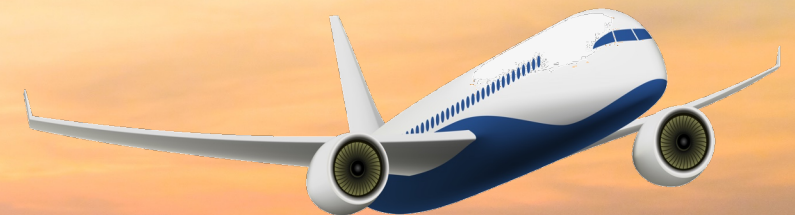
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Cake recipe for 2022 and 2023

Basic Cake Recipe

- Analyze the market (opportunities and threats)
- Redesign the **business model** to meet demand in a differentiated way
- Correctly choose the **portfolio of offers**
- Establish a **plan with strategies and actions**
- Structure the marketing and sales areas
- Have **GREAT discipline** in the execution of the plan
- Thinking about **INNOVATION**
- Have **SPEED** to plan, execute, learn and adjust the plan

Advanced Cake Recipe

- Prepare marketing and sales to “**unlock**” customers
- Create **processes, automate and robotize** (including artificial intelligence) all that is possible
- **Doing more with less and doing much better**

There are many **changes** and many **investments**. You can understand it as investments that go beyond your **current margin**, or as investments that will ensure your **future margin**

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