Italians fasten seat-belts for bumpy ride

Life in the fast-lane of the €22bn Italian IT market has been far from smooth in 2006. With spending finally showing signs of picking up after a stop-start second quarter, IT Europa brings you the low-down on an SMB and consumer market determined to cast off its reputation as western Europe's perennial underachiever... ...

Although Italian spirits are riding high following the Azzurri's victory in Germany this summer, many IT channel bosses lay the blame of a disappointing second quarter squarely at the World Cup's door. 'The first quarter was good but Q2 showed a slight decline year-on-year - which was mainly due to a bad April,' moans Alberto Raviolo, marketing manager at Epson's Italian outpost. 'With the World Cup and the high volume of bank holidays, people preferred to spend money on holidays and TVs than on IT.'

The national elections in April, which saw a centre-left coalition narrowly defeat Silvio Berlusconi's right wing alliance, only exacerbated the staccato progress of an Italian IT market on course to expand just 3pc to €22.6bn in 2006, according to local research house Sirmi. But considering the years of hardship the Italian IT channel has endured, any growth is welcome, and locals insist there is a renewed sense of optimism in the run-up to the back-to-school market. 'The second half of July and August have been good and there is actually now a lack of products in the Italian channel,' testifies Gianpiero Morbello, European marketing director at Acer.

Figures from EITO put the Italian IT market at a more optimistic €25.4m for this year, growing to €26m in 2007. But this still puts it at less than half the value of annual IT hardware, software and services sales in France and the UK, despite comparable populations.

International vendors racing into Italy must clear a further hurdle to reach the large sales volumes they take for granted in other leading western European markets. Italy's unique business climate means it can only be cracked by building a broad-based channel. Dell's lack of success in the country has been well documented, and Morbello thinks he knows why: 'Italy is a long country geographically, and everything is based on trust between the channel and end-users. We have a lot of small companies that buy from dealers owned by friends or relatives - that's why the direct model doesn't work here.'

Estimates put Italian dealer numbers at anywhere between 15,000 and 28,000, depending on whether you include small white goods resellers who have recently moved into consumables and consumer electronics. Between them they service a blanket of around four million SMBs, while the top accounts are taken by a small handful of corporate resellers such as Asystel, NPO, Converge, Datamax, Avenco and Zuchetti. 'You could count Italian corporate resellers on one hand,' quips Tech Data's Italian boss Yolanda Rios.

Despite the collapse of Nuovo-Mercato-listed giants Finmatica and TC Sistema a couple of years back, the large account resellers left standing are enjoying the bulk of the growth right now as enterprises lead the spending revival. SMB growth remains stunted, with figures from Rapporto Assinform showing that Italian firms with 1 to 49 employees decreased their IT investments by 1.4pc last year. During the same period, mid-sized firms upped spending by 1.7pc and large firms shelled out 0.9pc more on IT.

That means the IT sophistication gap between large and small firms is only widening. Although there are just 1,800 Italian companies with more than 500 employees, the backwardness of their SMB counterparts means they account for a whopping 55pc of IT expenditure. 'SMB is theoretically a very big market, but in practical terms it's a small market as they're just buying PCs and aren't very sophisticated in the spending habits,' judges Enrico Acquati, research and consultancy director at Sirmi. Indeed, figures supplied by HP indicate that Italian SMBs invest an average of just 5pc of their sales in ICT each year.

Public sector spending also remains muted as the new government grapples with Italy's sprawling budget deficit. Additionally, onlookers assert that the new administration is distancing itself from Consip - the centralised procurement agency responsible for buying all government IT equipment - with devastating consequences for the hardware market. Last Autumn Consip put out a tender for around 55,000 PCs, 35,000 notebooks and a batch of servers. Since then, though, spectators assert that less than 10,000 units have actually been delivered. 'It won't ever arrive in the volumes that were first mentioned,' fumes Morbello at Acer, which won a part of the notebook segment. 'Consip was a strong commitment of the previous government as they wanted to centralise purchasing, but it's not a priority for the new government.'

Italian Hardware Market

2005-2007 in Euros (m). Source: EITO

Sector	2005	2006	2007
Desktops	2,199	2,083	2,056
Notebooks	1,924	2,023	2,124
Total PCs	**4,123**	**4,106**	**4,179**
Servers	1,926	1,968	1,952
Printers & MFPs	1,246	1,305	1,341
Total IT hardware	**7,946**	**8,065**	**8,186**
Networking kit	**4,856**	**4,987**	**5,096**
Total ICT equipment	**16,816**	**17,091**	**17,354**

Many channel bosses, however, would actually welcome the introduction of a new system that would spread power more evenly. Carlo Pinferi, purchasing director at IT conglomerate CDC, refuses to pull his punches: 'We don't believe Consip is the solution for Italy, as it concentrates business in too few companies. And we don't understand what they are doing now as they are defining new tenders but nothing is achieved.'

At one stage, CDC drew 10pc of its sales from Consip tenders, and Pinferi says the company has moved deeper into distributor to recover lost sales. Raviolo at Epson is another dissenter: 'Consip is squeezing vendors' margins to a level which is not sustainable and it's not our priority anymore.'

Mighty Esprinet poised to kickstart M&A

Though the Italian distribution landscape is as varied and diverse as the ingredients of a Roman banquet, Europe's fourth largest IT market is ultimately dominated by just one company. Nuovo Mercato-listed broadliner Esprinet grew its share of the €7bn Italian wholesale arena from 21pc to 22pc last year, according to Sirmi, nearing the combined marketshare of its three closest rivals.

And despite, its cumbersome size, Esprinet has remained the toast of investors thanks to an austere focus on working capital and a bottom line that would make most rivals blush. 'We are the best-performing IPO in Italy in the last five years and have a gross margin of around 1.5 times our rivals,' boasts IR manager Michele Bertacco. The firm recently unveiled first-half net profits of €22.7m, close to double last year's tally.

Esprinet is the most powerful member of an Italian IT distribution aristocracy featuring just five other names - US broadliners Ingram Micro and Tech Data, cash and carry specialists CDC and Datamatic, and Germany-based PC and peripherals specialist Actebis. 'In Italy we have around 200 wholesalers but most are sub-distributors and only a few are able to cover the whole territory,' confirms Raviolo. 'All the top vendors partner with the top five or six distis as they're the only ones who have the credit lines,' agrees Morbello at Epson.


Dave Poskett, HP

The most prominent fault line separating top players continues to be mode of sales. Esprinet and Tech Data both claim to yank 75pc of revenues from the web, netting them clear cost benefits over rivals. But Pinferi at CDC is convinced the cash and carry approach is back in vogue as Italian dealers increasingly struggle to pre-empt demand. 'Most customers are unable to predict the future so you can't operate a long-term strategy for purchasing,' he argues. 'Dealers can buy what they need from us daily and can optimise cashflow as they're not stocking goods.'

Though Italy's top ten players command a regal 67pc share of the market, vendors have little chance of cracking the country's regions without forging either direct or indirect ties with much smaller distis. 'It's important to have some distis with a regional base to maintain good relationships with the dealers,' counsels Raviolo at Epson, which supplements its broadline channel with locals such as Digits in the south, Cometa in Sicily and IMA and Brevi in the central region.

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'Aggressive' Acer fights its corner

An aggressive sales strategy has lifted Taiwanese vendor Acer to the peak of the Italian PC market in the last few years. It commandeered roughly a fifth of a total Italian PC market worth 4.1 million units last year, putting it a country mile ahead of everyone barring HP. But there are signs its combative stance is beginning to ruffle feathers. 'Acer was pushing distis to buy stock which the market wasn't then taking,' grumbles one onlooker. 'It worked in the past as they reached number one, but now HP is a stronger force.'

Morbello quotes Gartner figures showing HP and Acer neck-and-neck on 23pc marketshare in Q2, adding that Acer is still the outright leader in notebooks with a third of the market under its wing. 'Acer has always been aggressive and when things are going well our partners appreciate this,' he rejoins, adding that any excess channel inventory issues earlier this year have since been ironed out.

Despite the ups and downs of a period disrupted by World Cup football and a nail-biting national election, Sirmi figures show that the PC market was resilient in Q2, swelling by an impressive 12pc year-on-year in unit terms. But it's an arena that has brought only misery to local assemblers as the internationals continue to hammer home their cost advantage. 'They're losing a lot and we foresee that they'll lose more,' crows Morbello. Local champion Olidata saw unit shipments plunge 21pc in Q2, according to Gartner, and CDC admits it's not faring much better. 'We did around 130,000 units in 2004 and around 125,000 last year,' says Pinferi.

Olidata and CDC may be the only locals knocking out more than 30,000 annually, but local assemblers still cling on to a 30pc stake in the market, according to Microsoft. And the vendor points out that proximity PC builders serving small firms are in a unique position to capitalise on the mentality of Italian SMBs. 'Firms with less than 10 employees have a low IT penetration and buy software with a purchase rate closely connected with the hardware lifecycle,' explains a spokesperson. 'This is a big opportunity for system builders able to offer complete solutions, including hardware, software and services.'

This less privileged group of distributors are, however, increasingly under pressure from tightening margins, with Rome-based Micromind one of several outside the top 10 biting the dust in recent months. Some even argue scale is now a necessity after the latest round of screw-tightening from the market's top vendors. 'All the vendors demand high numbers to get back even a small margin these days, and I know HP is raising its targets,' sighs Pinferi at CDC. 'If you do not have scale then it's difficult to stay in the market.'

The latest margin squeeze could just jump-start M&A in a market that has seen few big moves since Esprinet snapped up fierce rivals Assotrade and Pissani way back in 2002. And it's Esprinet which remains the most credible consolidator - especially since it revealed it is in 'ongoing negotiations' with firms commanding roughly €800m sales in Italy and Spain. 'It's a buyers' market, and we're the only buyer,' asserts Bertacco. 'A lot of distributors outside the top 10 are having trouble and have offered themselves to us, but we're being patient.' Bertacco adds that Esprinet is only interested in 'similar firms' with a footing in either the IT or consumer electronics space, adding that the company intends to pounce before the end of 2006.

Since the collapse of networking ace Algol, which boasted annual sales topping €150m as recently as 2003, the value-add market is also now largely ruled by the broadliners. Milan-listed security VAD Itway, pan-European outfits Allasso and Computerlinks and locals IBM and Acer specialist Computer Gross are among a shrinking pack of enterprise-focused distis achieving substantial sales volumes.

Roused by the uptick in enterprise spending, new outfits such as security specialist Dot Force, are, however, beginning to emerge from the woodwork. 'Most VADs have got so big that they can't develop new technologies – and that's where we fit,' explains Dot Force boss Fabrizio Bressani. The distributor, which is paving the way into the Italian market for around 20 emerging security vendors, hopes to have forged ties with at least 300 active customers by the end of 2007.

Top Italian Distributors
by sales Euros (m) - Sirmi

Company	2004	2005
Esprinet	1,499	1,572
Ingram Micro	535	613
CDC	550	565
Tech Data	594	550
Computer Gross	425	458
Actebis	341	350
Datamatic	214	240
Brevi	250	200

Foreign forces step up Italian retail assault

Although the Italian IT retail market has recently made brisk headway against a backdrop of improving GDP and employment figures, it remains light years behind more developed western European economies. In a mark of its relative backwardness, broadband penetration is still languishing at 12.7pc, according to official statistics, the fifth lowest of the EU15 countries and well behind the average of 14.1pc.

But that hasn't deterred break-neck expansion from a host of overseas retailers who recognise the raw potential of the market. Largely as a result of lightening uptake in the consumer market during the last 18 months, laptops accounted for more than half of the 1.06 million Italian PCs shipped in Q2, according to Gartner. And Bertacco at Esprinet says consumer electronics sales are also booming: 'Last year we did €80m in digital equipment like plasmas, LCD screens and MP3 players. The digital era has come to Italy.'

'Now we've defined our model, it's going well.'

Carlo Pinferi, CDC

German CE behemoth and Italian market leader Media Markt opened two more stores under its Media World brand in Q2 alone, while French pretender Darty will have built up a network of nine Italian stores by the end of 2006 after touching down last year. UK-based giant DSG, meanwhile, now has 110 'UniEuro' stores peppered across the north of Italy after cutting the ribbon on nine new locations in its fiscal year to April 2006.

And well-placed sources whisper that Spanish giant Informatica El Corte Ingles is also preparing for its Italian debut some time next year. 'If you consider the current growth rate, you can understand why it's an interesting market for overseas players,' reasons Morbello at Acer. Onlookers insist, however, that the foreign invasion hasn't impacted the balance of power between international and locals, with retail confederation Euronix, CDC, Elettrodata and Datamatic-owned Welcome among those flying the Italian flag.

Still, the local and international retail giants haven't had things all their own way this year and are still suffering a hangover from an unexpected sales dip in Q2. 'Retailers have had some problems with stock,' confides Antonio Gabba, the new boss at Actebis Italy. 'They now have more stock than they need but should shift it by Autumn.' And rumours persist that CDC has been forced to

CARLO PINFERI, CDC

scale back expansion of its new brand of large-format 'Compy Superstores' since they launched last year. 'We haven't seen any Compys emerge in the last few months,' snipes one rival. 'It's tough for them as they're competing against Media Markt.'

Despite conceding that CDC was forced to 'fine-tune' its original plans for Compy - the retailer recently relinquished a 52pc in the venture to Italian merchandising monster Unicoop Firenze - Pinferi is adamant things are back on track: 'Now we've defined our model, it's going well and we're ready to open more.' He says a third Compy store will be unveiled 'very soon', and that within three years the brand could boast up to 10 outlets.

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