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Analysis of Brazil as an Offshore Services Location, 2009

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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 having the largest domestic IT consumption in all of Latin America, as well as international recognition as one of the most promising and rapidly emerging economies, makes it a natural destination to evaluate for IT services.

- The IT services scenario shows the strong presence of all global players, including the Indian providers, as well as several well-developed indigenous providers, which are now starting to make inroads in foreign markets.

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	Good
Government support	Good
Labor pool	Good
Infrastructure	Very good
Educational system	Fair
Cost	Good
Political and economic environment	Very good
Cultural compatibility	Very good
Global and legal maturity	Good
Data and intellectual property security and privacy	Good

Source: Gartner (October 2009)

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

Figure 1. Brazil: Location and Time-Zone Differences

| Los Angeles -5 hours | New York -2 hours | London +3 hours | Paris +4 hours | Delhi +8.5 hours | Beijing +11 hours | Tokyo +12 hours |

Source: Gartner (October 2009)

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Language

- Portuguese is Brazil's official language.

- English is regarded as the most important foreign language, but the local educational system still struggles to provide the required proficiency levels to support the growing demands, including the IT services industry. A typical student would require complementary courses offered by private language teaching businesses, which are not affordable to all.

- The penetration of the Internet — with English being that medium's "lingua franca" — is generally raising the awareness of that language in the country.

- French and Spanish are also widely taught. The strong presence of foreign colonies makes Japanese, Italian and German language capabilities also available.

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

Gartner rating: Good

Government Support

- The government continues to create incentives 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 (see the "Cost" section). Those initiatives (at least five in the last year) include a wide array of incentives and tax breaks, some of them targeted specifically to service exports.

- In 2008, the Brazilian Association of Software and Service Export Companies (aka Brasscom) was reinvigorated with new leadership, elevating its role and presence in actively advising government policy decisions. It now enjoys higher visibility and drives stronger programs (including education, marketing, regulations and intelligence), and its president has also gained a seat in Brazil's Economic Development Council. In 2009, Brasscom published a book of key data and information to assist enterprises with access to critical decision-making knowledge.

- Two 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, is starting to develop additional activities in partnership with Brasscom. In addition, the Brazilian Computer Society (academic affiliation) signed a cooperation agreement to pursue Information and Communication Technology's (ICT's) education development initiatives.

- Despite the newly launched efforts, Brazil has been challenged to make changes and compete at the incredibly rapid pace of offshore growth. This will continue to be a challenge; outdated labor laws and a slow-moving official bureaucracy continue to reduce the agility and flexibility of businesses.

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 two years. Additionally, nongovernment organizations and

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IT-sector constituencies have become more proactive and aggressive to get the government to enact change — and the results are beginning to be meaningful.

Gartner rating: Good

Labor Pool

- Brazil has more than 250,000 IT professionals in a population of more than 190 million. Every year, approximately 23,000 new IT graduates enter the industry. New government initiatives have also been projected to add another 100,000 professionals by 2011.

- It is common for graduates from other areas, especially from various business curricula, to pursue careers as IT professionals.

- The average Brazilian IT programmer's annual salary has a wide range, spanning from $20,000 to more than $40,000, depending on the city location in Brazil. A hefty social tax burden, which may reach almost 100%, is applied to salaries and collected from the employing company. However, there are incentives for service export (see "Cost").

- More than 60% of 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. 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 in the IT services market. A larger percentage of workers have good business acumen and knowledge of business practices. These qualities, in particular, are leveraged by local service providers to create differentiation.

Analysis: With the largest labor pool in Latin America, Brazil still shows availability of labor resources at reasonable costs. Most, if not all, leading global IT service providers (including the Indian providers) have an effective presence in Brazil, and many have made it their hub for Latin America. Indigenous providers are maturing and aim to serve the offshore markets. A dynamic internal economy creates a critical mass of IT-skilled workers, ensuring continuity, even in the advent of major global fluctuations in the IT services market. The IT services industry growth is driving global and local providers alike to look for additional resources in second-tier cities.

Gartner rating: Good

Infrastructure

- Brazil is South America's largest telecommunications market. It has more than 40 million installed fixed lines and more than 150 million mobile subscribers.

- Internet user penetration is above 25% (12 million connections and 45 million unique addresses), and the market is forecast to grow at a compound annual rate of 12%. This is partly thanks to government efforts to enhance accessibility and a recently launched government-sponsored program to provide low-cost computers to public school students.

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- Broadband connections are currently 10 million (8.5 million consumers and 1.5 million enterprises) and are expected to grow at a compound annual rate of 35% during the next five years. High-quality fiber optic networks connect all major cities with hubs abroad.

- Sixty national and 12 international commercial airports connect all capitals and major cities with destinations around the world.

Analysis: Brazil's infrastructure is capable of providing the expected double-digit growth of the country's IT services industry with high levels of support.

Gartner rating: Very good

Education

- The literacy rate for people 15 years and older is over 90%. Eight years of education are mandatory.

- Approximately 10% of the population attends colleges. Higher education enrollment has more than doubled in the past 10 years to more than 5 million each year. Although this is still small when compared with international levels, government programs have doubled the 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 government spends 4.1% of GDP on education today, but stated plans are that this will reach 5.0% in 2012.

Analysis: Brazil has shortcomings in education. Inadequate government educational 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.

- 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 has been steadily appreciating and now floats around 1.8 per U.S. dollar, which represents a 25% increase in two years in costs for American buyers of Brazilian services. To counter that effect, the government presents a portfolio of different export incentives and tax breaks (for exports in general, IT services in particular and for innovation).

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, Brazil is very competitive among Latin America countries and against many African, Middle Eastern and Asian destinations. Relatively competitive costs, coupled with strong business acumen, solid infrastructure and high international business exchange structure, highlight Brazil's overall attractiveness.

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Gartner rating: Good

Political and Economic Environment

- Brazil ranks among "the best one-third" of 178 countries, according to the World Audit Organization (democracy 53, press freedom 56 and corruption 62).

- International risk ratings are the lowest ever, and the country received an "investment grade" rating in 2008. Direct foreign investments are growing (more than $30 billion in 2007 and a record $45 billion in 2008), and the country is among the world's top five foreign direct investment destinations.

- The country is being perceived as not very hard hit by the economic crisis and is already rebounding. An active internal economy, a broad portfolio of trading partners and very high international reserves make Brazil one of the least-affected countries.

- With economic consistency and stability, and a low inflation rate, the country has not been affected by internal political changes. The economic downturn first caused inflation to increase to a yearly rate of 6.4% in December of 2008, but the rates are down again and will probably end 2009 at 4.3%.

- The country exhibits high IT "readiness." For example, 98% of Brazilians file their income tax returns via the Internet, 100% computerized elections support over 120 million voters, and most banking transactions are conducted through the Internet.

- According to Brasscom, the offshore outsourcing market topped $1.4 billion in 2008, up 75% over 2007.

Analysis: Brazilian international risk ratings are low, and trust from international investors is high. Despite the current global economic scenario, the country is expected to grow 1% to 3% in 2009. The economy has been stable, and inflation rates have been low for 15 years. The long-term outlook is very good.

Gartner rating: Very Good

Cultural Compatibility

- Originally a Portuguese colony, the country has been the destination of 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, as well as cultural, influence of the U.S. Brazil comes second only to Germany in the number of high school exchange students in the U.S. American cultural expressions, such as movies, TV shows and magazines, are abundantly available in the country.

- Business practices are influenced by American and European multinationals; several multinational shared services and development centers are established in the country.

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

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Global and Legal Maturity

- The legal system is complex and overburdened. Brazil was ranked very low by the World Bank for ease of doing business (122 out of 178).

- Conversely, the country is increasingly open to global issues. An increasingly broader portfolio of trading partners opens the country to global practices, and global concerns, like the environment, mature fast.

- Brazil is a signatory to the General Agreement on Tariffs and Trade accords, 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 ranking: 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.

- The Brazilian ABES and the international Business Software Alliance report a decrease in software piracy in the country. The current rate is 58%, below the Latin American average of 65%.

- A very sophisticated financial industry, integrated through a countrywide, real-time network, commands a very high level of security and IP protection in IT services.

Analysis: Brazil has several laws and legal protections on privacy, but enforcement is not stringent. While some higher levels of security expertise are practiced in major cities, and 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: Good

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