

**NASSCOM<sup>®</sup>**

**EMERGING MARKETS SERIES**

Latin America and the  
Caribbean (LAC)



# 1. EXECUTIVE SUMMARY

India and the Latin America and the Caribbean (LAC) region have the opportunity to usher in a new paradigm of East-West partnership. Both these regions are today on transformative journeys of development and are focal points of almost every global dialogue on emerging markets, supply chain and human capital. At the same time, both economies share similar challenges regarding inflation, poverty, inequality and attempts to achieve sustainable growth.

The LAC region is an important trading partner for India. It has an annual trade of more than USD 20 billion, which has risen at a Compounded Annual Growth Rate (CAGR) of over 27 per cent in the last decade. This inflection in mutual trade indicates the presence of many more areas for cooperation that are still uncovered. The focus of this study is to identify partnership opportunities for India and the LAC countries in the realm of Information Technology (IT) and Business Process Outsourcing (BPO) services, specifically in Brazil, Mexico and Chile.

## **Size of the domestic IT and BPO services market**

The domestic market for IT services in the LAC region was estimated to be around USD 17 billion in 2010-11, with almost USD 15 billion alone coming from Brazil, Mexico and Chile. The market is forecasted to grow at a CAGR of more than 9 per cent. Brazil commands 51 per cent of the total domestic IT market, followed by Mexico at 26 per cent. Argentina contributes 8 per cent and Chile around 5 per cent.

The domestic BPO services spending is estimated to be around USD 8 billion and is growing at a CAGR of 12 per cent. Approximately, 50 per cent of the market demand comes from Brazil, followed by Mexico, which commands over 25 per cent.

## **IT and BPO exports from the region**

Due to the physical and cultural proximity to the US and the presence of a large multilingual population, the LAC region is emerging as a preferred nearshore destination for IT and BPO services for the US. The export market for IT and BPO services from Latin America is estimated to be around USD 8.3 billion. Mexico and Brazil are the largest exporters, accounting for over 71 per cent of the total exports. The growing Spanish-speaking population in the US and the increasing English proficiency in the LAC region have contributed to the high growth in this market, with a CAGR of 12 per cent.

## **Outsourcing in the LAC region**

Owing to the increasing economic footprint and the influx of foreign competitors, domestic enterprises see IT spending as an important way of remaining competitive in the local market. As a result, the average spending on technology, as a percentage of revenue, has been steadily increasing from the current level of 2.5 per cent.

IT outsourcing is fast gaining importance and is being driven by multinationals with operations in the LAC region and large organisations from the financial services, telecom and public sectors. These sectors, along with oil gas, are pursuing large budget outsourcing and transformation projects. Offshoring of domestic demand to a location other than Latin America is uncommon.

The supply side is fragmented and consists of global outsourcing organisations, Indian service providers and local players. Besides cost, which is a critical criterion, other important factors determining vendor selection are local references, certifications and cultural fit.

## **Indian experience so far**

Indian organisations command a 2 per cent share of the domestic market with collective revenues of around USD 350 million to 400 million. In the exports market, Indian organisations have a share of 5 per cent, with revenues of USD 400 million.

Most Indian companies have set up delivery centres in the LAC region to address the nearshore requirements of their clients from the US. These exports continue to provide the momentum required to survive in this market. However, Indian organisations have tasted only modest success in the domestic markets.

One of the challenges faced by organisations in accessing the domestic market is the requirement to serve locally and, therefore, the inability to leverage the Indian offshore model. This, along with the localisation requirements, rigid human resource regulations and the long gestation periods, has hindered the progress of Indian organisations in the local market.

**Indian organisations today earn less than USD 800 million from this region across the domestic and the exports markets. The Indian IT industry has the potential to more than quadruple the business from the region. A focused approach can enable the industry to grow to more than USD 3.5 billion by 2015-16.**

## **Continue momentum growth in exports market through increased presence in the LAC region**

Indian organisations should use existing relationships with their US clients to offer them nearshoring options combined with the benefits of global experience and process maturity. They should establish delivery centres in the LAC region by identifying which locations are suitable for providing which category of service. Brazil is the most suitable location for serving IT and Portuguese-language BPO clients, while Mexico could be ideal for Spanish and English-language BPO or Information Technology Outsourcing (ITO) services. Chile is a preferred location for Knowledge Process Outsourcing (KPO) services focused on engineering services, financial and business services, medical services as well as digital media and content services.

## **Develop strategic long-term approach to the domestic market**

Strategic investments by Indian organisations to develop presence in the LAC region will provide a pre-emptive edge in the longer run as the demand from developed economies stabilises. Indian organisations need to develop their capabilities in the areas of localisation and language skills, developing vertical-specific service offerings and improving talent management.

## **Focus on localisation**

Language familiarity and the ability to understand the nuances of local business culture are absolutely essential for establishing good relations with local clients. Indian organisations should invest in building dedicated local marketing and sales teams, which will help present a culturally assimilated face of the organisation.

## **Develop domain expertise and vertical-specific solutions**

Clients in the LAC region emphasise heavily on domain and vertical-specific skill sets. Indian organisations should create specific verticals to provide their solution offerings, resourcing and delivery. At the same time, they should continue focussing on certifications like CMMi and ISO.

## Improve talent attraction

Talent attraction and management is vital for the growth of Indian organisations in the domestic as well as exports markets. Organisations should foster ties with universities to gain access to IT talent. Further, development programmes focused on offering a global career in a professional environment will help attract and retain talent.

## Explore alliances and partnerships to increase domestic market share

Joint ventures and partnerships are beneficial to both Indian service providers as well as local players. While the Indian organisations offer industry expertise and global experience, the local organisations can provide local management and client relationships. Small to medium-sized inorganic transactions can enable Indian organisations significantly reduce the gestation period in this market.

## Sectors to target

**Banking and financial services:** This is the largest demand segment, with a collective demand of more than USD 4.5 billion in the three countries in focus. Demand is being driven by organisations that are realising the need to differentiate their services, given increased competition and higher customer centricity. Besides this, regulatory pressures continue to drive demand for compliance and risk management solutions. Although large global service providers occupy the current supplier space, Indian organisations with established core banking and cash management solutions will find opportunities.

**Telecom:** With around USD 3.7 billion being spent on IT services, telecom is the second largest demand segment. Industry growth is especially strong in Brazil, Mexico and Chile, with mobile phone operators concentrating their efforts on expanding their 3G coverage and investing in new services, alternative technologies and large transformation projects. Domestic service providers have historically received the largest share of spending from this sector, although the trend is slowly changing.

**Oil and gas:** This sector sees an annual expenditure of more than USD 1 billion on IT services. Further, with the recent discoveries, expansions and Foreign Direct Investment (FDI) inflows, the sector has the potential to become a larger demand segment. Next generation solutions like digital oil fields, integrated pipeline management, integrated wind farm management and energy trading and risk management solutions are likely to grow in the future. Indian organisations with a focus on this industry stand to gain.

**Metals and mining:** This is among the strong homegrown industries with a demand for IT services close to USD 1 billion. Indian organisations with expertise in metals and mining solutions should position themselves as problem solvers to handle the demand shrinkage faced by Latin American organisations due to the recent global recession and tighter credit controls that have impacted both the top lines and bottom lines.

## Services to target

**IT services:** The most attractive services for Indian IT organisations targeting the domestic IT market are package implementation (ERP and SCM), systems migration and integration, and mainframe application maintenance. Organisations targeting the exports market should continue focusing on the application development and management space.

Cloud computing and IT infrastructure outsourcing is an emerging opportunity for both domestic as well as export clients.

**BPO:** Organisations in this sector should initially focus on servicing the exports market and developing delivery centres in the region. Targeting the local BPO market should be a part of the next growth wave. Customer management is a special

area of interest, with voice-based services commanding more than 62 per cent of the market and non-voice services like Finance & Accounting (FGA) and Human Resources (HR) together making up 22 per cent of the market.

Both India and the LAC countries face the challenges of sustaining the high growth rates they are currently experiencing. Opportunities exist across sectors for economies from the two regions to collaborate. The Governments of India and the LAC countries need to focus on following areas:

### **Indian investments in priority sectors**

Indian investments in the LAC region have so far been driven by the private sector. Government-backed investments in specific sectors such as oil and gas, IT, sugar and metals can herald a new era of economic diplomacy. This will also enable balancing the economic portfolio in the LAC region, which has been under the spotlight of state-run enterprises from other developed and developing countries.

### **Joint economic development**

India's experience of developing a world-class IT services industry and implementing e-Governance reforms can provide valuable lessons to the LAC countries. The Indian Government, with the support of service providers, should look at assisting the LAC countries in developing their e-Governance capabilities, mechanisms and regulatory framework. NASSCOM will need to play a key role in facilitating such a dialogue between governments.

### **Governments in the LAC region to rationalise tax and labour regulations**

Governments in the region need to take steps to reduce the tax burden as well as simplify the taxation mechanisms to encourage growth of the IT industry. Besides this, they need to review the labour regulations to remove bottlenecks like rigid work protection laws, high legally mandated severance payments, mandatory retraining of redundant workers and restrictions on working hours.

These changes in the regulations will have a direct impact on improving the operational efficiency of the IT industry and make the LAC region an attractive market.

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