

American Paychex Arrives in Brazil With Eye on Small Businesses

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Paychex Inc., a leading payroll-processing company in the U.S., is joining Brazilian investment firm Semco Partners to tap Brazil's growing small business segment.

The joint venture, Paychex Semco, aims to provide services such as payroll, human resources and benefits outsourcing to Brazilian businesses with up to 99 employees, a category that amounts to around 5 million companies.

Paychex Semco, which will start operating in January, expects to ultimately secure at least 5% of this segment, or 250,000 businesses, its executives said.

“At an annual revenue of about US\$1,500 per client, Brazil could represent a US\$ 375 million business”, said Martin Mucci, Paychex's President and CEO.

Paychex and Semco will have each a 50% share of the new business, with Paychex having the option to buy Semco's stake in the future. The companies didn't disclose the financial details of the deal or their investment plans.

Despite the slowdown in Brazil's economy — the most recent projections are for growth just above 2% this year, compared to 7.5% in 2010 — Mucci still sees the country as a good opportunity. “What has continued to grow according to our research has been small business,” he said.

The number of salaried employees in Brazilian private companies and other organizations with less than 100 employees jumped 58%, to 16.8 million, from 2003 to 2011, the last year for which data was available, according to the country's institute of statistics, IBGE.

IBGE's data also shows that Brazil had 5.1 million companies and other organizations with less than 100 employees at the end of 2011. Nearly 30% of them were located in São Paulo, where the joint venture plans to focus during the first two to three years, Semco said.

Paychex reported US\$ 2.3 billion in total revenue for the fiscal year ended on May 31, up 5% from a year earlier. The company serves 34% of the 1.7 million small businesses that outsource their payroll in the U.S., according to Mucci.

The joint venture is Paychex's second foray abroad, after Germany, where the company landed in 2004 through a full acquisition. In Brazil, however, it opted for a local partner to help it navigate the complex business and regulatory environments, Mucci said. Paychex has no immediate plans to enter other Latin American countries and forecasts that your revenue outside the U.S. will reach at most 5% of the total in the next five years.

Semco Partners' CEO, Alexandre Bonfim de Azevedo, said that his company studies specific sectors in Brazil and then looks for partners abroad. Semco's business model consists of forming 50-50 joint ventures with shared management, giving the partners the option to buy out its stake after 5 to 15 years.

Paychex will be the ninth company that Semco introduces into the Brazilian market. Ongoing joint ventures include Pitney Bowes — a provider of equipment and services related to documents, mailing and shipping — and the tax-preparation company H&R Block, both from the U.S.

Azevedo added that Semco is negotiating three other deals with American companies, one of them in the logistics sector, to be

announced still this year. The other two potential partners are a financial services firm and another that rents helicopters for emergency services. He wouldn't disclose more details.

While the payroll outsourcing sector still has a lot of space to grow in Brazil, Paychex Semco will face competition from other big players. Automatic Data Processing Inc. — a global provider of payroll and human resource services with an annual revenue of US\$ 11.3 billion and 620,000 clients worldwide — has been in the country since 1966. It concentrated on large and medium companies there for decades, but started to expand to the small businesses segment in the last few years. Through a spokesperson, ADP declined to comment on the partnership between Semco and Paychex.

Another issue Paychex Semco will have to deal with is Brazilian small businesses' long tradition of having external accountants handling the payroll. Changes on regulations that increase the demands on how companies report accounting and taxes information, including payroll could help the outsourcing providers, as small businesses may choose to outsource some of their processes, Azevedo said. "It's the opportunity that we foresee to enter this market."

Ubirajara Camargo, coowner of Brazilian firm Populis Serviços, said that he isn't worried about the arrival of new competitors targeting small companies. He believes that there is space for everybody and that the biggest potential for outsourcing is still in the medium and large companies looking to reduce costs and risks, the segment where his company focuses. Populis Serviços has revenue of US\$ 10 million a year and around 70 clients in Brazil with a total close to 550,000 employees.

"It's still a green market here," he said.

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