

Analysis of Brazil as an Offshore Services Location, 2010

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This research analyzes Brazil's suitability for offshore outsourcing based on 10 criteria: language, government support, labor pool, infrastructure, educational system, cost, political and economic environment, cultural compatibility, global and legal maturity, and data and intellectual property security and privacy. Sourcing managers can use this research to judge whether Brazil might be a good location for their organizations' captive or outsourced offshore IT and business process services.

Key Findings

- Brazil's economic footprint (considering international trade and gross domestic product), combined with its domestic IT consumption — the largest in Latin America — as well as its international recognition as one of the most promising and rapidly emerging economies, makes it a natural destination to evaluate for IT services.
- The presence of all global IT service providers, including the Indian providers and a long list of well developed indigenous providers that are now starting to make inroads in foreign markets, strengthens Brazil's appeal and maturity as an offshore IT services destination.

Recommendations

- Consider Brazil as a viable outsourcing choice for a wide range of IT and IT-based services, including IT and application outsourcing and business process outsourcing. Total risk-adjusted costs for specific services are competitive with those in many other offshore destinations.
- Monitor effective control and transparency regarding required local compliance with complex, bureaucratic legal requirements.

ANALYSIS

Table 1 provides a summary of Gartner's rating of Brazil, based on our 10 criteria.

Table 1. Brazil: Outsourcing Rating

| Criterion | Rating |
|---|-----------|
| Language | Fair |
| Government support | Good |
| Labor pool | Good |
| Infrastructure | Very good |
| Education | Fair |
| Cost | Good |
| Political and economic environment | Excellent |
| Cultural compatibility | Very good |
| Global and legal maturity | Good |
| Data and intellectual property security and privacy | Fair |

Source: Gartner (October 2010)

Figure 1 shows Brazil's location and time-zone differences compared with selected cities.

Figure 1. Brazil: Location and Time-Zone Differences



Source: Gartner (October 2010)

Language

- Portuguese is Brazil's official language, but English, French and Spanish are widely taught as part of regular school curricula. The strong presence of foreign colonies means that Japanese, Italian and German language capabilities are also available.¹
- English is regarded as the most important foreign language, but the local educational system still struggles to provide the required proficiency levels. A typical student requires additional courses at private language institutes.
- Export-oriented service providers will often take it upon themselves to provide English language education, through internal training or by subsidizing language course fees.

Analysis: English is the primary foreign language, and most college-educated Brazilians can understand written English, but are not comfortable conversing in it — one of Brazil's major challenges in the international IT services market. Nevertheless, language diversity in Brazil makes it attractive for niche language skills.

Gartner rating: Fair

Government Support

- Government continues to create incentives, such as tax breaks, to boost technology-oriented innovation and workforce development, with the double objective of developing the IT services industry and making Brazilian service costs more competitive abroad.
- The Brazilian Association of Software and Service Export Companies (Brasscom) enjoys high visibility and drives strong programs (including education, marketing, regulations and intelligence). Its president has a seat in Brazil's Economic Development Council.
- Other IT industry organizations, the Brazilian Association of Software Companies (ABES, representing software companies) and Assespro (representing software and Internet companies), join Brasscom in incentive programs and government lobbying. Apex-Brasil (a government export promotion agency) and Softex (an organization focused on software and services development) develop additional activities in partnership with Brasscom.
- Outdated labor laws and a slow-moving official bureaucracy continue to reduce the agility and flexibility of businesses in Brazil.

Analysis: Outdated labor laws are still a sizable hurdle, and although currently under debate, they are not expected to change significantly in the short term. However, the country has made important forward strides in the past few years.

Gartner rating: Good

Labor Pool

- Brazil has a labor force of 86 million, 66% of which work in services, in general.²
- Growth rates for the IT services industry indicate that 750,000 additional professionals will be needed in the country in the next 10 years (300,000 for the export market).
- Projections indicate that the number of college graduates in IT-related careers will reach approximately 48,000 in 2010 and 53,000 in 2013.³ Additionally, graduates from other

areas, especially business areas, will also pursue careers in IT. Some of the new professionals will replace retiring professionals among the 600,000 in the IT labor pool (1.7 million, if we consider call centers).

- This scenario indicates a progressive shortage of IT professionals.⁴ As a result, enterprises in the IT industry undertake the responsibility of preparing the workforce, usually in partnership with local governments in second-tier cities.
- More than 60% of IT service companies' labor pools are located in seven major cities — Sao Paulo, Rio de Janeiro, Curitiba, Belo Horizonte, Porto Alegre, Recife and the capital Brasilia. The biggest labor pool in the country is located in Sao Paulo, with a size of 225,000.⁵ However, the scarcity of resources is already becoming an issue, and companies are rapidly — and successfully — reaching out to Tier 2 cities with good universities (for example, Campinas, Hortolandia, Sao Carlos, Uberlandia, Londrina, Maringa, Florianopolis and many more). Churn is still low (between 5% and 10%, on average).
- Characteristics of flexibility, creativity and client empathy, in addition to specific domain skills (especially in the financial, insurance and communications verticals), make Brazilian resources attractive. A large percentage of workers have good business acumen and knowledge of business practices.

Analysis: With the largest labor pool in Latin America, Brazil still shows availability of labor resources at reasonable cost. Most, if not all, leading global IT service providers (including the Indian providers) have a presence in Brazil, and many have made it their hub for Latin America. Indigenous providers are maturing and aim to serve the offshore markets.

Gartner rating: Good

Infrastructure

- Brazil is South America's largest telecommunications market. It has more than 40.5 million installed fixed lines and more than 176 million mobile subscribers, growing to 199 million in 2010.^{6,7}
- Internet user penetration was about 38% as of December 2009 (75.9 million Internet users and 10.1 million connections).⁸ Government efforts to enhance accessibility and provide low-cost computers to public school students mean that Internet penetration is rapidly increasing. High-quality fiber optic networks connect all major cities with hubs abroad.
- Sixty national and 12 international commercial airports (with regularly scheduled flights of commercial airlines) connect the country's and all state capitals and major cities with destinations around the world.

Analysis: Brazil's infrastructure is capable of providing the expected double-digit growth for the country's IT services industry with high levels of support. Government investments aim to give appropriate support to the FIFA soccer World Cup in 2014 and the Olympics in 2016. The government plans to spend \$880 billion on infrastructure between 2010 and 2016,⁹ including telecom and broadband access. Telecommunications carriers and infrastructure providers are also ramping up their investment budgets.

Gartner rating: Very good

Education

- The literacy rate for people aged 15 and older is 89%.¹⁰ Eight years of education are mandatory, but adults have an average of 4.9 years of schooling.¹¹
- Approximately 16.5% of the population attends college.¹¹ Higher education enrolment has more than doubled in the past 10 years to more than 5 million each year. Government programs doubled the number of openings in federal universities for 2009 to 230,000.
- About 10% of the total educated labor force has completed higher education, and about 30% has completed secondary education. The deficiency in higher education availability is complemented by private IT technical high-school programs.
- The government spends 4.2%¹¹ of gross domestic product (GDP) on education today, but has stated that it plans to raise this to 5.0% in 2012.

Analysis: Brazil has shortcomings in education. Inadequate government efforts are complemented by the private sector (IT user companies and service providers), which runs extensive internal IT training programs.

Gartner rating: Fair

Cost

- Brazil has relatively competitive salary rates among the various countries in Latin America. Average annual salaries are: IT programmer, \$20,000 to \$40,000; IT project manager, \$53,000; software engineer, \$32,000; and IT manager, \$77,000.¹² Hefty social taxes, which can reach almost 100%, are applied to salaries and collected from the employing company. However, there are several incentives for service exports, which combined can reach about 15%. 2010 salary increases in Brazil are expected to be 5.7%, down just slightly from 2009 (5.9%).¹³
- The cost differences between Tier 1 and Tier 2 cities can reach 50% in the three biggest cost areas for IT services — salaries, facilities and telecommunications — demanding extensive due diligence from providers and clients alike.
- The Brazilian currency (the real) has been appreciating steadily and now floats at around 1.7 per U.S. dollar. This represents a 25% increase in costs over two years for American buyers of Brazilian services.
- The cost of living in Brazil — especially in the major cities — is higher than in other countries in Latin America. Sao Paulo (ranked 21) and Rio de Janeiro (ranked 29) are the only Latin American cities among the top most expensive cities to live in the world.¹⁴

Analysis: Despite the steady appreciation of the Brazilian real against the U.S. dollar, the country still offers competitive service costs. In a risk-adjusted total cost comparison, relatively competitive costs, coupled with strong business acumen, solid infrastructure, low geopolitical risk and high international business exchange structure, highlight Brazil's overall attractiveness.

Gartner rating: Good

Political and Economic Environment

- Brazil ranks among "the best one third" of 178 countries, according to World Audit (democracy, 50/150; press freedom, 54/150; and corruption, 57/149), and is progressing in the rankings each year.¹⁵
- Due to the international economic crisis, expected foreign direct investment (FDI) has been reduced to \$38 billion in 2010, after reaching an all-time record of \$45 billion in 2008. The country remains among the world's top FDI destinations.¹⁶
- Brazil is the world's ninth-largest economy. With its current growth (relatively unaffected by the global downturn) and strong economic programs and initiatives, it is poised to enter the top five in the world within the next 15 years.
- Economic indicators are favourable; inflation was at an all-time low in 2010 at 4.43%, interest rates are continuing to fall,¹⁷ and GDP growth should reach 7.5% in 2010 (and 4.5% in 2011).¹⁸
- The country exhibits high "IT readiness." For example, elections have been totally computerized for several years; close to 100% of all income tax returns are filed through the Internet; and the Brazilian federation of banks reports that close to 20% of all banking transactions originated on the Internet in 2009.¹⁹
- The Brazilian software and IT services industry reached \$22.4 billion in 2009. Exports reached \$3 billion and are growing at a healthy compound annual growth rate of 20%.²⁰

Analysis: Brazilian international risk ratings are low and trust from international investors is high. The economy has been stable and growing, and inflation has been under control. The country has shown continued political stability and this is forecast to continue with the new government in 2011. Merger and acquisition activity has increased in 2010 as an increasing number of IT service providers look to establish operations in Brazil.

Gartner rating: Excellent

Cultural Compatibility

- Originally a Portuguese colony, Brazil has been the destination for several waves of immigration from different areas, most notably Italy, Germany, Japan, the Middle East and other Latin America countries.
- Since World War II, Brazil has been strongly under the economic, and cultural, influence of the U.S. Elements of American culture, such as movies, TV shows and magazines, are abundant in the country.
- Business practices are influenced by American and European multinationals; several multinational shared services and development centers have been established in Brazil.

Analysis: Brazil is well connected to the world. Immigration has resulted in cultural diversity. The culture in general, and business practices in particular, are influenced by U.S. and Western European practices.

Gartner rating: Very good

Global and Legal Maturity

- Brazil is increasingly open to global issues. An increasingly broader portfolio of trading partners opens up the country to global practices, and global concerns, such as the environment, mature fast.
- Brazil has the largest legal market in Latin America and is home to most of the largest operating law firms in the region.²¹
- The World Bank's Doing Business 2010 report ranks Brazil at 129th out of 183 countries for ease of doing business. It is ranked low because of bureaucratic difficulties in registering property, starting a business, closing a business, paying taxes, employing workers, and doing business across borders.²²
- Brazil is a signatory to the General Agreement on Tariffs and Trade accord, the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement, the Berne Convention on artistic property, the Washington Patent Cooperation Treaty, and the Paris Convention for the Protection of Industrial Property.

Analysis: Brazil's legal system, while slow and complex, is compatible with modern Western democracies, and the continuity of commercial contracts is respected. Regulatory changes in the economy are minimal.

Gartner rating: Good

Data and Intellectual Property Security and Privacy

- Brazil's 1996 industrial property law brings its patent and trademark regime up to the international standards specified in the TRIPS agreement, although the fraudulent use of internationally famous brands remains a problem.
- Brazil's copyright law generally conforms to world-class standards, and the country is a member of the World Intellectual Property Organization.
- Data piracy rates were estimated at 56% for 2009 (down from 64% in 2005), the lowest in Latin America, next to Colombia (55%).²³
- A very sophisticated financial industry, integrated through a countrywide, real-time network, commands a very high level of security and intellectual property protection in IT services.

Analysis: Brazil has several laws and legal protections on privacy, but enforcement is not stringent. While a growing information security industry exists, considerable work remains to be done in the areas of intellectual property protection, the enforcement of anti-piracy laws and physical security.

Gartner rating: Fair

RECOMMENDED READING

"Emerging Market Analysis: IT, Brazil, 2010 and Beyond"

"Emerging Market Analysis: Q&A, Gartner's 2010 Vision of the BRIC Countries"

"User Survey Analysis: IT Services Providers Must Act Now to Capture Revenue Opportunities in Brazil"

"Global Sourcing: Understand, Share and (Especially) Leverage Cultural Diversity"

Evidence

- ¹ Qualified Human Resources, Brasscom (see <http://www.brasscom.org.br/en/content/view/full/1894>)
- ² 2009 Investment Climate Statement — Brazil, U.S. Department of State, February 2009 (see <http://www.state.gov/e/eeb/rls/othr/ics/2009/117415.htm>)
- ³ Projection of College Graduates in IT-Related Careers, Ministry of Science and Technology, Brasscom and RCR Consultoria e Gestão Empresarial (see <http://www.brasscom.org.br/content/view/full/3158>)
- ⁴ Brazil Needs 750 Thousand Professionals (see <http://www.brasscom.org.br/brasscom/content/view/full/4781>)
- ⁵ Ranking the Six Leading IT Cities for Skilled Human Capital, Nearshore Americas, 12 May 2010 (see <http://www.nearshoreamericas.com/ranking-latin-america-it-city/3750/>)
- ⁶ "Forecast: Enterprise Network Services, Worldwide, 2007-2014, 3Q10 Update;" "Forecast: Consumer Fixed-Voice, Broadband and Internet Services, Worldwide, 2007-2014, 3Q10 Update"
- ⁷ "Forecast: Mobile Services, Worldwide, 2005-2014, 3Q10 Update"
- ⁸ South America, Internet World Stats (see <http://www.internetworldstats.com/south.htm>)
- ⁹ Brazil announces \$880 bn infrastructure plan, Thaindian News, 30 March 2010 (see http://www.thaindian.com/newsportal/business/brazil-announces-880-bn-infrastructure-plan_100341177.html)
- ¹⁰ Brazil, CIA World Factbook (see <https://www.cia.gov/library/publications/the-world-factbook/geos/br.html>)
- ¹¹ Brazil Education, NationMaster (see <http://www.nationmaster.com/country/br-brazil/education>)
- ¹² Median Salary by Designation, PayScale, 2010 (see http://www.payscale.com/research/BR/Country=Brazil/Salary/by_Job)
- ¹³ Survey Shows Slight Rebound in Global Corporate Spending On Salary Increases, Hewitt, 22 February 2010 (see <http://www.hewittassociates.com/Intl/NA/en-US/AboutHewitt/Newsroom/PressReleaseDetail.aspx?cid=8165>)
- ¹⁴ Global/World Cost of Living Rankings 2010/2011, Finfacts/Mercer (see <http://www.finfacts.ie/costofliving.htm>)
- ¹⁵ Brazil: World Democracy Profile (see <http://www.worldaudit.org/countries/brazil.htm>)
- ¹⁶ Brazil Central Bank Cuts 2010 FDI Forecast by 16% (Update2) Bloomberg Businessweek (see <http://www.businessweek.com/news/2010-06-22/brazil-central-bank-cuts-2010-fdi-forecast-by-16-update2-.html>)
- ¹⁷ Investing in Brazil, Investment International, 16 October 2009 (see <http://www.investmentinternational.com/magazine/alternative-investments/investing-in-brazil-3057.html>)

¹⁸ Brazil 2020, Deutsche Bank Research, 27 November 2009 (see https://www.dws-investments.com/EN/docs/insight/brazil_2020.pdf)

¹⁹ Survey: The Banking Sector Numbers — June 2010 (see http://www.febraban.org.br/p5a_52gt34++5cv8_4466+ff145afbb52ffrtg33fe36455li5411pp+e/sitefebraban/Setor_Banc%E1rio_N%FAmeros_Junho_2010%20%282%29.pdf)

²⁰ "The Strategic Value of IT," document prepared by ABES, Assespro, Brasscom, FENAINFO, SOFTEX and Sucesu, 2010 (see <http://www.brasscom.org.br/brasscom/content/view/full/4756>)

²¹ Who's Who Legal, 2010 (see <http://www.whoswholegal.com/specials/186/brazil/>)

²² Economy Rankings, Doing Business, World Bank, 2010 (see <http://www.doingbusiness.org/EconomyRankings/?regionid=1>)

²³ Seventh Annual BSA/IDC Global Software 09 Piracy Study, May 2010 (see <http://portal.bsa.org/globalpiracy2009/studies/globalpiracystudy2009.pdf>)

Objective

This report is part of Gartner's annual analysis of 30 leading offshore locations, which began in 2007. Organizations seeking an outsourcing arrangement, or those wanting to set up a captive center, should use these reports to evaluate a country's current suitability for offshore service work.

Each report includes key data points and insight to provide a brief, high-level perspective so that organizations can easily compare potential locations. As each organization will have a different view of which factors are the most important for its needs, the reports aren't intended to rank each country and don't include an overall rating for each country.

Methodology

We applied a rigorous and repeatable methodology to assess each country's state. This involved:

- Identifying 10 categories that organizations should consider when looking at a potential location for offshore or nearshore IT or business process services.
- Applying the insight, knowledge and experience of Gartner analysts, as well as consulting credible secondary sources, to evaluate the countries against these categories.
- Rating each category on a five-point scale (where 1 is poor and 5 is excellent) to provide an at-a-glance view of the status of that country.
- Performing a comparative analysis at a regional and global level to ensure balance in the assessments.

Limitations

These reports assess each country's current status. They will not reflect the benefits of investments that some countries are making to improve an area of weakness or enhance current strengths, where these investments have not yet visibly come to fruition. For example, investments in English-language education will take some time to demonstrate improvements in the workplace.

Although organizations could apply these reports to applications, business processes or infrastructure, the reports don't address this level of granularity. If organizations were to apply

these reports to one specific service line, they may need to adjust some of the ratings (for example, the availability of specific skills in the labor pool).

This research is part of a set of related research pieces. See "Gartner's 30 Leading Locations for Offshore Services, 2010-2011" for an overview.

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