

Advisory Report

# Latin America IT Services: Region on the Rise

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## ■ Issue

Market maturity can turn into revenue stagnation even in the best of times. This reality pushed large multinational telecommunications companies and IT solution providers to look beyond their traditional borders to tap emerging markets for new business years ago. If anything, the current global economic crisis only reinforces the need for providers to find new sources of growth. The Latin America market is a particularly attractive target. The region is undergoing an economic renaissance initiated by countries with diversified industrial economies and young populations that are embracing global markets. As this advance occurs, businesses in the region need technology to facilitate better communications, automate operations and increase productivity.

These elements are all front and center in the economic leaders in the region, including: Brazil, Chile, Peru, Colombia and Mexico. Their growth, along with other important regional players, has contributed to a surge in the trade of goods and services as a percentage of gross domestic product (GDP). This key statistic has almost tripled over the past quarter century for the entire region, according to the Organization for Economic Cooperation and Development (OECD).

With this macroeconomic backdrop, we are seeing intense interest from a range of providers to tap into this market space with a broad swath of managed IT services that include application services, unified communications and collaboration services, security, and both traditional dedicated hosting and on-demand computing.

This report, part of an ongoing series looking at managed IT services markets in various geographies, will examine how some of the top global IT services providers are making inroads in Latin America. The report will discuss how they are applying their individual strengths to expand their reach in the region, and what challenges lie ahead in this promising if often volatile market.

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## Current Perspective

While the global economic recovery is thus far proceeding at a largely glacial pace, some markets – including many within Latin America – are rebounding faster than those of their neighbors. These signs of life are reinforcing the views of the providers who are already investing in building out their presence in the region that Latin America is poised for significant expansion.

Latin America is actually emerging as more than just a growth market; the region also promises to be a proving ground for new, rapidly evolving IT delivery models. A survey of IT professionals by the industry group ISACA found that nearly one-third of organizations in Latin America will employ a cloud-based IT service in 2010. This contrasts with results from similar surveys conducted in North America and Europe that find enterprise adoption of cloud computing happening more slowly.

Some of the same dynamics driving emerging economies to embrace mobile communications – the youthful population, limited legacy infrastructure investments, and a diversified and growing industrial economy are at play as businesses sign on for managed IT services, including elastic on-demand offers, in Latin America.

Countries, carriers and companies in Latin America are concluding that many aspects of traditional voice communications and computing technology have reached commodity-like points in their development. The price and service delivery implications of this are creating significant opportunities in Latin America to:

- Leapfrog technologies and attain immediate access to the latest functionality without making the capital expenditure (CapEx) intensive investments in research and development (R&D).
- Accelerate the time it takes to bring new offerings (services or products) to market.
- Refocus institutional efforts on activities that differentiate themselves or improve service delivery to key constituencies.

All of the above points are resonating with government agencies, enterprises and communications service providers across Latin America.

In short, just as high-growth small and medium sized businesses in the most economically developed countries were critical early adopters of various managed services offerings, rapidly developing businesses in Latin America are adopting the same principles to sustain their own fast-paced economic expansion. In addition to the pace of growth, it is important to note the type of growth that the region is experiencing. According to the Institute of the Americas, the projected 4.5 percent economic growth in Latin America in 2010 will be fed largely by exports to China.

**Laying the Groundwork for Growth**

The role of international trade in the region's economy is making a stable and high-performing global communications network essential to businesses in the region. This in turn is driving much of the demand for managed technology services in Latin America today.

While a number of countries in the region including Mexico, Peru, Columbia, and Chile are attracting carrier and IT service provider attention as their export growth soars, Brazil remains the centerpiece of Latin American expansion. Even as the rest of the world struggles to find its economic footing, Brazil is already on the rebound. For example, the GDP in Brazil grew 9% in Q1 2010 from the same period last year, the Brazilian Census Bureau (IBGE) reports. While this expansion comes after a recessionary year the growth - the largest year-to-year growth recorded under IBGE since it began tracking GDP in 1995 – indicates a very healthy recovery.

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Brazil is the second fastest growing economy among the so-called BRIC (Brazil, Russia, India, and China) countries - behind China but ahead of India and Russia. There seems to be no end in sight to its current trajectory – especially as Brazil gets set to host the World Cup in 2014 and the Summer Olympics in 2016.

All of this is inviting investment from global IT service providers eager to tap demand for more sophisticated technology solutions. The lengthy list of carriers and providers based outside the region currently building out their businesses in the Latin America as part of larger expansion plans include:

**British Telecom (BT):** The global carrier operates one of its two self-reliant Network & Security Operation Centers in Brazil, with the other located in Argentina. The center is equipped with business continuity/failover capabilities that are fully integrated with BT's other operations centers around the world, ensuring globalized follow-the-sun operations management. Additional operation centers in the region are located in El Salvador, Colombia, Mexico, Peru and Venezuela. BT also operates four global operations centers in the cities of Sao Paulo and Hortolandia that provide management support for off shoring projects in areas such as service operations, service design and delivery, contract management and international commercial development.

In addition, BT offers an extensive set of IT, network and unified communication services in Brazil. IT solutions include virtualized servers that allow clients to consolidate and optimize their server real estate to optimize all available resources. BT is gaining real traction in the region for its managed services with promises that the strategy will drive efficiency and productivity while lowering the total cost of ownership of technology management. The provider capitalizes on the strength of its converged infrastructure to try to gain an advantage in the region with:

- Network services, including BT's Applications Assured Infrastructure (AAI) Consultancy Audits, AAI Continuous Performance Management, and Converged LAN and Hybrid VPN. BT's Consultancy Audits provide an accurate assessment of information flow and application traffic, allowing the client to reengineer the processes, reconfigure systems and accelerate applications for optimal business performance. Continuous Performance Management is a suite of performance management services that provide ongoing monitoring and optimization of business-critical infrastructure, which helps to reduce inefficiencies, reconfigure systems and accelerate applications. Converged LAN is a fully managed, international IP solution that incorporates a broad range of CPE, maintenance and management options for the LAN, wireless LAN and IPT environment. It is highly customizable and provides a reliable and secure foundation towards unified communications. Hybrid VPN is an Internet-based VPN access service that connects sites globally through the public internet cheaply, simply and securely.
- Unified communications services including Audio Conferencing and Managed Unified Communications and Collaboration based on Cisco technology that provides unified access to communications infrastructure, mobility, desktop and applications. The managed service integrates data, voice, Web and video services aims to close the gap between employees, customers and business partners, no matter how far apart they are geographically.

**IBM:** With the cooperation of the Brazilian government, the company plans to open a research lab, its first new such facility in 12 years, to support the development of new technology and services for specific markets in Latin America. By 2015, IBM says it expects to generate 25 percent of its revenue from emerging markets, including Brazil and Argentina, up from 19 percent last year. IBM currently supplies a range of outsourcing, application maintenance and development from its Hortolandia delivery center. In Brazil, where the company employs 12,300, IBM has picked up significant wins. These include signing a deal for managing the Brazilian IT infrastructure of French industrial group Saint-Gobain that extends from storage administration, technical support

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and systems management.

Other providers making a big managed IT services play include:

**Accenture:** Last year, the company acquired Brazilian industrial IT and automation solutions provider Atan, giving the consulting firm solid in-country resources in management consulting, systems integration and technology consulting. The company has 12 offices in six countries, with the newest facility located in La Plata, Argentina.

**Telefonica:** The Spanish telecom provider is pushing hard to move into the Brazilian market, particularly after losing out to France's Vivendi to purchase Brazilian alternative telecoms provider GVT. Telefonica is currently putting pressure on Portugal Telecom to accept its offer for PT's stake in Vivo Participacoes, the Brazilian mobile operator with the biggest mobile-market share in the country. Portugal Telecom and Telefonica share control of Brasilcel, a holding company that owns 60 percent of Vivo. The joint venture was first formed in 2001. Portugal Telecom has thus far rejected Telefonica's bid for \$8.26 billion. The two have previously sought to buy each other's shares. Telefonica plans to spend \$2.8 billion this year on fixed and mobile infrastructure in Brazil.

**Computer Sciences Corporation (CSC):** The company is also putting a stake in the ground in the Brazilian market. In August 2009, CSC completed its acquisition of BearingPoint's Brazil operation, adding approximately 550 employees and offices in Sao Paulo, Rio de Janeiro and Brasilia. The acquisition was aimed towards enhancing CSC's ability to support existing customers as well as adding new customers in Brazil. CSC hopes to pursue and win new business in the region.

**Managed Services Action Elsewhere in Latin America**

While Brazil may be said to be the first among equals, other countries in Latin America are attracting the attention of large carriers.

**Telefonica:** Beyond Brazil, the carrier delivers a portfolio of managed IT services to customers in Argentina, Chile, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru, Puerto Rico, Uruguay and Venezuela. Telefonica is ramping up its cloud efforts in the region by extending its relationship with NEC to support the delivery of on-demand services to Latin American SMBs. NEC provides much of the software necessary for aggregation and orchestration functions that support delivery of SaaS, PC-as-a-Service and other cloud offers.

**CSC:** Outside of Brazil, CSC provides IT support and services to numerous enterprises with operations in Latin America. They include: BHP Billiton, whom CSC supports with a 'full range of IT services' in Brazil, Chile, Colombia and Suriname; Newmont Mining Corporation, for whom CSC manage the technology needs of the global shared services and regional mines for their Peruvian gold mining operations; UK government, with an agreement to extend CSC's European relationship into Latin America; Motorola, for whom they deliver IT outsourcing services in Argentina, Brazil, Chile, Colombia, Mexico and Venezuela; Freescale, a provider of embedded semiconductor solutions for whom they have provided IT services since 2004 in Brazil and Mexico; and finally Bombardier Inc., a global transport company, for whom CSC provides IT outsourcing for in Brazil and Mexico in the areas of applications and infrastructure.

**AT&T** is present throughout the Caribbean and Latin America with a number of IT services, including AT&T Enhanced VPN – Private IP, AT&T Connectivity Services, AT&T Remote Access Services, AT&T Business Internet Services, AT&T Global Managed Internet Services and AT&T Virtual Tunneling Services. The Enhanced Virtual Private Network – Private IP (EVPN – Private IP) is a globally consistent service that provides the foundation for efficient integration of applications and allows for the construction of global or regional networks.

**BT** also has significant business outside of Brazil, operating in 21 Latin American countries with

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integrated commercial and operational capabilities and +1,000 employees throughout the region who deliver a wide range of network-based IT services including IP infrastructure, application services, outsourcing solutions and business transformation. BT provides networked IT services to almost 2,000 multi-sites organizations in Latin America, including Unilever, Inbev, Reuters, Fiat and Caixa Economica Federal.

In Mexico, BT offers IT, network, and unified communication services. IT services include virtualized servers. Network services only include Continuous Performance Management and Hybrid VPN. Unified communications services include audio conferencing, Web conferencing and Onevoice Global VPN. The unified communications services are all commodity services and will not be elaborated upon further.

**Global Crossing** has been moving into the Latin American market over the last few years at a good pace. Global Crossing acquired Impsat, formerly a top IP, and hosting and value-added data solutions provider in the region in late 2006. The acquisition came at a price tag of roughly \$95 million, and Global Crossing expects an annual revenue contribution of more than \$270 million. Impsat will provide Global Crossing with over 4,500 new customers. This acquisition greatly increased Global Crossing's presence as a managed IT solution provider in Latin America.

Meanwhile, in 2006, Global Crossing announced its plans to extend its core network to Costa Rica. The core Latin American system runs along the west coast of Central America and this extension will provide Costa Rica with direct access to its global IP network. As a part of the agreement, Global Crossing announced it would be donating an STM1 to the Costa Rican academic sector. One STM1 is equivalent to 155.52 Mbps of bandwidth.

**Verizon** offers an extensive set of IT and communication solutions to customers across the region. The company is going to market with a message that emphasizes the importance of IT application performance and optimization. Verizon offers server virtualization, IP Application Hosting, Managed Hosting, Compute as a Service, Remote IP Application Management, Hosted or Managed E-mail Services, and Data Center services. Verizon promotes virtualization expertise based on its own internal consolidation project through which the company was able to retire 1,700 servers in their own company, migrating 2,100 of their physical servers to virtual servers to increase efficiency.

Communication solutions from Verizon focus on IP-enabled collaboration tools. They promise to integrate business telephony and IT applications to simplify the way enterprise communication occurs. Verizon is also offering advanced conferencing and messaging solutions.

With Verizon it has not all been about expansion. In 2006, the company sold its Caribbean and Latin American telecommunications operations in order to strengthen its balance sheet and prepare itself for the changes it anticipated in the following years. Verizon CEO Ivan Seidenberg said that although the Latin American properties were profitable and fast-growing, "today they represent a small part of our revenue base that is less aligned with our core business focus and future growth." The company sold off its operations in three separate transactions with a total value of \$3.7 billion to Latin America mobile carrier América Móvil, and a company owned jointly by Teléfonos de México and América Móvil, Carlos Slim, the world's richest man, controls both firms.

**Hewlett-Packard (HP) Services** is also entrenching itself in Latin America. NII Holdings, Inc. – a fully integrated mobile communication service provider in selected Latin American markets – selected HP Enterprise Services to manage its application and technology infrastructure support services throughout Latin America. The agreement applies to NII's operations in Argentina, Brazil, Chile, Mexico, Peru and United States headquarters. HP will supply application development, management and testing services. HP will also consolidate and manage workplace computing environments for NII employees in both Latin America and the U.S. HP will be managing service desk and site support services.

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**Conclusion**

Latin America today represents a market that is extraordinarily dynamic. The region is poised to support rapid growth; however, organizations operating in the region must be prepared for episodes of sudden contraction. Indeed, in some cases – and in certain countries – tremendous growth can just as quickly reverse course.

In response to this highly fluid environment – and in the context of a region that seeks to harvest the benefits of a global economy (with plans to extend ties with China, the U.S., and Europe) – corporations, institutions and public sector agencies are seeking technology strategies that allow them to take advantage of new opportunities, while retaining the flexibility to change directions, or reduce their exposure to risk in rapid manner.

Viewed through this perspective, managed IT services offerings from stable providers supply both offensive and defensive tools to organizations in the region. Just as in other regions of the world, managed IT services in Latin America are increasingly seen as a cost effective way to access technology and expertise using an OpEx model to preserve cash. Also, the introduction of more virtualized cloud-based services provides a buffer against sudden changes in markets or economic dynamics.

**Recommended Vendor Actions**

- The Latin American market is ripe with both opportunity and risk for international IT solution providers and carriers. There is tremendous growth potential, particularly in countries on the economic upswing such as Brazil and Chile that are largely unfettered by existing infrastructure investment and thus eager to deploy more advanced communications services to support broad internal development efforts and foreign trade. However, this continued global economic uncertainty could stall or even reverse growth trends in even the strongest markets. Providers need to take a balanced and methodical approach to their regional strategy, understanding that while there are commonalities across all markets in the region, some nations are more resilient, stable and welcoming to foreign investment.
- Forward-moving IT solution providers have a prime opportunity in Latin America to use the region as an incubator for emerging technologies and delivery models including on-demand services. For a market that is eager to expand its reach quickly, cloud services supply a practical, easy-to-construct and simple to use on ramp.
- Providers often enter the region in support of existing multinational clients that are building out operations in the region. Carriers and IT solution providers should look at the potential to extend their presence in Latin America first through relationships with established regional carriers such as America Movil/Telmex or Oi in Brazil that will allow them to not only expand more quickly but also reduce their risk, and then potentially through acquisitions.
- System integrators with specific expertise in regionally relevant vertical industries such as manufacturing and oil and gas should look at extending existing carrier alliances with both Latin American incumbents and international providers to create repeatable consulting-led solutions. In particular, IT solution providers need to focus on developing dynamic offers that take into account customers' changing capacity requirements.