

Local hero

Brazil's biggest software firm sees a sluggish economy as an opportunity



In the late 1970s Bill Gates predicted "a computer on every desk and in every home". Laércio Cosentino, an engineer at SIGA, a Brazilian maker of software for mainframes, concluded that therefore every small firm in his country, even the ubiquitous street-corner padaria (bakery), would eventually have one too.

In 1983 Mr Cosentino, then just 22, convinced his boss to set up a separate business to concentrate on serving small and medium-sized enterprises (SMEs). Thirty years on, the company, nowadays called Totvs (pronounced "totus"), dominates Brazil's \$1.9-billion-a-year market for enterprise software. Investors have piled in. On October 22nd Totvs disclosed that the world's biggest fund manager, BlackRock, had increased its stake to 5%.

Brazil has the world's seventh-largest economy and is ninth in terms of the number of PCs installed. Totvs supplies roughly half of all business software and services on its home turf, either directly or through franchises, reckons Gartner, a research firm. The share exceeds 60% among SMEs. This makes Totvs the world's sixth-biggest business-software firm.

However, outside Brazil it is all but irrelevant. Totvs's home market provides 98% of its annual revenues of 1.5 billion reais (\$700m). Some might regard it as folly to be so reliant on an economy where growth slowed to 0.9% in 2012, and may be little more than 2% this year and next. Mr Cosentino insists it is an opportunity.

The days of growth fuelled by cheap labour are over, he says. With labour costs rising because of low unemployment, firms must invest in IT, to improve their workforces' productivity. This is especially true among the SMEs that Totvs serves. Luis Azevedo of Bradesco, a bank, estimates that perhaps 15% of Brazil's SMEs use enterprise software of some sort. Plenty of padarias are still waiting to join the computer age. However, many of them will be discouraged from doing so by patchy access to broadband internet outside the largest cities. This means that, in particular, cloud-based software-as-a-service, an area in which Totvs has invested heavily, may be slow to take off.

In its early years Totvs benefited from Brazil's high import tariffs, which kept foreign competitors out. But even as these have fallen, competitors have found it hard to "tropicalise" their offering, as Brazilians say, whereas Totvs's franchise system has helped it spread into the country's fast-growing provincial towns.

Good governance has endeared the company to investors, as did Mr Cosentino's willingness, rare among tech founder-CEOs, to surround himself with professional managers. This has made it easier for him to borrow money for a string of investments and acquisitions (53 to date), culminating with the takeover of Datasul, a big rival, in 2008.

Totvs's revenues have quadrupled since its initial public offering in 2006, and its share price has quintupled. Last year sales rose by 10%, even as Brazil sputtered. Profits surged by 23%, to 207m reais. Add a healthy balance-sheet and it is little wonder that foreign fund managers are keen.

In September Totvs secured a 659m reais credit line from BNDES, the national development bank. So it has the money to make more purchases. But it may be well advised to tread cautiously. Luis Claudio Mangi of Gartner notes that it took Totvs years to integrate its software with that of Datasul and Logocenter, another rival snapped up in 2005, into a seamless product for manufacturers.

As with its customers, the company's greatest challenge is productivity. Mr Cosentino joins a chorus of Brazilian bosses lamenting a shortage of skilled workers. It used to take less than 90 days to train a new recruit, he says; now it can take up to six months. A tight labour market means he has to pay more for less. To counter the problem Totvs pours the equivalent of \$90m a year (or 12% of revenue) into R&D, more than Embraer, Brazil's much-admired aircraft-maker. It is also doing more development work outside the country: last year it opened a new centre in Silicon Valley to add to the one it has in Mexico.

Though they have struggled to adapt to the Brazilian business climate, Totvs's foreign rivals are not giving up. SAP of Germany, the global leader in enterprise software, has been courting Totvs's SME customers; its turnover in Brazil doubled, year-on-year, in the second quarter.

As companies expand abroad they tend to take their legacy IT systems with them. Switching providers is a costly mess. Forrester, a research firm, estimates that only 7% ever risk it. For multinationals entering Brazil that means sticking with SAP or Oracle, the industry's other big beast. But it also means that Mr Cosentino can take comfort from a survey by Oxford Economics. The consultancy found that 73% of mid-sized Brazilian firms expect to have foreign operations in three years, up from 53% today. He hopes that as his customers seek growth beyond the country's borders, they too will take Totvs with them.

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