Assessing Brazil's offshoring prospects

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The country has several key advantages, but shortfalls in its regulatory environment and market potential are holding it back.

Brazil is well placed to supply labor to the global offshoring market, given the country's strong telecommunications infrastructure, attractive market for IT vendors, and relatively low costs. However, the McKinsey Global Institute (MGI) finds that weak English-language skills and a lack of international experience among Brazilian workers make many of them unsuitable for employment in the eyes of multinational companies. Brazil must address these labor shortcomings and other issues if it hopes to capitalize on its considerable potential as an offshoring destination.

An MGI study examined offshore talent in 28 low-wage countries and 8 moderate- to high-wage ones. This article assesses Brazil's position relative to 10 other low-wage countries included in the broader analysis.1 (The full report, The Emerging Global Labor Market, Part II—The Supply of Offshore Talent in Services, is available free of charge online.)

Surprisingly perhaps, Brazil's advantages start with its infrastructure. Although transportation is widely regarded as a weakness, we found that the country's offshoring infrastructure is top among the developing countries we studied. The quality of Brazil's telecom and network services, for instance, surpasses both China's and India's by such measures as network availability. Likewise, abundant real estate and high vacancy rates offer good values for multinationals. To be sure, worries over Brazil's power infrastructure are justified—particularly regarding underinvestment in generation. However, this drawback alone wasn't enough to outweigh the other advantages.

Another of the country's strengths is the size of its domestic market for IT services, which rivals India's (although the amount of IT services that Brazil exports is considerably smaller).2 The development of Brazil's IT industry was partly aided, during the 1970s and '80s, by rampant inflation, which spurred banks to seek ways of processing large amounts of information quickly. Today, with some 280,000 people employed in IT services, Brazil enjoys a significant advantage over most of its rivals in Asia and Eastern Europe (Exhibit 1).

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EXHIBIT 1

Brazil's advantages

National strengths and weaknesses in criteria for offshoring location on scale of 1 to 5[1]
(1 = most attractive, 5 = least attractive)

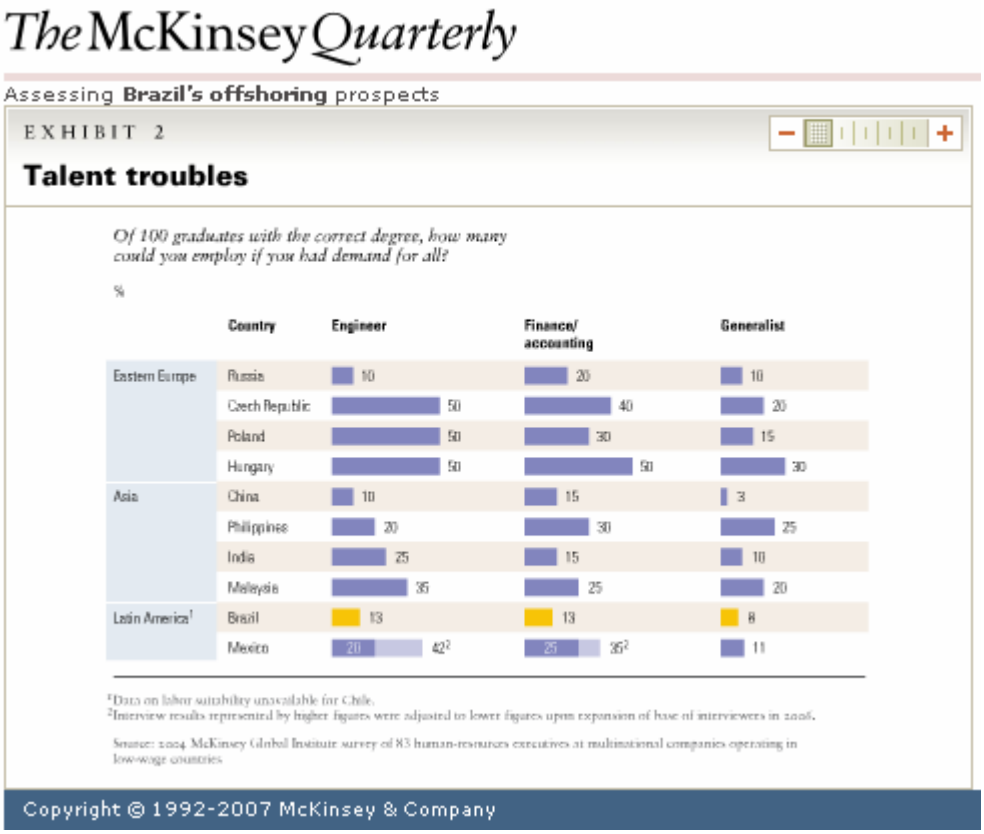
	Weighted average of vendor landscape	Shared services exports	Size of market for IT and BPO[2]	Employees in IT services
Weighting =		33%	33%	33%
India	2.0	1.0	3.0	2.0
Brazil	3.2	3.0	3.0	3.5
China	3.2	4.0	2.5	3.0
Poland	4.0	4.0	4.0	4.0
Russia	4.0	4.0	4.5	3.5
Hungary	4.2	3.0	4.5	5.0
Malaysia	4.2	4.0	4.0	5.0
Chile	4.5	4.0	5.0	4.5
Mexico	4.5	5.0	4.5	4.0
Philippines	4.5	5.0	5.0	3.5
Czech Republic	4.7	4.0	5.0	5.0

[1]From US company's point of view.
[2]Business process offshoring.
Source: McKinsey Global Institute analysis

Low operating costs for businesses are another plus. When measured by total costs (a combination of labor and infrastructure costs, as well as corporate tax rates and incentives), Brazil ranked sixth among the countries we studied. The country's hourly wages are around 40 percent of US levels.

Brazil scored less well by other criteria, however. Its overall business environment is at best moderately good, owing to inflexible labor laws, cumbersome regulations for starting businesses, and a fluctuating currency. Worse, reckoned by market potential, Brazil had the second-lowest ranking among the countries we studied—a consequence of its slow growth rate (GDP grew by only 2.3 percent a year from 2000 to 2005) and the limited attractiveness of its neighboring markets.

What's more, Brazil has a much smaller pool of workers suitable for employment by multinationals than its population of 188 million might suggest: overall, we found that they regard just 8 to 13 percent of its college graduates as suitable.3 The most qualified of these graduates were engineering students and finance and accounting graduates. In fact, thanks to Brazil's traditionally strong engineering schools, it scored better in this area than did China and Russia. Its generalists scored poorly, however (Exhibit 2).



In part, such discouraging findings reflect the fact that fewer than 7 percent of Brazil's workers have a university education—the third-lowest figure in our study. However, even recent improvements4 won't address a larger problem: weak English-language skills. Time and again, our interviewees pointed to this deficiency as a major factor in the low suitability of job applicants.

Multinationals also commonly cited a lack of international experience on the part of graduates. With the exception of some science disciplines, student exchange programs are rare. This problem may contribute to the insularity of Brazilian applicants, a point widely noted by our sample. Several respondents indicated that even candidates for management positions were "missing [a] global attitude."

To increase Brazil's attractiveness to multinational companies considering offshoring there, the country must address the shortcomings of its labor supply, as well as improve its business and

regulatory environment (see “Five priorities for Brazil’s economy”). The government should also make English-language education a priority, work with businesses to develop curriculums that encourage a more international approach, and expose local workers to international management ideas and approaches. Brazil should also capitalize on its existing advantages by encouraging more students to pursue careers in engineering, mathematics, and life sciences.

Meanwhile, multinationals should seek ways to help themselves, as HSBC and IBM in particular have done by establishing technology centers in Brazil and outlining ambitious growth plans there. Such investments, coupled with appropriate moves by the government, could help transform Brazil’s considerable offshoring promise into a reality. The benefits could be substantial: MGI estimates that from 2003 to 2008 an additional 2.6 million offshore services jobs will be created around the world.

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