

## SA software sector to 'balloon' in 2014

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SA's software market will balloon this year as spending is forecast to increase 10.5% to US\$518m (R5.7bn), according to the latest International Data Corporation (IDC) market analysis report.



SA's software development sector is poised for strong growth over the next five years. Image:

### Project Insight

The SA Enterprise Application Software Market 2013-17 Forecast predicts that overall enterprise applications software spending in the country will expand at a compound annual growth rate of 11.6% across the five-year period to total US\$787.2m by 2017.

Banking, the government and the telecommunications sectors are cited as the biggest spenders on enterprise applications software during the period.

The IDC warns, however, that the bulk of the expected revenue is likely to go to international software vendors that have a presence in SA.

Its South African Enterprise Applications Software Market 2012 Vendor Shares document showed that five vendors accounted for 94.8% of total licence and maintenance revenue collected during that year.

## Biggest vendors

German-based SAP had the largest share of 48%, followed by Oracle (20%), Sage (18%) and Microsoft Dynamics and Syspro, with 5.3% and 3.5%, respectively. Syspro is the only wholly South African software company among these.

Mogen Naidoo, senior research analyst for the Middle East, Africa and Turkey at the IDC, said the monopoly of the bigger

software firms was shifting amid increased collaboration with independent local developers.

"The bigger guys obviously hold the market," he said. "The local guys are mostly independent software vendors and they are being approached to develop software for international firms. From that perspective they are now benefiting," said Naidoo.

SA's software developers are rated highly in the world and the country is placed among the world's top 30 countries for software development by technology research and advisory firm Gartner.

## **Incentives**

The government has also incentivised the industry by amending the Income Tax Act in 2012 to allow software development companies to claim back 150% of research and development expenses against tax.

According to analysts, business expenses can usually be claimed back at 100%, but the law allows for a "supercharge" of 150%. Based on a tax rate of 28%, this amounts to an additional cash benefit of 14% on qualifying research and development spending.

Naidoo said the government's aggressive investment and development plans, rising domestic consumption because of the growing South African middle class and access to credit all bode well for the country's future.

He warned, however, that information technology buyers in SA still faced a number of challenges pertaining to budgetary pressures, a lack of access to advanced skills, an expensive communications environment and growing regulatory and compliance demands.

"Most IT initiatives in 2013 and beyond are centred on cost-efficiencies, optimisation, and consolidation and modernisation initiatives," he said.

"Investments in IT will be made in technologies that offer significant optimisation benefits and those that help support business growth," Naidoo added.

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