

IT SEMINAR

BRAZILIAN POTENTIAL ON IT OFFSHORE OUTSOURCING

EMBASSY OF BRAZIL IN TOKYO

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ORGANIZED BY



Embassy of Brazil in Tokyo



SUPPORTED BY



Seminar Agenda

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Agenda

- Executive summary
- International demand for IT services
- International supply of IT services
- Opportunities and threats to the Brazilian offer of IT services

Executive summary

- The global market and challenges facing the Brazilian offer

The demand for offshore IT services and business processes (BPO) tends to grow at a fast pace

- In the US and Europe, which concentrate much of the demand for higher value added services (applications and BPO), the outsourcing and offshoring markets are quite developed
- The global market for outsourced IT services was:
 - US\$ 607 billion in 2004 (expected to grow by 5.6% per year through 2008).
 - The offshore component amounted to some US\$ 18 billion (expected to grow by 40% per year through 2008)
- The more representative segments and those with the highest expectations for growth in outsourced and offshore IT, BPO and IT enabled services are:
 - Financial services
 - Manufacturing
 - Government

The Brazilian offer has some advantages, compared to its main competitors

- Size and sophistication of the domestic demand
- The offer has already proved its capability by providing world class solutions for specific market segments - financial services, retail, government and telecommunications
- The local business culture and the degree of automation is similar to the main target markets
- The country has a modern, capillary telecom infrastructure, when compared to India and China

A distinctive position for the Brazilian offer

Central elements for positioning the Brazilian offer

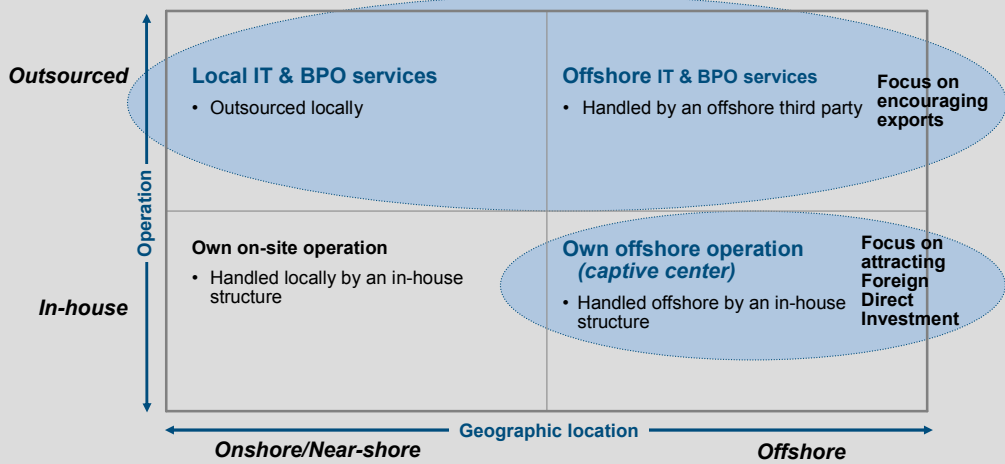
- **Value Proposition** - Resolvability (the ability to solve problems effectively and efficiently)
- **Differentiating elements**
 - Innovation and updated technology
 - Specialization
 - Proactive offer of solutions based on cultural affinity and plurality
 - Convenient both in terms of geography and time difference
- **Qualifying elements**
 - Competitive costs

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This analysis enables separating the decision of where to locate the operation from the decision as to whether or not activities will be outsourced

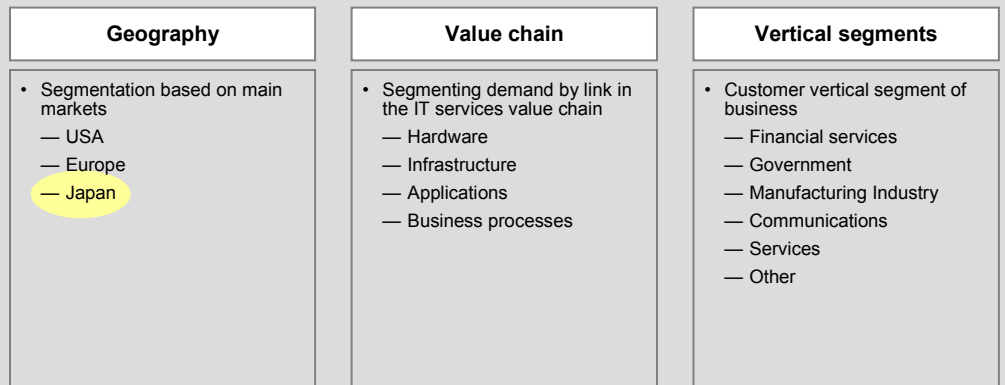
Location vs. Operation Execution Matrix



Source: Gartner; A.T. Kearney analysis

Ranking the global market for IT services: geographic scope, value chain and vertical segments

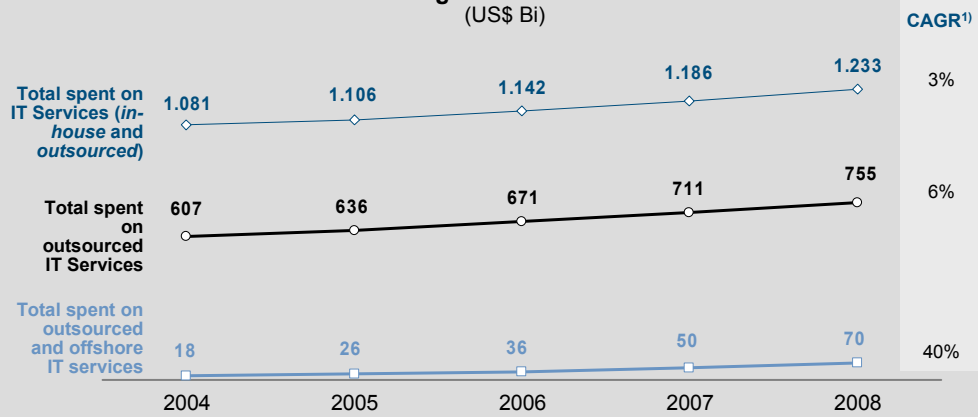
IT service market segmentation



Source: Gartner; A.T. Kearney analysis

Potential worldwide demand for IT Services, with special attention to the “offshorable” component of demand

Evolution of the global market for IT Services
(US\$ Bi)



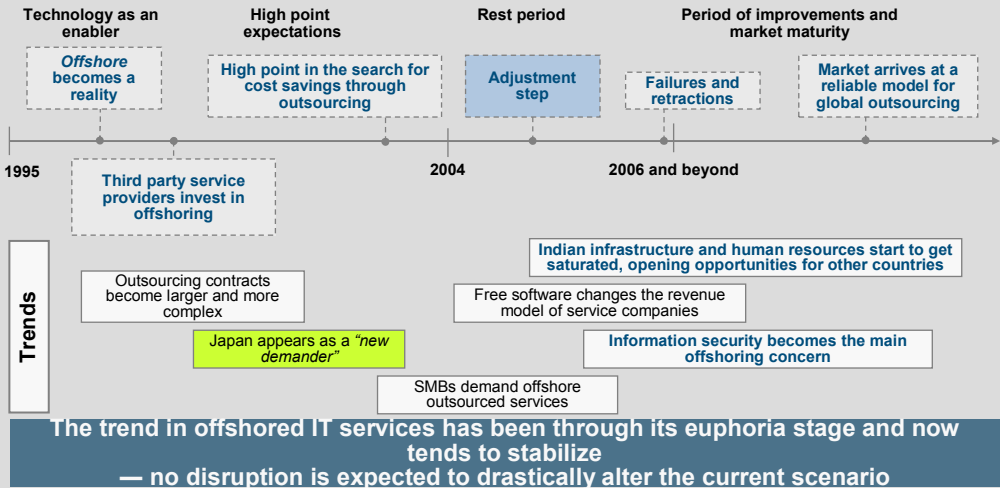
The demand for offshore IT Services is expected to show rapid growth, and increase its overall share

Note: 1) Compound annual growth rate
Source: Gartner, A.T. Kearney analysis

Criteria for qualification and differentiation

The service outsourcing and offshoring market is entering into an “adjustment” phase

Evolution of the market for IT Services



Source: Gartner; client interviews, *The global market for outsourcing*; A.T. Kearney analysis

Some elements of the vendor’s business model are considered critical qualifiers

Qualifying criteria for vendor selection

Close customer relationship team	<ul style="list-style-type: none"> An onshore team that is very skilled at client interactions to ensure detailed understanding of the activities to be executed, and effective control of solution implementation
SLA quality	<ul style="list-style-type: none"> Existence of relevant indicators to measure the level of service agreed upon
Global player with geographic scope	<ul style="list-style-type: none"> Geographic reach that ensures the vendor will be able to cover the entire client operation
Technical capability, certification and methodology	<ul style="list-style-type: none"> Professionals with the skill set required to deliver the contracted services. Professionals and companies that are internationally certified (p. ex. CMMi) in the required methodology
Proven experience in the outsourced service	<ul style="list-style-type: none"> Outsourcing transactions that are similar in nature and complexity to those required by the client Knowledge of the business specifics of the target market (e.g.: tax legislation)

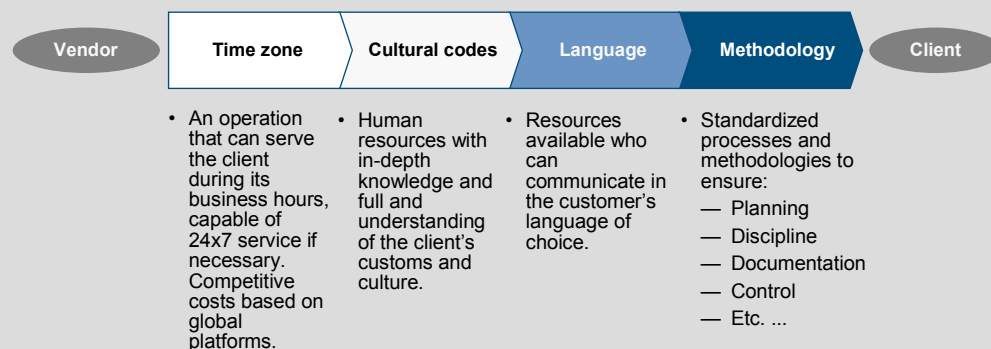
Note: relative weights vary on a case by case basis due to the complexity of global outsourcing projects
Source: Client interviews, *The global market for outsourcing*; A.T. Kearney analysis

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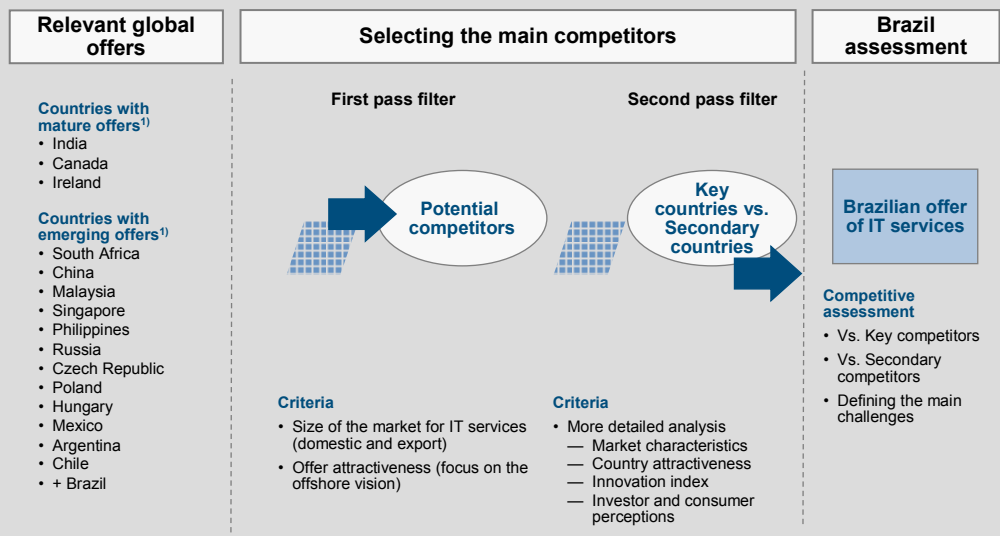
A critical component of the global business model is the existence of a structured, standardized communication model

Communication Channel



Assessing the competitive level of the Brazilian offer of IT Services

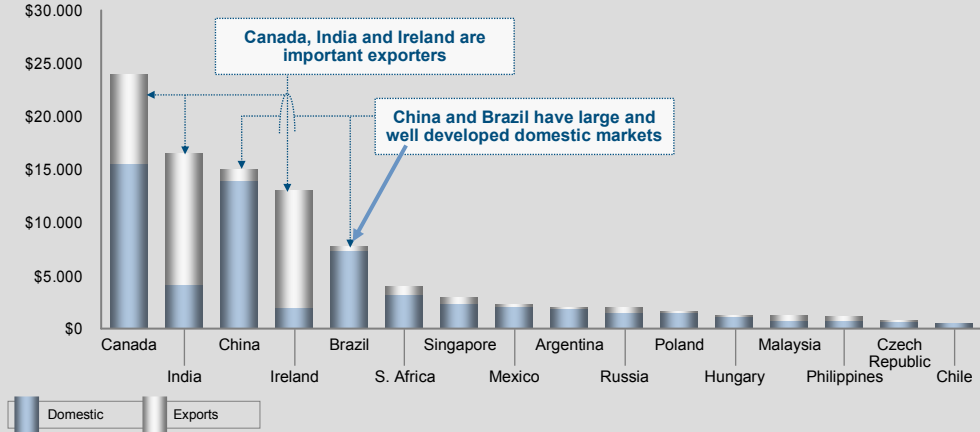
The competitiveness of the Brazilian offer against the main and secondary competitors



Note: 1) Mature countries are defined as those with ITO exports higher than US\$ 1 billion, emerging countries are those with ITO exports below US\$ 1 billion
 Source: A.T. Kearney analysis

Brazil has a large and representative export market

Size of the Software and IT Markets TI (2003)
US\$ million¹⁾



Note: 1) Data sources providing supply market information for software and IT services differ in their definitions of software, hardware and IT services. This data does not include BPO figures.
Source: www.nasscom.org, neoIT Mapping offshore Markets (2004), EIU figures, web.ita.doc.gov/ITI/itiHome.nsf/ExportITReports?OpenForm, Slicing the Knowledge-Based Economy in Brazil, China and India: A Tale of 3 Software Industries (2003), A.T. Kearney analysis

Brazil is competitive against other emerging players

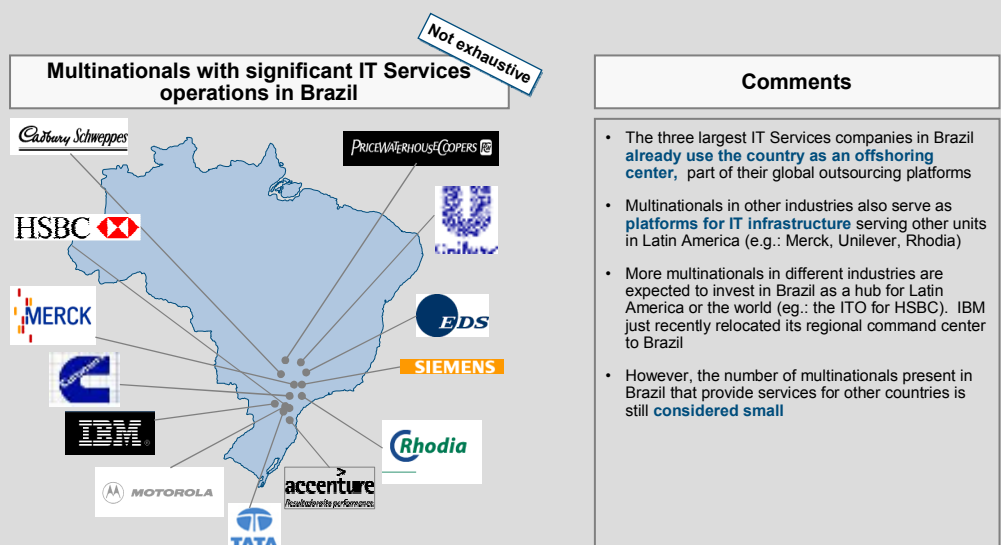
	Highlights of the emerging competitors group	Brazil assessment
Characteristics of the IT market	<ul style="list-style-type: none"> The offer of software and IT services in these countries is relatively small. Singapore, Mexico and Poland have the largest offers after Brazil. Singapore and Malaysia have higher export levels than Brazil. 	<ul style="list-style-type: none"> Of all of these competitors, Brazil has the largest domestic market.
Country attractiveness	<ul style="list-style-type: none"> Singapore, Malaysia and the Czech Republic have favorable business environments, and their IT professionals have good profiles in terms of their training and capabilities. Poland and the Philippines are low cost countries with qualified labor forces. Unlike other countries in the Group, Mexico has modest advantages along most attractiveness factors. However, it excels in terms of business environment as it is part of NAFTA. 	
History of innovation	<ul style="list-style-type: none"> With the exception of Singapore, none of the countries evaluated have significant advantages in terms of innovation. 	<ul style="list-style-type: none"> Brazil leads this group in R&D investments and total number of researchers.
Investor and consumer perception	<ul style="list-style-type: none"> Markets such as Malaysia, Poland, and the Czech Republic rank higher in investor perceptions than do countries in Latin America. 	

Source: A.T. Kearney analysis

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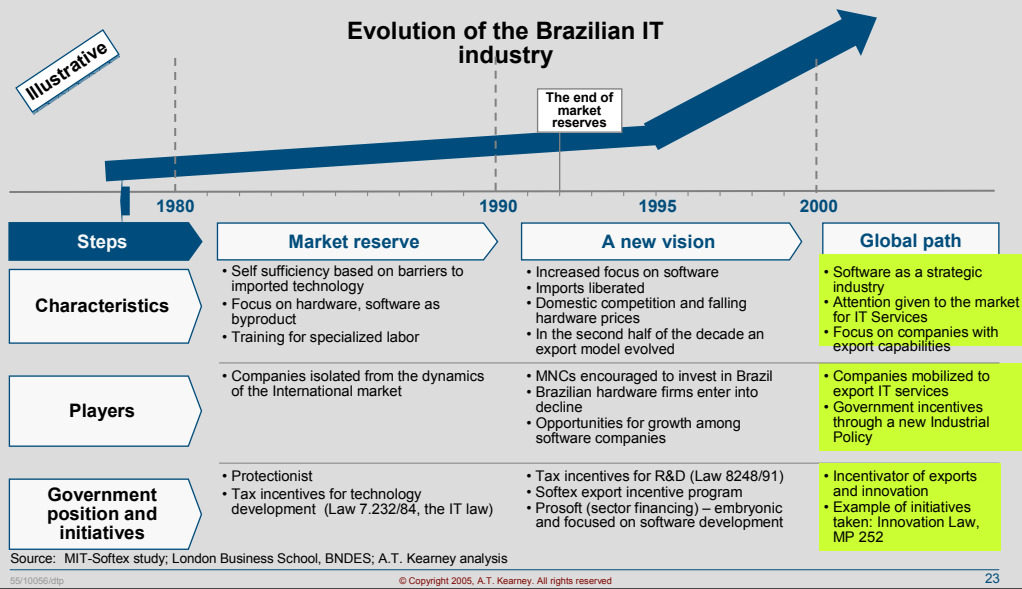
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Brazil can already be considered a Latin American hub



Source: interviews with senior MNC executives in Brazil and abroad, and with Brazilian IT Services companies; A.T. Kearney analysis

An export model to seek competitiveness for Brazil in the global IT market



The support for sector development focuses primarily on training technical manpower and export incentives/support

Examples of services available

	Description	Examples
Manpower training/skills development	<ul style="list-style-type: none"> Training human resources to provide trained/skilled labor for the IT service market and further sector development 	<ul style="list-style-type: none"> <i>Programa Nacional de Ensino e Pesquisa</i> – the Brazilian Program for Teaching and Research <i>Rede de Desenvolvimento de Competências em TI e Comunicação</i> – Network to Develop Competencies in IT and Communications <i>Capacitação de Recursos Humanos para Atividades Estratégicas</i> – Training Human Resources for Strategic Activities Technology poles (Universities and research centers)
Exports	<ul style="list-style-type: none"> Services that explain/facilitate the export process, and to help companies identify potential importers of their products/services 	<ul style="list-style-type: none"> APEX/SOFTEX programs to enable exporting companies APEX visibility programs —APEX commercial missions Progex – <i>Programa de Apoio Tecnológico à Exportação</i> – Technological Support for Exports The Ministry of Industry and Commerce (MDIC) exporter portal Commercial Radar – Product and Market Analysis (SECEX and APEX) Special Export Program
Investments	<ul style="list-style-type: none"> Services to make it easier for foreign companies to invest in Brazil 	<ul style="list-style-type: none"> Special Room to Attract Investments (PITCE Project) ABDI APEX - Investment

Source: numerous Brazilian government websites; A.T. Kearney analysis

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Other factors where Brazil has a comparative advantage

- Brazil is ahead of India and China in several areas that come under the business environment umbrella, and especially in terms of social and political stability
- Mechanisms to protect intellectual property rights against software piracy are relatively more effective in Brazil than they are in India and China
- The ITC (IT and communications) infrastructure in Brazil is better than in India and China, although the regulatory framework is still considered inadequate
- Internet expansion rates in Brazil are high, and IT is quickly adopted
- Compensation in the IT industry is relatively competitive

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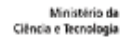
Survey results – *Offshore Location Attractiveness Index* published by A.T. Kearney – 2004

Criterion – Government action and business environment	Brazil leads	India or China lead
Social stability		
Political stability	✓	
Low risk of terrorist attacks	✓	
Meeting industry needs		
Efforts to promote ITC		✓
Facility to start a business	✓	
Overall business environment	✓	
ITC infrastructure	✓	
Intellectual property rights		
Protection granted to property rights	✓	
Information security / activities to curtail piracy	✓	

Source: A.T. Kearney Offshore Location Attractiveness Index metrics, based on the Economist Intelligence Unit and the WEF Global Competitiveness Report executive perception ratings

Prepared by:

ATKEARNEY



Supported by:



THANK YOU

MUITO OBRIGADO

どうもありがとうございました