In mid-year you predicted that the Stefanini Group would grow 11% in 2015 compared with 15% in 2014. Will this materialize, even with Brazil’s worsening economic scenario?

Yes, but it is the growth of the total group. In Brazil, revenues were not affected, but the profit margin was.” He cites the increase in payroll tax and the proposal to temporarily reduce the tax benefits of the Good Law as examples of Brazil’s lack of a strategic vision for the service sector. For 2016, he says, he’s been preparing for a year that will be “as difficult as or worse than the current one.” It is not possible, he says, to speak of the exchange rate as competitive until factors that undermine the Brazilian business environment are eliminated: An exchange rate of R$4 per US dollar may sound good, “but if inflation is 10% per year, it is no use. If labor costs, taxes, and logistics continue to cause inefficiencies, [a more devalued exchange rate] will be a short-term solution.”
We are preparing for a year that is as difficult as, or worse than, the current one … In the long term, Brazil is a country with great potential, it will overcome its difficulties. But it will pay a high price.

which comes second. The third factor is higher costs, especially labor, which we have not been able to pass through to prices, and the costs of supplies and equipment purchased in U.S. dollars. The fourth factor is the hostile environment for businesses, with a number of uncertainties. … And there is still more potential negative change, such as the Good Law [in 2016 the government will cut the income tax benefit given to spending on technological research, development, and innovation]. … Unfortunately, there is a lack of strategy.

What is the outlook for 2016?
We are preparing for a year that is as difficult as, or worse than, the current one. This is not pessimism; it’s realism. … In the long term, Brazil is a country with great potential, it will overcome its difficulties. But it will pay a high price. Today is the best time to invest in Brazil, I say to foreigners, if you have long-term vision.

What is your basic agenda for next year?
The expected basic agenda is for things to not get worse. We spent the year fighting the payroll tax increase. We expected that at least the change would be fair and equal for all, which was not the case; there were sectors where an increase in payroll tax was less than ours, which rose from 2% to 4.5% of revenues. In a sector that has a net after-tax margin of just 3% to 4%, a payroll tax increase of 2.5% means that the profit disappeared. It’s a very dramatic situation. And now the government wants to change the social contribution tax (PIS/COFINS). It will be devastating. The PIS/COFINS tax operates as a value-added tax, but a service company has no product, so it cannot deduct anything. … If this happens, taxes will account for 20% of revenues. For every 100 Brazilian reais you take in, you pay 20 to the government, and your profit is at most 1% or 2%.

In the last decade the services sector has gained a significant share in GDP, but its activities generally have low value-added. How competitive is Brazil in segments like yours?
The increasing share of the services sector reflects, I believe, the maturity of the country. It is worth pointing out, however, that the IT sector is divided into hardware, software, and services. That is why we prefer the European and U.S. markets, which consume more services than hardware and software. China consumes much more hardware. Also, although from the economic point of view, today in Brazil IT has greater importance, from the point of view of politics and representation, it has not. Brazilian leadership is committed to industry, and the mentality
of Brazilian society in general is much more favorable to industry than services.

From the point of view of the quality of services, in the last few years Brazil has become more expensive without getting wealthier. And so we had huge devaluations, which is a way to make goods and services cheaper, but we have not had productivity gains. Undoubtedly IT is an area that helps to increase overall productivity, which is what Brazil needs. The sector should be encouraged to help the country, but we do not see a correlation between its importance from a strategic standpoint and how [the government] treats it on a daily basis. This is unfortunate because Brazil’s IT sector is well-prepared. Compared with the rest of the world, we have good resource capacity, and we work basically with the same software and in the same environment as other developed countries, since the Brazilian economy is diversified, and even sophisticated for an emerging country. We should remember that not only in Brazil but also in the rest of the world IT has radically transformed sectors like media, telecom, retail, and financial services. The automobile industry so far not been affected significantly, but … in the next 10 years it will be. Basically 70% of economic activities will be affected significantly by IT.

The education and training of workers is a sensitive element in Brazil’s service sector. How do workers’ skills affect Stefanini Group business operations?

Obviously the quality and education of workers affects us. However, there is something strange, but positive in Brazil’s IT sector: While basic education in general is not as good as in other countries, we have [been able to find] qualified professionals. One possible explanation is that IT professionals are somewhat self-educated. People end up learning by themselves, investing in their own education. ... The second factor is that companies have invested substantially in job training. In Brazil, we certainly spend more on training compared with world averages, around 4% of revenues, which is quite large. … On average, then, in Brazil IT professional is good, despite educational deficiencies. But I do not think this happens in other services.

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Does the industry argue for any specific educational policy?

Within the US-Brazil CEO Forum, we have discussed various options. One idea is the Science Without Borders program, which offers scholarships for 100,00 students. Another is the National Program for Access to Technical Education and Employment
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We have established the Digital Inclusion Stefanini Institute, which has trained about 60,000 people to insert them into the labor market as help desks, call center operators, and office assistants. In collaboration with BRASSCOM [the Brazilian Association of Information Technology and Communication Companies], we have prepared IT strategic plans for the country, which covered issues like qualifications and manpower.

Stefanini Group has business operations in 35 countries in five continents. What do you think about the worsening rank of Brazil in the World Bank Doing Business rankings?

With regard to the business environment, only one of the countries where we operate is comparable to Brazil, and that is Argentina. It is much more difficult to run a business in Brazil than anywhere else. … It has been increasingly difficult to do business in Brazil. For example, the Severance Indemnity Fund for Employees (FGTS) is in principle a good idea … but how it is being executed has distorted the idea. … The FGTS imposes fine for laying off workers and to discourage layoffs, the fine has been increased, … so the cost to lay off a worker has gone up from one annual salary to one and a half. Among the major countries, the average is close to one salary per year worked. In addition, the company has to pay for another 33 days compared to 18 in a European country. … These are examples of difficulties in doing business we do not see elsewhere.

Currently, how does the Stefanini Group intend to expand?

We have a long-term vision. We have adapted the tactics, but the strategy has not changed. Before the crisis we had in place a strategy to grow much more abroad than in Brazil, … and we continue with that strategy. We also have not changed the acquisition strategy we established five years ago: we want to acquire foreign companies that provide the same service as we do, so we have less risk because we’ve already mastered the sector. We want critical mass, volume, and customers. In Brazil, however, the acquisition strategy is reversed: we may add other areas to our portfolio, as we have done, such as factory automation, ATMs for retail, and software for sales campaign, among others.

How does Brazil’s low participation in trade agreements affect your business?

In our case, the direct impact is low, since we export little from Brazil. Indirectly, however, it
has tremendous impact because trade agreements make the economy more dynamic, and if the economy grows, we grow together.

We have a policy, as is common in IT, of exporting from a cheaper country to a more expensive country. … Half of the services we sell to the United States come from outside the country, but not from Brazil. The problem is that as we have become strong abroad, Brazil has become very expensive. Brazil is not as competitive as Mexico, Romania, or the Philippines, which are where we export from most…. With the devaluation of the currency, Brazil has become more competitive and we are able to export, but it’s a matter not just of price but also of confidence. Brazil’s IT is not well known. Although our technology and quality are good, there is no marketing to sell it the way India does. So we have to convince the customer of the quality of our IT services. In early November some representatives of a large American insurance company came to visit Stefanini Group in Brazil to see if they were comfortable with our work. It is a process. If Brazil remains competitive in the next three to five years, we have good potential, and we will probably export more. But it has to be a long, stable process.

What is the optimal exchange rate for the Stefanini Group?
On this, I’m pragmatic: it’s no use to dream about which exchange rate is better… I have to work with the present exchange rate. The principal point is that discussing the exchange rate all the time is a distraction from dealing with the phenomenal inefficiency. We must attack the cause of the inefficiency. If an exchange rate of R$4 per US dollar sounds good but inflation is 10% per year, it is no use. If we continue being inefficient in labor costs, taxes, logistics, [a more devalued exchange rate] will be a short-term solution. What does currency devaluation do? It can give you breathing space to export. But if it does not clear up the inefficiency, in three or four years we will have to devalue again.

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