THE LATIN AMERICA SOURCING LANDSCAPE IN 2011
HOW LATIN AMERICA POWERS GLOBAL IT DELIVERY

Special HfS Research Report

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Executive Summary

This study qualifies the service, quality and scale of the Latin American market. The study is principally for buyers and industry stakeholders who want to understand what Latin America can offer as a destination for IT and business service delivery.

Key Findings

This study arrived at six key findings:

» **Global IT delivery strategies more frequently include Latin America**: The power of a well-crafted global delivery strategy lies beyond labor arbitrage and low-cost offshoring from India. Although most projects featuring a global delivery strategy stick to application development work, there are opportunities for more advanced relationships beyond staff augmentation and software engineering services. New remote infrastructure management offerings and service offerings that focus on niche areas of application expertise now see global delivery locations spread beyond India into Latin America. The region is vast and offers the ingredients to make any nearshore move successful: it has a thriving technology economy, it brings competitive software development rates, it can demonstrate industry innovation, and with vast human capital it has the potential to scale.

» **Latin American strategies underpin global delivery with increasingly mature services:** Firms investigating service delivery from the region like the cultural familiarity bred by the influence of the US and Europe. Customer interviews reveal how distance and time-zone repeatedly offer real-time collaboration opportunities and reduce the burden of oversight and resourcing through physical proximity and better resource alignment. The region continues to offer coding, testing and other IT support but this paper uncovers US firms sourcing niche application services for specific industries (e-banking/gaming), analytics (retail), and bilingual back office support services (finance and accounting). Buyer choice continues to grow as a diverse set of providers continue to invest in new locations in Latin America and customers find more opportunity to realize value as client/vendor relationships develop over time. HfS has developed a location scorecard tool to help buyers assess each country in Latin America as a global delivery destination.

» **The region offers buyers three routes to value**: Firms source from Latin America either for:

1) Specific skills at lower costs than onshore in the US or Europe. The region still offers labor arbitrage for desirable skills.

2) Reducing the risk for immature processes. Portfolios of applications that demand more interactions between onsite and offshore teams or that have highly interactive methodologies in play require more oversight especially if their internal processes are weak.

3) Supporting a broader market move into the region. Engaging with local providers and using local resources demonstrates a broader commitment to the region.

As customers mature in how they buy their services from providers in the region, so too does the suite of services on offer. As a result, firms can tap into more sophisticated functionality from their nearshore partners—the study found finance transformation and outcome based relationships superseding low-cost staff augmentation.

» **Calculate the true TCO and measure risk**: This report finds that rate cards for services don't tell the whole story. Although the region offers labor arbitrage for desirable skills, it's fading just as quickly as anywhere else. Pure labor rate comparisons must factor in costs for staffing levels (onsite, offshore, nearshore) during different phases of the relationship, such as knowledge transfer and transition. Clients attest to lower attrition levels and fewer site visits, and when they were required, these site visits as part of the governance were much easier to do—these and other soft factors impact the total cost of ownership. Taking work to Latin America does not guarantee success or drive instant savings however—any move nearshore needs careful consideration against the type of work that needs to be done, the maturity of the internal processes and the challenges it creates for corporate culture.

» **Build the business case with care—resource levels need careful consideration**: Quantifying resource levels on a typical nearshore engagement and comparing this to an offshore engagement from India is difficult to do when firms have to factor in that the number of resources flexes depending on the stakeholders involved and the IT process maturity in play. Highly leveraged offshore relationships may demand the provider lands resources onsite with the client to make the deal work—the net effect could be that highly leveraged offshore relationship costs more when landed resources at the client site are factored into the cost rather than blending of going 90% offshore to India rather than nearshore to Latin America.

» **Local providers must play the global delivery card too**: Outsourcing in Latin America will continue to grow because the region can serve many different types of demand. The business services industry is at a stage of globalization, which means for buyers that it's really going to be a competition between different providers rather than different countries. This paper recommends buyers conduct due diligence and check what path their prospective providers are following. Do they offer the opportunity (i.e., tools, methodologies, best practices) for more advanced relationships beyond simple staff augmentation services? Local Latin American service providers must operate their own service operations with service delivery mechanisms and capabilities to support their customers as they enter into emerging markets beyond Latin America such as China or Russia.

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Smart buyers seek global delivery

The combination of rising quality requirements coupled with ongoing cost pressures on IT services rates signals the shift from simple hub and spoke offshoring in India to a more sophisticated and distributed global delivery model spanning new countries and continents. Interviews with customers and large service providers for this paper reveal just how far global delivery strategies are part of the everyday IT and business landscape as firms strive for cost efficient and quality services for the most demanding of stakeholders.

Service propositions move beyond labor arbitrage

HfS research reveals how forward thinking IT executives have begun to understand that the power of a well-crafted global delivery strategy lies beyond pure labor arbitrage and low-cost offshoring from India. These firms capture value beyond labor arbitrage by looking to their business partners to add value, by accessing new propositions based around vertical domain expertise, business process skills, and technical prowess and standardization tools to save money and achieve more valuable benefits. The customer interviews run for this study reveal how far the traditional offshore industry is changing:

> "It's not so much about the country [India] as low cost labor arbitrage is a given. What we look for is something extra special that works for in my industry [media] or something they've learned from other customers that they can bring to me."
> —*Program manager, US*

> "We do a lot of our application work offshore and we are now evaluating other areas of our IT estate that can move offshore. We are now considering those transactional processes that can move offshore too such as our accounts receivable."
> —*Senior director, North America*

Delivery locations extend beyond India

When executives discuss global delivery, the starting point (and for many the ending point) of the discussion is naturally India. The low-cost location of choice still remains India, but India's success as a service delivery hub continues to create problems: Rising attrition, wage inflation and skill shortages across all staffing levels make consistent delivery difficult and ultimately raises the oversight cost. Moreover, our interviews reveal how far communication and misaligned culture challenge remote offshore relationships especially with immature IT processes in play.

> "You cannot just let things run remotely if your processes are in any way immature. You have to double check—and you need to devote the local resources to manage the resources and monitor the work and you know, that's sometimes a problem when it's only India."
> —*Program manager, US*

India's success creates its own set of issues

The last 10 years of extraordinary growth in the Indian offshore market has brought many benefits: maturity in service offerings, higher expectations of service quality and an insatiable focus on costs. However, like any outsourcing market, offshore tends to grow in waves of maturity with different types of service offerings maturing that in turn attract a broader section of business community as perceived risks reduce. Even a country with labor pool as large as India's feels the impact of this type of growth. HFS sees the following trends emerge as:

» **Skills gap creates wage inflation and staff retention issues:** The huge ramp up of service centers, the growing expansion of international providers into the market and the ever climbing expectation of service quality is causing serious impact on the Indian workforce. Wage inflation is hitting all levels of the market; three-to-four years ago it was

only an issue for experienced staff, now providers have to compete for graduates. Experienced staff is to move. This makes it hard for providers to guarantee consistent offerings and client care.

> "You get what you pay for. We are noticing that turnover is getting higher so people are moving in with less experience. It's not so much of a problem but you need to be aware of it"
> —*Buyer, USA*

» **Value propositions for Indian offshore under scrutiny:** As the market begins to see wages rise in India due to the scarcity of resources, HFS Research has detected an increase in negotiated rates for key services. For example, standard application development and maintenance rates have grown by 7% to 15% in the past two years. Buyers and their providers have begun considering new destinations for IT service delivery.

Latin American strategies underpin global delivery

Global delivery deals need careful resourcing where standardized IT operations and strong process control are lacking. Buyers must sense and measure how poor communication and cultural misalignment could adversely affect an IT or business services engagement configured to aggressively leverage remote resources. The benefits need quantifying against the risks—lower costs against the timeliness and quality thresholds acceptable to internal stakeholders. For many firms, India doesn't work for all projects and many are actively seek service delivery locations closer to stakeholders and find nearshore providers in those locations not only offering labor arbitrage but blended delivery models focused on process improvement and ongoing efficiencies. HfS finds local providers from Latin America and large IT services firms servicing US and European customers with an array of IT and business process services.

Buyer best practice 1
Global retailer accelerates business benefit by flexing global delivery nearshore

Client: Large US retailer

Challenge
- Accelerate the integration of IT and business processes during mergers and acquisitions
- Keeping costs low while reducing time to market of newly merged/acquired entities
- Demand peaks for business analysis; application development and maintenance; QA and testing
- Technology stack focused on mainframe, Unix, Windows, SAP, Java and .Net

Decision
- Develop a mergers and acquisitions center of excellence near-shore staffed with over 100 professionals and rising

Solution
- Near-shore strategy works indefinitely—engagement model with provider is core and flexes as business conditions dictate
- Services in scope: technical assessment, business analysis, database design, application development, unit testing, enterprise application integration, system deployment

Results
- 2009 saw 45% of hours dedicated to M&A from the nearshore center
- Center has dealt with four major mergers and expecting a run rate of 3 per year
- 2011 will have 80% of hours dedicated to M&A run from nearshore center
- Double speed to market according to internal estimates

Source: HFS Research, 2011

Some buyers move nearshore to solve thorny offshore issues

Many firms are looking to find cost and quality savings through remote IT and business services but are unwilling to outsource more to India—these firms are looking to augment their offshore delivery with more local centers and finding the services on offer increasingly sophisticated. Firms configure global delivery between onshore, nearshore and offshore resources—in effect blending the model. The model blends according to sourcing maturity and the level of cost savings firms can realistically attain without risking service delivery and frustrating internal stakeholders. HfS research reveals some of the main drivers toward a near shore or "blended" sourcing model are because:

» **Genuine collaborative relationships hard to establish:** For organizations based in the US or further afield in Europe, the large differences in time zones with offshore delivery centers in India create a major inhibitor. Establishing relationships between remote staff, internal IT staff and internal business managers becomes a challenge. Near shore removes some of these difficulties, allowing a much more natural flow of information, communicating in real time and allowing key personnel to have more regular meetings—our research reveals this is particularly important when blended models require onsite and remote teams to work together during knowledge transfer or at the end of build-operate-transfer engagement.

» **Poor collaboration and cultural misalignment lead to operational inefficiencies:** Nearshore services can achieve much greater efficiencies with many near shore operators reporting that they have to retain a much smaller number of on-shore staff to ensure the smooth running of the relationships. We found this to be the case in several firms we interviewed where the numbers of nearshore staff were less than the offshore (India) alternative due to the benefits of shared culture. Several firms interviewed for this paper revealed how their providers in the region "understand me." Although there are cultural differences between people in Latin American countries and Europe and the US, these differences are much smaller than those between western countries and Asia. Latin Americans, Europeans and North Americans largely share a cultural heritage and they largely understand each other's cultural frames of reference. This helps make everyday relationships work more easily and allows a level of customer intimacy that is not always possible through other offshore arrangements.

Buyer best practice 2
Finance transformation primes BPO from Guatemala

Client: Global soft drinks firm	
Challenge	• Finance transformation firmly on the agenda—best-in-class performance to achieve cost of savings of $20 million per annum in transaction work • Benchmarking exercise revealed inefficiencies in finance and accounting (F&A) transaction processing • Cost effective focus for order to cash services, procure to pay and record to report
Decision	• Transform and move transaction processes to a low cost location in Guatemala
Solution	• Analyzed the maturity of processes and sub-processes within F&A • Selected third-party provider for finance transformation and lift and shift • Provider runs global delivery between India and Central America (Guatemala) • Guatemala center undertakes client facing activities to North American clients
Results	• Transformation complete in just over one year • Implemented new tools and methodologies—global standards for F&A activities with new tool sets supporting sub-processes globally • Internal benchmarks have risen with minimum savings target of 25% achieved

Source: HFS Research, 2011

Others tap Latin America for its growing mature set of service offerings

The development of high quality service delivery for nearshore provision continues to drive service growth in Latin America. HfS Research third-party IT and business services spending forecasts for the region reveal how the suite of global delivery services continues to grow (see Figure 1). Mexico and Brazil lead the way in terms of IT spending and demonstrate a thriving set of local providers partnering with international customers. HfS Research finds that large and small indigenous providers, along with the global providers and Indian providers have begun servicing clients from Latin America. Moreover, large firms continue setting up offices across the region and will spend with third-party providers to get the same levels of service they enjoy in their national markets. Local providers from Latin America offer the familiar application development and maintenance services found in India as well as certain kinds of niche application services, analytics and bilingual contact center services. Research for this paper reveals buyers engaging providers for a range of business and IT services beyond traditional application development and maintenance.

» **Industry focus and high value services:** IT providers in Chile for example deliver high value software and services to the mining, industrial, financial and government markets. Chilean providers have significant expertise in the banking industry with the development of e-banking—for example Chilean banks have been quick to market with mobile banking technology that allows customers to access ATM services via their mobiles. In addition, Chile's industrial heritage has produced experienced and skilled engineering workforce. Global firm ABB chose Chile to site its Remote Service Center, which is used to provide industrial process monitoring services across the Americas. Chilean service providers are able to leverage expert knowledge and expertise into high value and niche offerings.

» **Niche development and creative flair:** IT suppliers in Brazil, for example, offer mainstream offerings around ERP and COBOL skills but are now world-class developers for online gaming. The game development industry grew 10 years ago as Brazilian universities established centers of excellence for game design. For example, Calibre Games grew from collaboration and incubation from several Brazilian universities. Brazilian providers sell programming, graphics design and game design work to western developers including converting games across platforms and developing "app" style mobile games. This mix of technology and creative flair is also seen in Argentinean developer Globant, which combines game development, high performance computing and consumer experience, selling its services across the world to games industry giants like Electronic Arts, large brands including Gap, Nike and Coca Cola, and to Media companies like DreamWorks, Channel 4 in the UK and Disney.

» **Remote infrastructure management:** IT suppliers in Latin America increasingly service US clients with remote infrastructure management offerings from delivery centers in the region and are now offering global support as their clients move into new territories beyond the US. An IT service desk dealing with desktop support or Level 1 and 2 support makes a strong candidate to relocate to a low cost location. Clients often cite data protection issues and state location preferences for keeping helpdesks in easy reach nearshore. Other RIM services offerings include remote monitoring services of the corporate data-centers and we found firms managing IT infrastructures on behalf of their clients in Mexico and Argentina and were sharing common processes, tools and methodologies in an attempt to provide a seamless 24/7 experience for their customers.

» **Contact center outsourcing**. Increasingly service providers are basing operations in Colombia, Costa Rica, Nicaragua, Dominican Republic and El Salvador leveraging their proximity to the US and strong language skills to offer high quality multi-lingual contact center services. Sitel have over 11,000 contact center staff across the region recently announcing the doubling of their call center seats in Brazil, and increasing their numbers in Nicaragua to 3,000 staff. Sykes (and Dell) are responsible for the development of centers in El Salvador after opening centers back in 2003. The foray of Sykes into Latin America started in 1999 when it opened a center in Costa Rica. It now has centers in El Salvador, Costa Rica, Mexico, and Brazil. Stream has developed a network of centers in Dominican Republic, Nicaragua, Costa Rica and El Salvador (Stream acquired Dell's center) providing English and Spanish contact center services.

Buyer best practice 3
Remote IT management from Mexico supersedes low-cost application development

Client: US-based global company

Challenge
- Started with onshore support of desktop environment
- IT desktop infrastructure environment set around FTE model
- Services component nearshore was small and set around staff augmentation
- Client needed a new more efficient model to accommodate fluctuating demand and global support

Decision
- Consolidate IT desktop services through one global infrastructure service provider

Solution
- Aligned new delivery processes around capacity model (tasks, volume and time)
- Consolidate IT services and transitioned to remote service delivery framework
- Developed full SLA model optimizing remote desktop services
- Offer global support for infrastructure

Results
- Client can reconfigure IT environment according to client and cost profile
- Outcome based model now possible—different optimizations, SLAs, blends and risk tolerance available
- Provider works collaboratively through multisourcing governance to ensure strategic alignment
- Solid process of training established

Source: HFS Research, 2011

HfS Research calculates that spending on business process outsourcing, offshore outsourcing and custom application development and offshore industry is spreading all across the region with Mexico and Brazil leading the way in market size, but Colombia, Nicaragua, Chile, Panama, Costa Rica and Argentina hoping to take an increasingly large share of the pie. The Latin American Sourcing Services Market reached $21.4B in 2009. Figure 1 provides a profile of the projected growth in sourcing services spending by major service category in Latin America from 2009 and 2014. HfS provides market forecasts for each region in the Appendices.

Figure 1
Sourcing Market Latin America 2009-2014 (US$ billions)
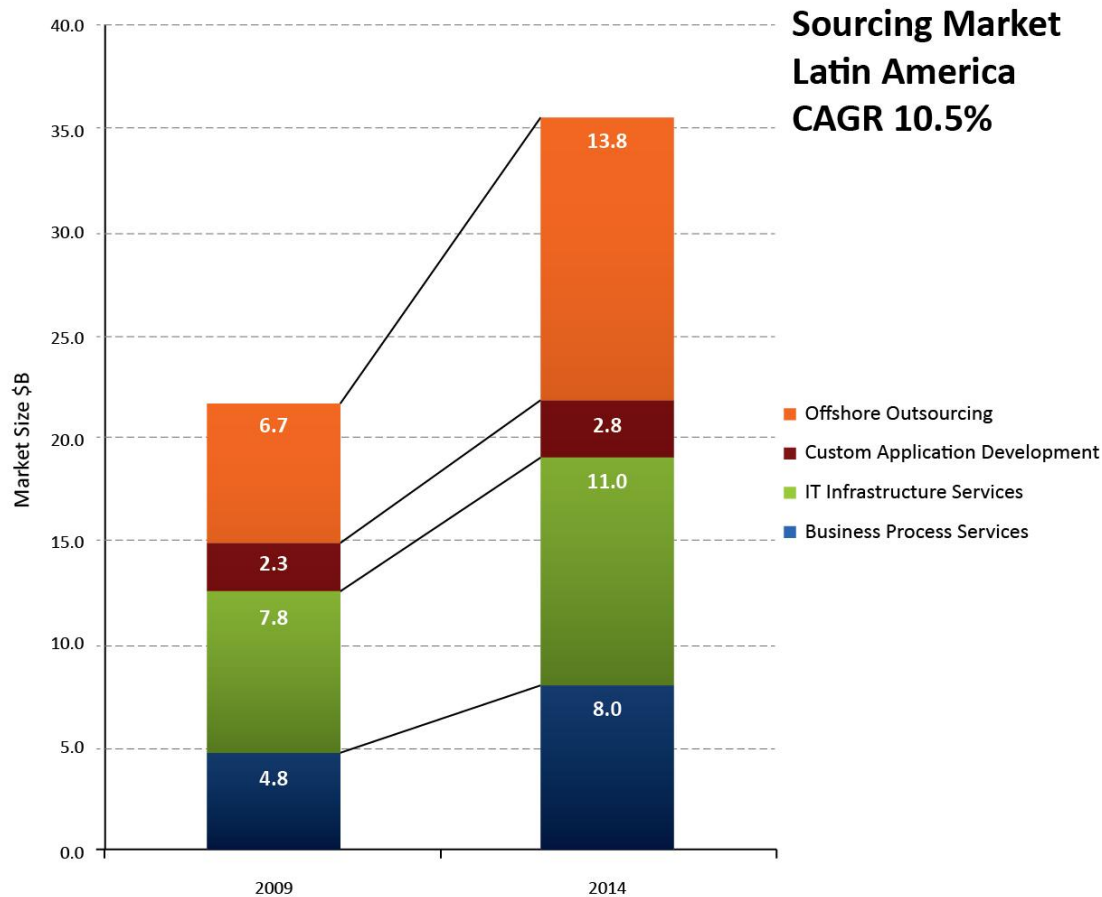
Source: HFS Research, 2011

Buyer choice grows as supply-side investment builds

The development of high quality service delivery nearshore drives growth in Latin America. Buyers find local providers alongside large global IT providers as well as the Indian offshore vendors servicing clients from Latin America. In fact nearly every provider of IT and business process services has wrestled with its Latin American strategy. Most have looked at the region and invested to make Latin America part of their global delivery portfolio. The result sees a diverse set of countries now supporting third-party service provisioning with unique flavor to the services they provide (see Table 1). As these investment activities build, buyers can begin segmenting the supplier landscape into five main categories (see Table 2).

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Table 1
Service provider investments spread global delivery destinations across Latin America

Country	Where	Global Delivery Strategy
Argentina	Buenos Aires, Rosario and Cordoba	Argentina has an excellent skilled workforce with highly qualified staff. Arguably, the country has the best telecommunications infrastructure and its current focus around software development and technical call centers is proving successful. The 2002 peso devaluation makes it very cost effective to do business data protection standards have been synchronized with EU legislation. Argentina enjoys a higher rate of English language learning than many of other Latin American countries but growth of third-party services may be inhibited by skills shortages in key software development and networking areas.
Brazil	Sao Paulo, Curitiba, Rio de Janeiro and Brasilia	Brazil has a mature outsourcing market because of the arrival of large outsourcing companies like IBM and EDS (now HP) over 30 years ago. Brazil has good infrastructure and an excellent array of IT and business process skills. Providers in the region are highly regarded for their mainframe programming skills and have the world's 2nd biggest pool of COBOL programmers. The main drawback is the lack of English-language skills. In addition, cost may be an issue as bureaucratic and tax burdens take their toll.
Chile	Santiago	Chile has developed a large offshore industry selling high value KPO and ITO services to the rest of Latin America and the US. Although it is in a favorable time zone for the US it is at least a 10 hour flight from the major US cities. Chile has free trade agreements with US, Australia, Canada and China.
Colombia	Bogota, Cali, Medellin and Bucaramanga	Colombia continues to rise as BPO contender as the security situation improves. The government has incentives for offshoring such as free trade zones and tax breaks. The government has developed initiatives that emphasize the importance of English language skills to the outsourcing industry with mandatory foreign language training for graduate courses and a number of programs to increase English training across the education system.
Costa Rica	Costa Rica has set up Free Trade Zones in San Jose	Costa Rica started to develop its high-tech near shore business back in the early 2000s, partly due to the success of Intel's operations in the country. Offshore companies can use these zones to export services to the US paying no corporate income tax. However, Costa Rica is limited by its physical size, with a population of 4.5 million and a labor pool of only 2 million it is hard to see how the industry can expand indefinitely.
El Salvador	San Salvador	Dell and HP have invested heavily in El Salvador; a US caller to the Dell help desk is likely to be put through to the center in El Salvador.
Mexico	Mexico City, Monterrey and Guadalajara.	Mexico enjoys easy access into the US market due to its proximity and time zones. It's the most mature third-party service center in the region. The low cost and the increasingly high caliber of the Mexican workforce makes is particularly attractive. Recently, the expansion of centers across Mexico and the competition between the different states, both in price and quality of service, has matured its offerings. The country has suffered from issues with economic stability, particularly with exchange rate fluctuations with the dollar. In addition, Mexico suffers from real and perceived security risks.

Panama	Panama City	Panama has a number of advantages for companies wanting to do business in the US. It uses the US dollar as its currency and it has Free Trade Zones where companies can export to the US without paying taxes. However, the country has a small workforce of only 1.5 million and restricts foreign workers coming into the country.
Uruguay	Montevideo	Uruguay may have the best infrastructure of any Latin American country—with first class broadband services and an excellent road network. The government has set up tax-free business parks around Montevideo. The issue for Uruguay will be the available pool of professionals and low rate of English-language skills among professionals.

Source: PROSOFT, BRASSCOM, KPMG, HFS Research, Invest in Colombia

Table 2
Segment the supplier landscape into 5 main categories

Provider	Strategy
Large indigenous providers	**Compelling nearshore story to tell**: Softtek, Neoris, and Politec have established businesses in the US and some are looking to Europe. The nearshore story is strong but they far behind in awareness and market share. In the longer term, they will look to establish themselves as true global providers, meaning they too will have to come to places like India, The Philippines and China.
Smaller niche indigenous software developers	**Focused on small niche projects**: Local providers Like Hexacta, Avantica, and PSL have deep expertise with smaller project based work as their main offering. Have more midsize than enterprise-class clients.
Contact center providers	**The original nearshore play**: Sykes, for example, operates in Argentina, Brazil, Costa Rica, El Salvador, and Mexico. Sitel is in Brazil, Chile, Colombia, Nicaragua, and Panama. It arrived early and heavy in the region. Call Center management is a highly poached job category in the region, but because of their prevalence and experience, there are plenty of local managers running these contact centers.
Traditional Western outsourcing providers	**Turning local presence into global delivery centers**: Accenture, Capgemini, IBM have a strong presence serving the local market with country-specific organization structures. Recently they offer the services of their Latin American delivery centers to non-Latin American clients. Most of these have local leaders running the operation, generally reporting to the home office in the US or Europe.
Indian service providers	**Build or buying their way in:** Wipro made some strategic investments; TCS moved early and has mostly built; Infosys has been characteristically cautious. HCL and Cognizant arrived late and do not have as large a presence as the others. The India-based firms are having difficulty engaging local clients, perhaps in part because they have largely failed to hire local leaders to run their Latin American centers, but have been cautiously acquiring captives throughout the region in order to win large, global deals with their clients.

Source: HFS Research, 2011

Latin America offers buyers three routes to value

Our research reveals that Latin America brings some compelling natural advantages over other sourcing regions. Its cultural roots are European with heavy and growing influence from the US, making its people fit with US culture and reduces the associated communication issues. Its early European colonial influences means it has legal, political and social structures which seem familiar to North American and European executives. The region is vast and offers the ingredients to make a nearshore move successful: It has a thriving technology economy, it brings competitive software development rates, it can demonstrate industry innovation and with vast human capital it has the potential to scale. HfS Research sees suppliers of all types investing in the region and three unique routes to value that buyers will want to investigate.

Drive operational efficiencies with low cost skills

Many US firms find that supporting their business applications demands huge numbers of coders, testers and project managers and these costs fall significantly when firms switch their US for Latin American resources. The region does offer labor arbitrage for desirable skills but it is fading just as quickly as anywhere else. The interviews HfS Research conducted for this report reveal that firms generally deploy lower staffing ratios when they follow a nearshore strategy. The burden of oversight drops and quality thresholds rise (depending on client maturity and the type of work moving nearshore), which reduces deliverable rejection rates due to misrepresented requirements and changes after code has entered development. Such errors cost money and decrease the savings that a remote relationship provides.

What you will get

» **Nearshore contractors at lower rates**: Firms that are new to remote IT delivery generally begin by using staff augmentation on a time-and-materials basis to learn the ropes and reduce the risk. However, it is worth remembering that these relationships have a tendency to stick and offer little inspiration for firms and their providers to concentrate on improving software development processes, which can potentially have an economic impact greater than the labor arbitrage itself.

What you should think about

» **Moving to more advanced outcome based relationships**: Lots of firms mostly use nearshore resources for staff augmentation services but deal activity is starting to grow around outcome based contracts. An outcome based contract offers an improvement in a specific business process or IT capability (one interviewee revealed just how much of a struggle it was engaging stakeholders to move from waterfall to agile software development even though their provider was pushing them in this direction—moving to an outcome based contract enabled them to make the change as it incented their provider to drive things systematically through the buyers organization). Defining and paying for an outcome as opposed to using a fixed price model will incentivize nearshore providers to innovate to drive the necessary process change. Those firms that are looking for operational efficiencies will consider this model as a means to take their nearshore relationship to the next level

Buyer best practice 4
Driving operational efficiency through nearshore services

Client: US-based global company

Challenge
- Fragmented application support processes and tools over 350 applications
- Customer service poor as trouble tickets and costs of service grow
- Inefficiency—40 employees spread among 16 different locations: 500 contractors from 20 different vendors and over 40 statements of work

Decision
- Build a nearshore hub to drive operational excellence, process improvement and efficiency

Solution
- Blended delivery model between onshore US and nearshore (Mexico)
- New nearshore team of 150+ people—96% located in nearshore facility
- Streamlining of delivery processes to raise customer satisfaction

Results
- Nearshore hub drives operational excellence, process improvement and efficiencies
- Root cause analysis continues to reduce ticket volume—currently 2,300 trouble tickets per month
- High productivity team meant more savings for client ($3 million during first year)

Source: HFS Research, 2011

Buyer best practice 5
Delivering low cost services from a nearshore location

Client: Large European Software firm

Challenge
- Client wanted to offer value added application maintenance services to its existing customers in the US
- Different versions of software created problems in offering managed services as quality, scale and cost issues escalate
- Immature governance for service delivery

Decision
- Near-shore Latin American strategy to support application maintenance services

Solution
- Nearshore model with 100% leverage in low cost location—Mexico
- Highly scalable, mature, strict quality standards and competitive costs
- New governance model with dashboards and workflow to monitor service delivery

Results
- Achieved 10% savings from implementing near-shore model
- Coverage for all US time zones from 7:00 am to 7:00 pm from East to West coasts
- Improved service delivery satisfaction levels for new customers

Source: HFS Research, 2011

Reduce risk from immature processes

The rule is simple—the more remote the IT service delivery is, the more process-centric your IT organization needs to be. Portfolios of applications that demand a higher interaction between on-site and offsite teams or that have highly iterative methodologies in play do require more oversight for example, application development projects for the online world and maintenance and support for online applications. Others want to build capability outside their firm and transfer it back in-house at lowest possible risk.

Buyer best practice 6
Cultural alignment reduces cost of build-operate-transfer strategy

Client: Risk averse US-based global financial services firm

Challenge
- Expensive and inefficient testing and QA to support key product lines
- Variable rates charged with inconsistent testing processes and standards
- Quality standards "stuck" for customers and users—no built in improvement in delivery

Decision
- Develop and implement testing center of excellence (CoE) for key application development initiatives

Solution
- Decentralized India approach—complementary nearshore build/operate/transfer (BOT) multi-year approach
- Firm exercises partial transfer options through time and builds internal capacity at a minimum risk
- Definition and implementation of a center of excellence catering for all QA and testing needs
- SLAs (service-level agreements) raise quality standards with improvement built in each year

Results
- Operating unit now transferred to client for in-house operation
- Testing center of excellence now serves global requirements of one of the world's largest banking and financial services organization
- Standardized testing and QA service adhering to best practices at a single highly competitive rate
- Now in operation for over a year—taken one major investment business and three applications (one flagship with over 4,000 business scenarios to be verified in a mission-critical environment.)

Source: HFS Research, 2011

HfS found many firms using Latin America in their global delivery strategies because their own IT delivery processes (gathering project requirements, writing project specifications, undertaking change management or crafting SLAs) simply wouldn't work when stressed by distance and time zone issues. Moreover, poor communication impacts a fully leveraged offshore deal to India as multiple iterations of the same deliverable, deliverable rejection rates due to misrepresented requirements and changes after code has entered development all cost money and decrease the savings that a remote relationship provides. Table 3 offers advice for buyers with immature service delivery processes and contemplating engaging for services from Latin America.

What you will get

» **Relief on internal change requirements:** Firms with immature or proprietary software development processes for example, usually have to alter their processes before moving them to leverage a nearshore or offshore strategy. IT organizations have to optimize them before effective communication with the remote entity takes place—requirements need to be detailed enough so that the remote provider can interpret them to write an internal project specification. A near shore relationship allows the client and provider to discuss these requirements during normal business hours and makes it easier for providers to meet any process change requirements.

> "If you scope a project badly you get bad results and it's our fault. Going nearshore however and we find that with our suppliers that if you define things poorly you a have better chance turning around something that works because the staff have more diverse experiences" —*Program Manager, Canada*

» **Real-time collaboration through physical proximity:** US-based firms often find time zone issues with India can severely hamper the success of an offshore initiative—provider staff, internal IT staff, and internal customer staff can struggle to establish viable and collaborative relationships especially when agile more iterative principles guide software development. Nearshore centers in Latin America work well because both sides can work together in real time—project managers can easily commute between both the provider and the client, facilitating interactions between each and minimizing overall risk**.** Moreover, the impact of the North American Free Trade Agreement brings advantages in securing visas for staff member who need to travel between the client and the provider in participating countries.

> "For more interactive projects such as agile development, if your team is US-centric then it's easier to get the rhythm going." —Senior Director, US

> "The impact of NAFTA makes it a lot easier—it makes it easier for our US staff to get into our delivery center in Mexico and it's a lot less arduous than the H1 visa."—Director, Canada

» **Reduced management overhead:** Nearshore efforts carry estimated operating costs 20% to 30% lower than an India-based operation (see Table 6 for more details). HfS Research best practice reveals that overhead costs are typically less than those associated with an offshore relationship because of fluctuating staffing levels, reduced telecom costs, travel costs, and due diligence.

> "We factor an extra 30% into our baseline costs to India for travel and other soft factors such as physical connectivity, site visits, training but these should be built into the business case. Going to Mexico [nearshore] works out cheaper depending on the project and how we want to work it."
> —*Senior buyer, US*

What you should think about

» **Strengthening IT and business alignment**: The pressure to reduce costs, free up resources, and reorganize around business processes characterizes IT decision making and will do so for the future—it's about IT to business alignment. Start thinking about how closely aligned business and IT are today and what investments both need to drive them closer. Most firms find the maturity of their IT processes (how well they gather requirements, define SLAs, and manage their providers) determines how closely aligned business and IT are. Using nearshore resources works today but getting closer alignment between business and IT calls on a new set of skills set around the business analyst function and work to ensure firms can source well and drive providers to do what you need for them.

Table 3
Reduce risk from immature processes—identify, measure and assess

Task	Purpose	Explanation
Work selection	Identify work to move to the blended/nearshore model	Not all applications and systems are suitable for remote delivery—highly complex architectural dependencies for example require many external interfaces to remotely develop and test. Conversely specialized niche skills around specific industries and business processes can be provisioned from a provider with Latin American operations
Survey stakeholders	Assess how service management structures would work in a nearshore scenario	Service management structures work when clear business requirements feed demand for IT and business services. Both sides require clear understanding to ensure a strong working relationship ensues, otherwise the provider's staff, the firm's internal IT staff, and the internal stakeholders struggle to establish a viable and collaborative working relationship
Measure internal process maturity	Change the underlying organizational model to support nearshore operations	Firms with immature processes usually have to alter them before moving to a nearshore model. Governance structures need changing so that stakeholder requirements can be interpreted effectively--Firms must measure process maturity such as how well they gather project requirements, undertake change management, craft SLA's and write project specifications.

Source: HFS Research, 2011

Support a broader move into "BRIC"

Brazil, Russia, India China (collectively known as the BRIC nations) continue to attract investment from around the world as their high growth economies and burgeoning middle class become attractive markets for Western goods and services. Selecting local suppliers for service delivery or one that has already invested heavily in the region demonstrates a commitment to the country and supports a broader corporate move by a firm. Several interviews with customers revealed how engaging for IT and business process skills from Latin America supported a wider investment strategy in the region. The impact is difficult to quantify in terms of the business case for moving to the region but it cannot be underestimated. One customer summed it up:

> "We needed to demonstrate to the government [Brazil] how serious we were about investing in the agricultural market out there so we chose to develop and support our key business applications with local providers or those that had already invested in the region – this went down very well"
> —*Program Manager, Canada*

Create the business case for Latin America with care

Outsourcing is ultimately about providing services in a way that creates economic value for both parties. Cultural understanding certainly greases the wheels of the relationship but without an economic incentive, there is little reason to proceed. Buyers building a business case for a move to Latin America will find that cost comparisons are difficult to do. On a pure rate card comparison, India, ultimately, is cheaper, however other costs have to be factored into the total costs for a relationship such as the total people (resources) required or the trips needed to the facility to make the relationship successful. Providers that HfS interviewed for this paper reveal that:

» **Rate cards don't tell the true story.** Costs vary as do the taxes charged—Figure 2 shows large differences between the wages paid to IT staff across the region and how these compare to India, US and Western Europe. To add to the complexity this is far from the end of the issue as Latin American countries vary in the way they tax and the incentives they provide (see Table 4). Both direct and indirect taxation of employees and tax levied on exported services. Also in some countries, in particular Brazil, the amounts being paid to developers varied a great deal, by as much as 3 times in some of the advertised developer positions. Similarly variations across US and UK were as much as 50%, particularly when high cost locations like London were compared with other regions.

» **Resourcing levels are not straightforward.** Quantifying resource levels on a typical nearshore engagement and comparing this to an offshore engagement is difficult to do when firms have to factor in the number of resources required can change. Highly leveraged offshore relationships demand the provider lands resources onsite with the client to make the deal work—where for every 1 worker onshore you have 10 in India for example. But with a nearshore relationship the ratio can rise to 1 in 20 as proximity benefits and the reduction in oversight effect staffing levels. The net effect could be that highly leveraged offshore relationship costs more when landed resources at the client site are factored into the cost of going 90% offshore to India.

» **Deal comparisons for buyers are difficult to do.** True comparison of cost savings difficult to do. This makes clean comparisons of cost savings hard to achieve, particularly for a client wanting to set up their own infrastructure in Latin America. For example, Brazil taxes service exports; Nicaragua offers a 15-year tax holiday. Panama offers similar holidays for some parts of the industry but not others. Most countries, even as they attempt to attract foreign investment, trip over their own bureaucracy. As an attempt to overcome this problem they have all set up government-sponsored development agencies skilled in helping new entrants get established and overcome bureaucratic hurdles.

Figure 2
Rate Cards Don't Tell the Whole Story
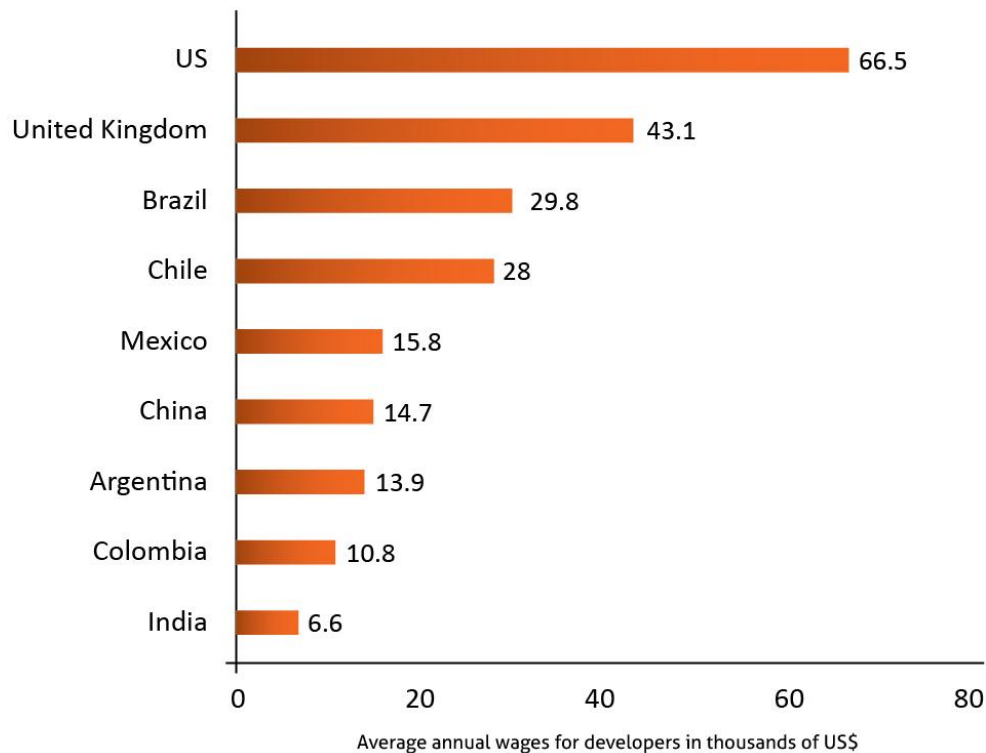
Source: HFS Research, 2011

Table 3
Tax incentives make deal comparisons difficult to do

Country	Incentives
Argentina	Income tax exemption of 60%, employer's social security contributions reduced by as much as 70%, no restrictions on foreign currency wire transfers for imports of goods and services and a range of benefits derived from the recognition of software as an industrial activity.
Brazil	Reduction in social security contributions up to 50%, tax exemptions for imports associated with software development, tax exemption on goods purchased for export, plus local government incentives, particularly around Rio de Janeiro and São Paulo.
Mexico	PROSOFT agency provides grants for IT companies setting up in Mexico. Additional incentives are available from local government these vary from region to region, but tax credits on R&D and other investments are typical.
Rest of Latin America	Nicaragua offers a 15-year tax holiday. Panama, Costa Rica and Uruguay have setup special tax free zones near major IT and business process outsourcing centres. Colombia has the following incentives: Free Trade Zones offering up to a 50% tax break on sales into the local market, 40% tax deduction on the cost of purchased machinery, Service exporting companies can import capital goods exempt from custom duties and VAT. Chile has setup Chilean Economic Development Agency (CORFO) which helps by co-funding projects. Chile also benefits from trade agreements with US, Australia, China and Canada.

Source: HFS Research, 2011

Compare Latin American propositions very carefully with India

On a pure labor rate basis, Latin America appears at a disadvantage relative to India and the Philippines but on a total cost of ownership (TCO) basis that disadvantage shrinks. The region still offers labor arbitrage on desirable skills but it is fading just as quickly as anywhere else. Clients interviewed for this paper typically see cost savings ranging from 30-40% over on-shore delivery fairly uniformly across the region with higher value services from Brazil and Chile lowering the savings to 20%. This differs from the typical raw cost savings of 60-70% to be expected from lower cost centers like India and Vietnam, but seasoned buyers understand that you have to factor in other costs into the total cost of ownership (TCO).

The TCO of a nearshore solution has to factor in other expenses such as taxation and travel (airfare, hotel stays, allowances and lost productivity) according to the interviews HfS Research ran with both customers and providers—particularly difficult to quantify is the overall resourcing required as the benefits from real time collaboration and the reduction in management overhead impact how many people a project demands. Moreover, closer proximity to the nearshore center can slash the amount companies spend on travel expenses that make up to 30% of the TCO of some offshore deals. HfS research estimates the difference in TCO at around 10-15% between most Latin America activity (whether IT or BPO related) and India-originated services and this figure was borne out by our interviews. Table 5 lists the items buyers must account for when calculating the TCO of a nearshore solution.

Table 5
Comparing Latin America to India means figuring out the TCO

Cost item	How to measure	Costs to factor	Multiple
People on project	Man-hours	- Leverage on nearshore/offshore - Split between onsite/offsite	Dependent
Attrition	Man-hours	- Attrition onsite/offsite - Lost costs for productivity	On-going
Knowledge transfer	Man-hours	- Weeks/Months - Client personnel/vendor personnel to build data repositories/knowledge processes	Weeks/months
Telecommunications	Voice & Data	- Data costs monthly - Telecom costs monthly	Duration
Governance: Trips to facility	Travel and Expense	- Airfare, Hotel, Daily allowance - Average duration	Trips per year
Relationship management: Trips to facility	Travel and Expense	- Airfare, Hotel, Daily allowance -Average duration	Trips per year
Risk management	Project percentage	- Security standards - Data privacy laws and standards - Patent laws - Liabilities in country for employees - Contract and legal issues	One time

Source: HFS Research, 2011

Quantify the risks from your Latin American strategy

Buyers seeking alternative destinations to India or who want to complement to their Indian offshore strategy will see Latin America as a viable destination for IT service delivery. Even though Latin America offers the ingredients to make a nearshore move successful buyers should be aware of the risks and make sure they understand them.

» **Countries do carry risk:** The risks from infrastructure failing (such as energy shortages in Chile that require careful planning for fuel supplies to data centers) and economic/political instability (Argentinian hyperinflation before the economic crises in 2000 would massively inflate costs) need to be factored into the provider decision, the contract parameters and from where it coordinates service delivery. Latin America is relatively stable today. However, recent events in the Middle East demonstrate the dangers if contingency is not planned for—the first response of the Egyptian government was to shut down internet connectivity, which had massive impact on the nation's sourcing infrastructure. Clients with delivery facilities in the country simply found them unavailable. The lesson is to measure locations for geopolitical risk and plan for business continuity in the event of a disruption.

Location comparisons provide preliminary insight: HfS Research has developed a scorecard tool to assess a delivery location's current readiness to provide near shore services and we have profiled each country in the region (see

» Appendix A:

Latin America offshore). Weight the scorecard according to your requirements. For example, some firms will prioritize service providers in Mexico for scale and delivery capability for low-cost IT engineering services; others will look to Costa Rica for language capability or functional skills such as contact center services.

» **Robust due diligence to monitor your providers for risk:** It's really important to study prospective providers from Latin America from a risk perspective. Do they have their own global delivery model with shared processes and tools where work can move rapidly from on facility to another if a problem is encountered, for example? Key questions focus on their disaster recovery and back up strategies. Targeted questions on the RFP concern whether they can scale and support you as you grow—what sort of attrition levels do they see in their centers and what are they doing to counter them? Other factors to consider are data security risks (what certification do their data centers have) privacy protection and intellectual property risks.

» **Site visits are an essential part of the investigative process.** Only meeting your intended partners on their home soil will allow you to assess whether your cultures synchronize to ensure a smooth working relationship between both sides. Instincts count when examining the supplier, its extended organization, and the executives who will work with you on a daily, weekly or monthly basis.

» **Leverage autonomy to drive discounts.** The region's diversity offers you a negotiation lever. Latin American countries offer financial incentives for attracting firms so investigate if there's any money on the table from location rebates which could sweeten your decision to set up shop. Lobbying by your company or local partners help make the economics of the business case and the final rates you pay more attractive. We found significant differences in tax, free trade zones and other incentives Latin American governments across the region provide (see Table 5).

» **Seek out local support organizations.** Look for investment agencies that can help maintain interactions between the government, industry and replicating best practices among the country's IT leaders—they run on a country by country basis.

Where next for Latin America's global delivery story?

Many terms describe aspects of global delivery—offshore, nearshore, rightshore—but at the heart of the global delivery model is the integration of vertical expertise and technical skills across a network of low cost locations. The low cost destination of choice to date is India but as our interviews reveal, many firms are sourcing a host of IT and processing services from Latin America. And the region's providers are responding with mature and sophisticated service offerings to suit the most discerning of buyers.

Providers must raise their game

Outsourcing in Latin America will continue to grow because the region can serve many different types of demand. Cultural alignment is the strongest calling card for those providers wanting to sell services but HfS advises not to pit Latin America against India. The business services industry is at this stage of globalization much less a competition amongst countries than it is a competition amongst providers—and remember, firms don't buy from countries, they buy from providers. This paper reveals that there is:

» **Opportunity for more advanced relationships:** HfS Research sees more clients moving from one-for-one staff augmentation engagements to more advanced outcome-based relationships. Right now, roughly one third of offshore suppliers revenues are of fixed price and much less are managed outcome. However, the larger international providers have more revenues on an outcome basis and see these sorts of contracts securing multiyear contract to get to specific result (i.e., improved cycle time, increased revenues, reduced time to market, reduced trouble tickets). A key consideration for customers is a supplier's ability to support a move to outcome-based arrangements. Do they have the tools, methodologies and client-side experience to help firms make the move?

» **More high value services on the table**: Although Latin America does offer labor arbitrage on certain skills this cost advantage is eroding the same as in the Philippines or India. New service offerings rooted in remote IT delivery or delivered from cloud-based technologies has to feature in the services portfolio of any serious provider. Look for programs that accelerate continuous service improvement or their investment in driving innovation on behalf of their clients with programs that link universities, peers and the wider technology ecosystem to incubate real industry innovation.

» **Targeted investment to drive scale**: Customer interviews reveal perceptions about the region's ability to scale. Apart from Brazil and Mexico, no other country can scale like India. For example, Costa Rica, which has the most educated population on the continent, has just four million inhabitants, 300,000 of them already working in the services-for-export industries. Chile, with a stable democracy, strong infrastructure, and the highest per-capita income in the Americas after the US and Canada, has just 16 million inhabitants. Both of the above have proven difficult places to recruit in for recent corporate multi-national arrivals. Buyers should be asking not just what central governments are doing but what providers are doing to help scale.

» **Local providers ready to globalize:** Just as the larger IT providers followed the success of their offshore peers and established hub and spoke strategies with India, so too local Latin American players must grow their own global delivery strategies outside Latin America. Although clients may not demand India, providers will likely need a presence in other emerging destinations like China, Asia and Russia if they are going to be true partners to the clients that they serve.

The region must work to change perceptions

Latin America will continue to feature under a broader global delivery strategy as firms look to diversify risk and integrate services. HfS market forecast for the region expects steady growth in both the local and export markets whether the region plays a dominant or secondary role in the sourcing strategies of enterprises and providers. While there are reasons to invest in Latin America there are some challenges that the region will have to address—namely perceptions surrounding:

» **Politics:** Led and funded by Hugo Chavez's regime in Venezuela, leftist, anti-business and anti-American/European governments have been elected in places like Bolivia, Ecuador, Nicaragua, and to some extent Argentina. Although the threat to foreign businesses is real, it is also overstated. All of these countries require foreign investment and still actively pursue it in spite of the political rhetoric their leaders promote. Brazil has grown economically, grown its middle class, expanded capitalism and foreign investment, and gained more influence in the region and the world in the last eight years, ostensibly under the leftist leadership of the Worker's Party, which was just re-elected to the presidency for another four-year term**.**

» **Brand:** Colombia has some of the best professional talent in the world available at reasonable wages and within a short flight from the United States. But Colombia has a terrible reputation as a violent, dangerous place that keeps a lot of foreign investment away. In truth, the security situation is far better than it has been, not just in Colombia but throughout the region. The concerns over security are overblown. Philadelphia, Washington, D.C., and Baltimore are just three of the cities in the United States with higher murder rates than Sao Paulo.

» **Population/scale:** The main problem with single-country strategies is that no one country in the region, with the possible exceptions of Brazil and Mexico has scale. This limits the actual and potential educated workforce capable of providing services. For example, Costa Rica, with the most educated population on the continent has just four million inhabitants; 300,000 of them already working in the services-for-export industries. Chile, with a stable democracy, strong infrastructure, and the highest per-capita income in the Americas after the US and Canada, has just 16 million inhabitants. Both Costa Rica and Chile have proven difficult places to recruit in for recent corporate multi-national arrivals.

» **Coordination:** The Indian industry generally collaborates on shared objectives even as providers compete with each other. Latin American providers do not and you won't find an umbrella organization like India's Nasscom supporting firms as they investigate setting up or selecting a provider to work with. Fortunately, most governments in the region have set up government-sponsored development agencies skilled in helping new entrants get established.
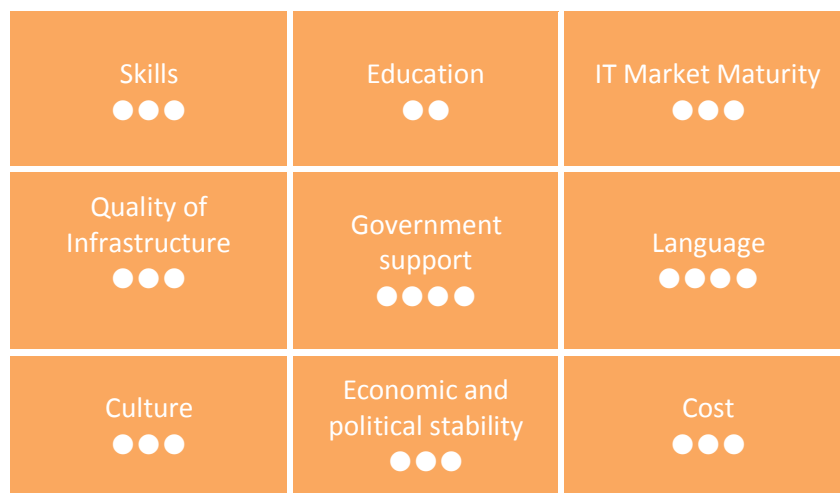
Appendix A:
Latin America offshore scorecard

Latin America offshore readiness

HFS has developed a tool to assess a global delivery location's current readiness to provide offshore and near shore services. The tool rates a location using the following criteria: skills of the workforce, education system, IT maturity, infrastructure (transport, telecoms, energy), cultural fit, language capabilities, economic/political stability, the availability of government support and cost. The tool allows executives to assess suitability of a location and compare locations easily. No single location scores 9.0.

Figure 3Figure 3 shows the HFS Research Offshore Readiness Index for Latin America.

Figure 3
The HfS Latin America Offshore Readiness Index

Source: HFS Research, 2011

The following appendices showing the main countries give the reasoning behind the readiness factors. The Latin American figure is an average of the factors for all of the countries. HfS Research is reviewing whether using an average is the best method because there are compelling arguments that the Latin American figure would be greater than the sum of its parts. For example, a Latin American solution could leverage the best aspects of multiple countries. However, in the interest of simplicity, we chose an average. The rest of the appendices will highlight the main region-wide issues for Latin America as an offshore destination.

Appendix B:
Argentina in focus

Overview

There are many reasons why Argentina is an attractive global sourcing location. It has an excellent skilled workforce, of highly qualified staff coupled with a good infrastructure. Arguably, it has the best telecommunications infrastructure in the region. The 2002 peso devaluation makes it very cost effective to do business and it has very progressive laws relating to software development after synchronizing data protection standards with European legislation. Argentina also enjoys a higher rate of English language learning than the other major LA countries. Growth of the market may be inhibited by skills shortages in key software development and networking areas. Its current offshore capabilities are focused on software development and technical call centers. It is centered in Buenos Aires and is developing around Rosario and Cordoba.

Argentina's market for sourcing

Figure 4 shows the sourcing services market in Argentina. HfS Research forecasts solid growth in the Argentinean market, with a CAGR of 11.4% from 2009 to 2014.

Figure 4
Sourcing market in Argentina 2009 – 2014 ($US billions)
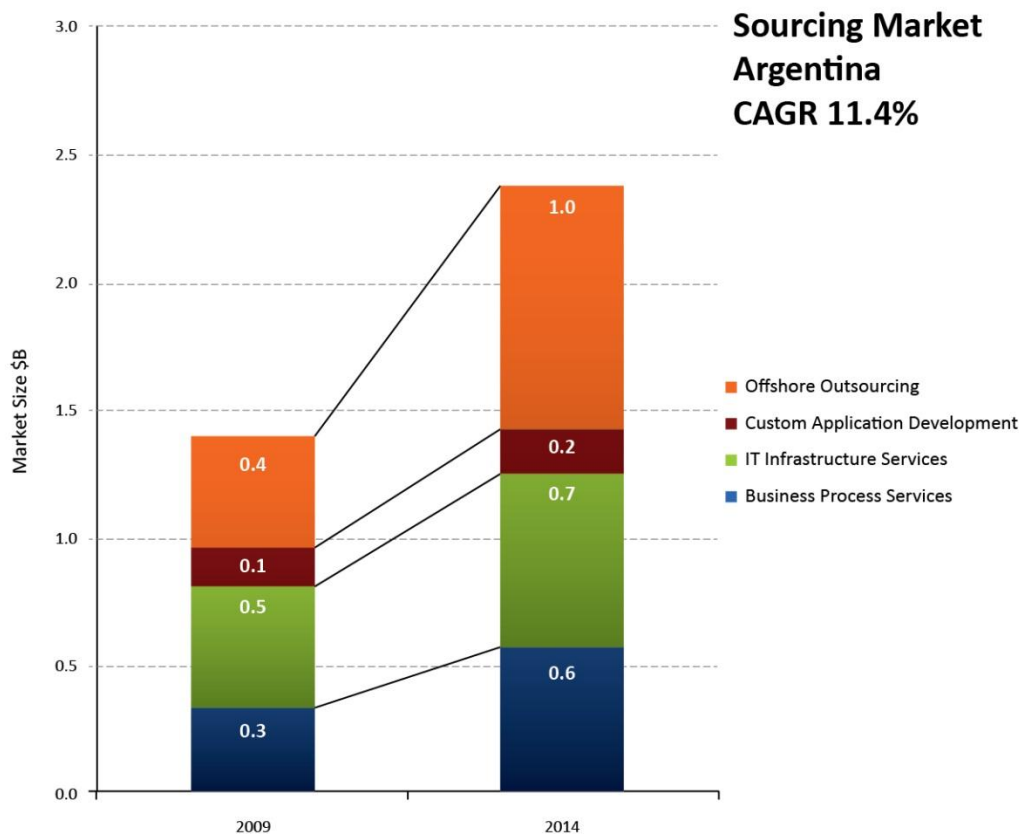
Source: HFS Research, 2011

After a troubled 2009, when the sourcing services market was hit by recession, HfS forecasts solid growth in 2010 and beyond. The last 3 years have brought waves of hardware and software investment in large and medium companies across Argentina. In particular large organizations have invested in ERP, particularly government, financial institutions and the oil and gas industry. HfS expects these investments to continue and to fuel an increasing amount of resultant services spend. In particular the increased use of application and infrastructure management services, however, given the increasing skills shortage in key regions, particularly around Buenos Aires, much of this demand for high value services may come from outside of the country. This leads onto the potential of the offshore market in Argentina, perhaps the factor which could limit growth the most is the availability of skills. Any skills shortage will start to affect the cost of labor, which could impact the countries offshore value proposition. Table 6 gives a summary of key facts about Argentina.

Table 6
Argentina: The basics

Country	Argentina
GDP 2009	US$310 billion
GDP Growth 2010	8.00%
Main offshore locations	Buenos Aires, Rosario and Cordoba
Area (km2)	2,766,890
Population (million, 2009 est.)	41.1
Workforce (million, 2008 est.)	16.27
Population growth rate (%, 2009 est.)	1.1
Life expectancy (years, 2009 est.)	75.3
Illiteracy rate (%, 2001)	2.8
Language	Spanish
Time	3 hours behind GMT
Broadband adoption per 100 inhabitants	8.8

Sources: CIA Worldfact book, LatinFocus, IMF

Argentina offshore readiness

HFS has developed a tool to assess a global delivery location's current readiness to provide offshore and near shore services. The tool rates a location using the following criteria: skills of the workforce, education system, IT maturity, infrastructure (transport, telecoms, energy), cultural fit, language capabilities, economic/political stability, the availability of government support and cost. The tool allows executives to assess suitability of a location and compare locations easily.

Figure 5 shows the HfS Offshore Readiness Index™ for Argentina.

Figure 5
The HfS Offshore Readiness Index for Argentina

Skills ●●●	Education ●●●●	IT Market Maturity ●●●
Quality of Infrastructure ●●●	Government support ●●●●	Language ●●●●
Culture ●●●	Economic and political stability ●●●●	Cost ●●●
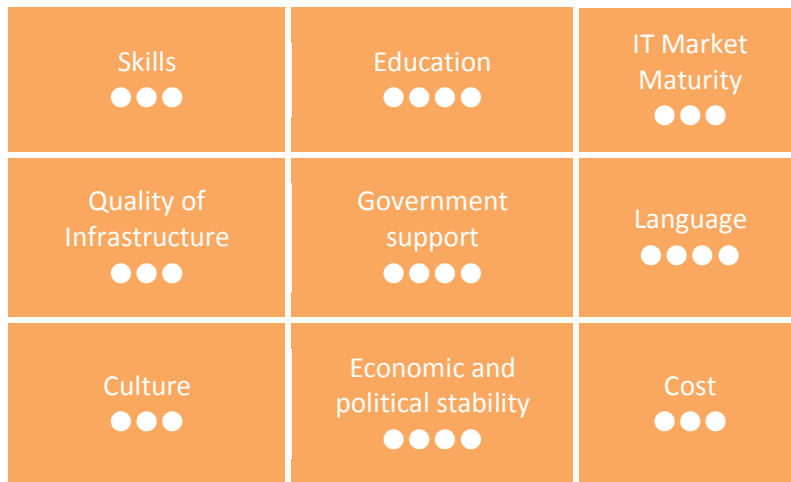
Source: HFS Research, 2011

Table Table 7 shows the main reasoning behind the readiness factors.

Table 7
Offshore readiness factors

Maturity Criteria	Reasoning
Skills	Argentina has an excellent skilled workforce, with highly qualified staff. The issue is the number of available staff, particularly around Buenos Aires, which is currently experiencing a shortage of experienced IT professionals.
Education	The Argentinean education system is very good. The mandatory education system is rated by the Economist Intelligence Unit as the best in Latin America. It is in third place, behind Brazil and Mexico, for its universities and business schools. Although Argentina has proportionally the highest enrollment in university education. According to UNESCO literacy rates among adults in Argentina had almost reached 98% by 2008.
IT Market Maturity	Compared to many of its Latin American neighbors Argentina spends a relatively large amount on IT. However, the relative size of the country means the market is still small.
Quality of Infrastructure	With the exception of much smaller countries like Uruguay, Argentina arguably has the best telecommunications infrastructure in the region, certainly of the leading countries. Home internet penetration reached 30% of the population in 2009; broadband access is approximately 9%. Argentina has a good road and transport infrastructure around the large cities. The government has built a number of expressways linking metropolitan areas and this process of investment is continuing. It has the sixth-largest number of airports in the world and is well served by domestic routes. Its metropolitan rail services are modern and good, in particular those around Buenos Aires. However, its intercity rail system, which fell into disrepair in the 1990s, is starting to be reactivated following government investment.
Government support	The Argentinean government has a number of incentives in place, including an income tax exemption of 60%, employer's social security contributions reduced by as much as 70%, no restrictions on foreign currency wire transfers for imports of goods and services, and a range of benefits derived from the recognition of software as an industrial activity.

Language	Argentina's native language is Spanish, but the country benefits from a substantial pool of other languages, such as Portuguese, Italian, English, German and French. Argentina enjoys a higher rate of English language learning than many of the other LA countries, with estimates as high as 10% of the population speak English.
Culture	Modern Argentine culture has been largely influenced by European immigration although there are lesser elements of Amerindian and African influences, particularly in the fields of music and art. Argentina has not been immune to US cultural influences, with Hollywood movies and US cable TV a staple of the Argentinean youth. The European heritage and modern cultural influences mean workers in Argentina will have a lot in common with their US and European contemporaries.
Economic and political stability	Argentina has largely recovered from the 2002 devaluation, its economy successfully growing at over 8% until 2009, due in large part to favorable international economic conditions. However, in 2009 Argentina entered a period of economic uncertainty, due in large part to the global economic crisis. Argentina also faces high inflation, even government statistics forecasting double digit rates. The Argentinean government has also gained a reputation for being overly bureaucratic and inefficient. It has even been charged with making sudden arbitrary changes to the rules which govern companies, creating uncertainty and having negative impact on foreign investment.
Cost	The 2002 peso devaluation makes it very cost effective to do business, particularly given the low rates for skilled IT professionals and the amount of inexpensive real estate available, even in Buenos Aires. However, rises in economic growth, high levels of inflation and recent skills shortages have seen wages creep up. Although, the base is still low and any rises won't impact the cost effectiveness in the short term. This should give the industry some breathing space while new graduates are trained.

Source: HFS Research, 2011

Appendix C:
Brazil in focus

Overview

Brazil has a mature outsourcing market due to the arrival of large outsourcing companies like IBM and EDS 30 years ago. Brazil enjoys a good infrastructure and an excellent array of IT and business process skills. Indeed it is highly regarded for its mainframe programming skills; and boasts the world's second biggest pool of COBOL programmers. However, its major drawback is the lack of English speaking skills, although this is at the top of the agenda for Brazil's offshore development agencies. It is also worth saying that although it has a low proportion of English speakers in its population because it has the largest pool of skills in the region it almost certainly has the largest number of English speaking professionals. The Brazilian offshore outsourcing industry is primarily in Sao Paulo, Curitiba, Campinas, Porto Alegre, Rio de Janeiro and Brasilia.

However, one of the main inhibiting issues for the Brazilian offshore delivery market is the total cost. Although wages are low, taxes are high. In spite of the current incentives that are in place, it is still bureaucratic and the remaining tax burdens can make doing business in Brazil less attractive than some of its neighbors.

Brazil's market for sourcing

Figure 6Figure 6 shows the market for sourcing services in Brazil. HfS Research forecasts continued strong growth in the Brazilian market, with a CAGR 13.9% from 2009 to 2014.

Figure 6
Sourcing market in Brazil 2009 – 2014 ($US billions)
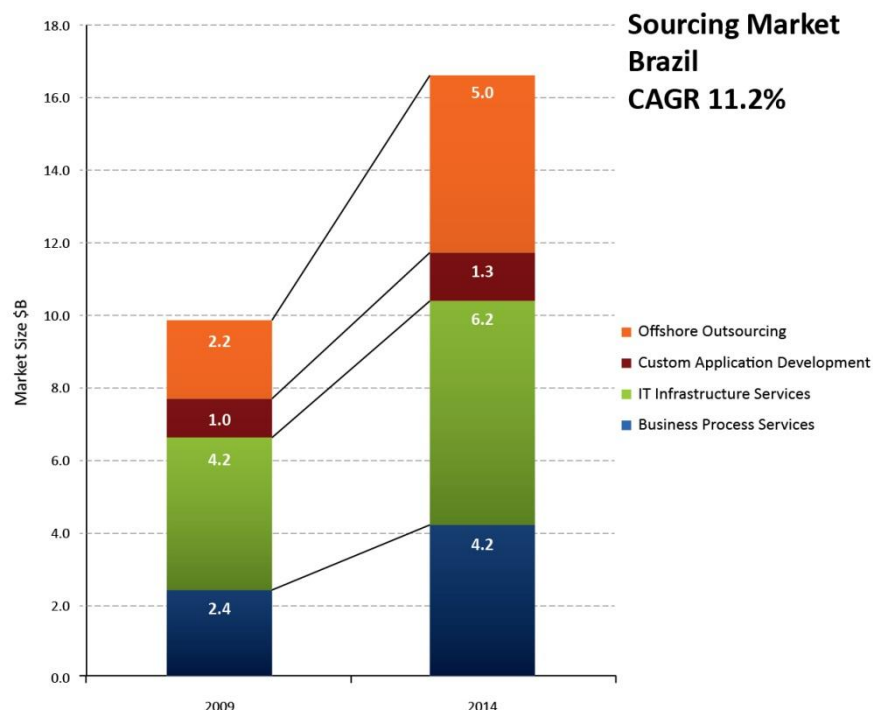
Source: HFS Research, 2011

Brazil has the largest IT market in Latin America. The Brazilian sourcing services market represents approximately 50% of the whole of Latin America. It is important to remember that Brazil has a strong heritage in outsourcing services driven by the entrance into the market by large outsourcing firms like EDS and IBM over 30 years ago.

Brazil's dominance of services spending in the region is due to the size of the country, but is also driven by the maturity of the market and Brazilian businesses propensity to use external services. The Brazilian business landscape is dominated by mid-sized organizations which have been traditionally served by small service boutiques for payroll, HR, IT and F&A services. This culture of utilizing external services has made Brazilian buyers sophisticated in the type of services they buy and has led to rapid adoption of higher end outsourcing and BPO services. The high penetration of ERP software has also helped fuel growth in application management services.

As a relatively early adopter of technology and having a mature base of existing ERP software, HfS expects Brazilian executives will be keen to adopt cloud based technology. This will continue to grow application development and integration markets. One of the key effects of the market maturity is a continued drive for quality and demand for higher value services in the domestic market. HFS expects to see more growth in the higher value BPO and ITO sectors in the next 2 years.

Given the size and maturity of its internal services market, Brazil was well placed to exploit the opportunity to sell services across the Latin American region and into the US and Europe. It does not benefit from the close proximity to the US that Mexico enjoys, so in spite of being the largest IT consumer in the region is only the second largest offshore outsourcer. However, the Brazilian government has put its weight behind the offshore industry and is hoping to cut down the lead Mexico has gained. Table 8 gives a summary of key facts about Brazil.

Table 8
Brazil: The basics

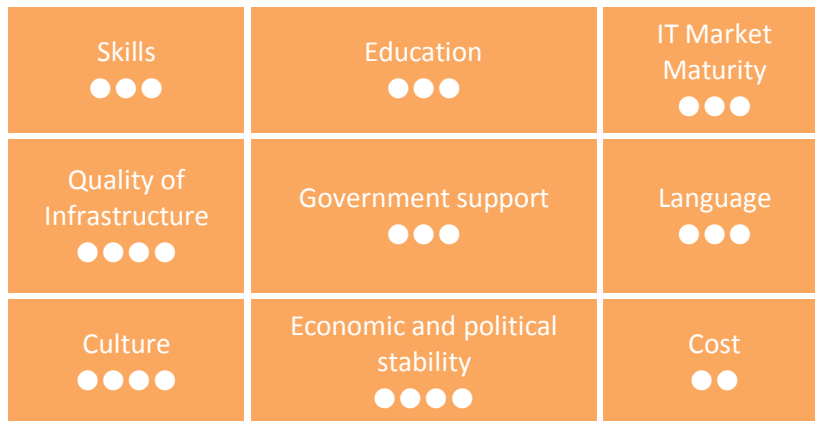| Country	Brazil
GDP 2009	US$1.575 billion
GDP Growth 2010	7.30%
Main offshore locations	São Paulo and Rio de Janeiro.
Area (km2)	8,511,965
Population (million, 2009)	199
Workforce (million, 2008 est.)	93.6
Population growth rate (%, 2009 est.)	1.2
Life expectancy (years, 2009 est.)	72
Illiteracy rate (%, 2004 est.)	11.4
Main Language	Portuguese
Time Zone	3 hours behind GMT
Broadband adoption per 100 inhabitants	7.5

Source: CIA Worldfact book, LatinFocus, IMF

Brazil Offshore Readiness

HFS has developed a tool to assess a global delivery location's current readiness to provide offshore and near shore services. The tool rates a location using the following criteria: skills of the workforce, education system, IT maturity, infrastructure (transport, telecoms, energy), cultural fit, language capabilities, economic/political stability, the availability of government support and cost. The tool allows executives to assess suitability of a location and compare locations easily.

Figure 7Figure 7 shows the HfS Offshore Readiness Index for Brazil.

Figure 7
The HfS Offshore Readiness Index for Brazil

Skills ●●●	Education ●●●	IT Market Maturity ●●●
Quality of Infrastructure ●●●●	Government support ●●●	Language ●●●
Culture ●●●●	Economic and political stability ●●●●	Cost ●●

Source: HFS Research, 2011

Table Table 9 shows the main reasoning behind the readiness factors.

Table 9
Offshore readiness factors

Maturity Criteria	Reasoning
Skills	Brazil has the largest pool of labor in Latin America, with a workforce of 93.6M people. The large internal IT market has produced a large pool of skilled IT professionals with approx. 300,000 people to draw on. Brazilian government investments are expected to increase this number by 100,000 by end of 2011. BRASSCOM suggests there are 1.7 Million people hired by the IT and BPO industries in Brazil.
Education	Like Argentina, the education system in Brazil is good, although arguably it is more focused on developing skills for the workplace. This is borne out by Brazil ranking first in the Economist Intelligence Units Latin American mapping talent list for its universities and business schools. Brazil has also managed to encourage private investment into education sector funding technical training and English language skills. According to UNESCO literacy rates amongst adults in Brazil had reached 90% by 2008, the figure amongst the youth was almost 98%.
IT Market Maturity	Brazil's large business community is a relatively early adopter of technology; it has a mature base of existing ERP software. It is a very competitive market with many global companies present: Accenture, Atos Origin, Cap Gemini, HP, IBM, Intel, Microsoft, Siemens, Softtek, Sun, Tata and Unisys. Brazil has an established call center business with over 1 million people working in contact centers. Penetration of internet services among the population is high, with electronic voting in elections, high use of electronic banking and electronic

	government services, such as filing tax returns on line.
Quality of Infrastructure	Brazil has a comprehensive telecom network which offers country-wide access, fixed line telephony and broad band internet access. Brazil has the second largest number of airports in the world and has a large fleet of privately owned aircraft. Federal and state highway system covers the whole country growth assured through private concessions Efficient domestic post office system, most major fast delivery operators present (i.e., UPS and FedEx)
Government support	The Brazilian government provides a number of incentives to offshore providers: reductions in social security contributions of up to 50%, tax exemptions for imports associated with software development, tax exemption on goods purchased for export, plus local government incentives, particularly around Rio de Janeiro and São Paulo.
Language	Only 5% of the Brazilian population speaks English, however, which represents over 10 million people. The Brazilian government recognizes that this is an issue and initiatives with BRASSCOM and industry are in place to encourage English language skills in the IT workforce and universities. It is also important to note that there is also substantial Spanish, German, Italian and Japanese spoken in addition to Portuguese.
Culture	Brazilian culture is mainly derived from its Portuguese colonial heritage. It takes its language, the Catholic religion and architectural style from Portugal. However, it has also been influenced by African immigration and its indigenous cultures. Also it is important not to forget the other waves of European immigration from Italy and Germany which have contributed to Brazil's cultural diversity. US popular culture has also played a part particularly with Brazil's youth; US TV and movies are very popular and help establish cultural ties between Brazilian workers and US/European counterparts. Business practices in Brazil are closely tied to US/European rules.
Economic and political stability	According to the Economist Intelligence Unit and the Eurasia group Brazil has one of the most stable governments in Latin America, closely following Chile in the rankings. However, Brazil's political environment can be very bureaucratic and inefficient. Starting a local subsidiary and opening an office can require a number of permits from local and federal governments, the whole process taking months.
Cost	Although salaries in Brazil are competitive, the employer's social security contributions are very high and can destroy much of the cost saving justification for using Brazil. Although there are tax breaks available to companies exporting services any calculations must be completed carefully.

Source: HfS Research, 2011

Appendix D:
Mexico in Focus

Overview

Mexico enjoys easy access into the US market due to its proximity and time zones. The low cost and the increasingly high caliber of the Mexican workforce makes is particularly attractive. Recently the expansion of centers across Mexico and the competition between the different states, both in price and quality of service, has matured its offerings. However, it has suffered from issues with economic stability, particularly with exchange rate fluctuations with the dollar. Additionally, Mexico, like much of LA, suffers from real and perceived security risks. The Mexican Offshore outsourcing industry is primarily based in Mexico City, Monterrey and Guadalajara.

Mexico's market for sourcing

Figure 8Figure 8 shows the size and predicted forecast for the Sourcing Services Market in Mexico. HFS expects the market to grow at 9.8% CAGR until 2014.

Figure 8
Sourcing market in Mexico 2009 – 2014 ($US billions)
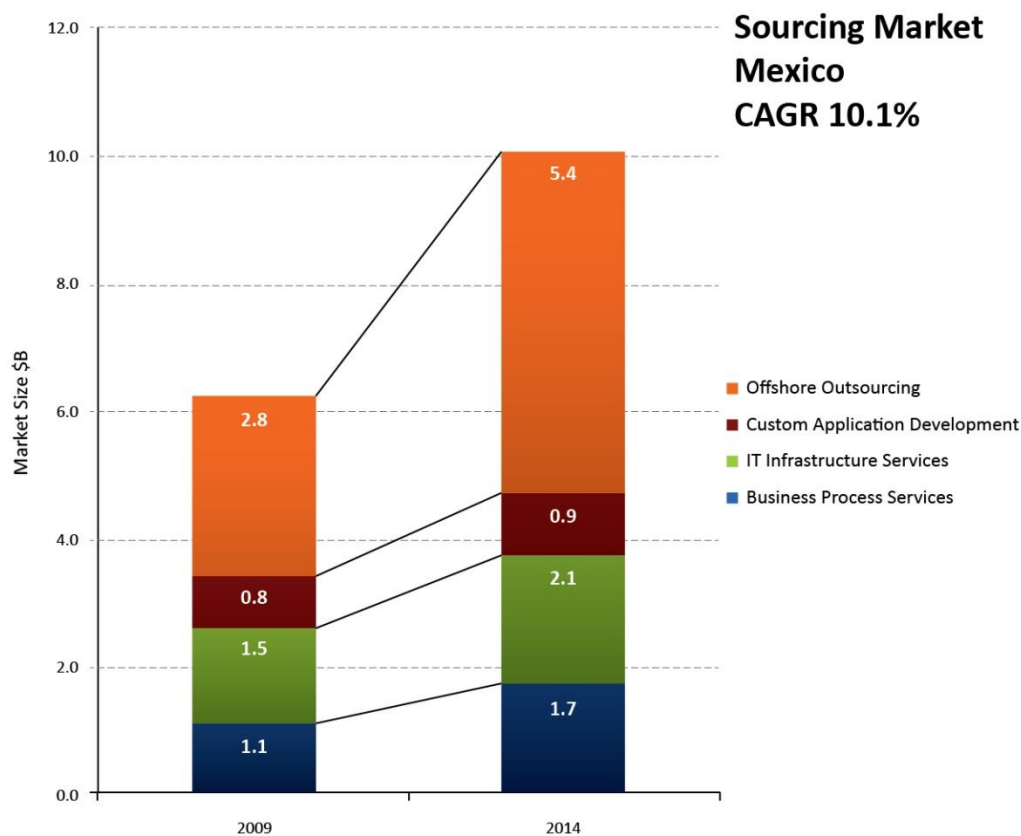
Source: HFS Research, 2011

The IT sourcing market in Mexico is being driven by the following key factors: The increasing number of multinational companies setting up operations in Mexico that is driving the demand for IT services across the board, particularly design, build and run outsourcing arrangements. The Mexican government has been investing heavily in IT over the past 2 years. This is combined with other government initiatives focused on saving money, which has led to increasing levels of outsourcing services. This additional spending has helped to avoid declines in 2009 and is going to drive growth in 2010 and beyond.

The large offshore industry in Mexico has developed cost effective and high quality services which can be delivered within Mexico; the availability of high value services is driving services growth within Mexican business. Mexico is the most mature global delivery services market, representing almost half of the offshore services supplied to the US in Latin America. HFS Research is starting to see Mexico and other Central American gulf states as gateways into skills offered by the rest of Latin America. Mexico's heritage in contact center outsourcing will make it ideally placed to exploit this opportunity. The challenge will be to develop higher value offerings that can be delivered primarily from Mexico leveraging skills across the rest of Latin America. Table 10 gives a summary of key facts about Mexico.

Table 10
Mexico: The basics

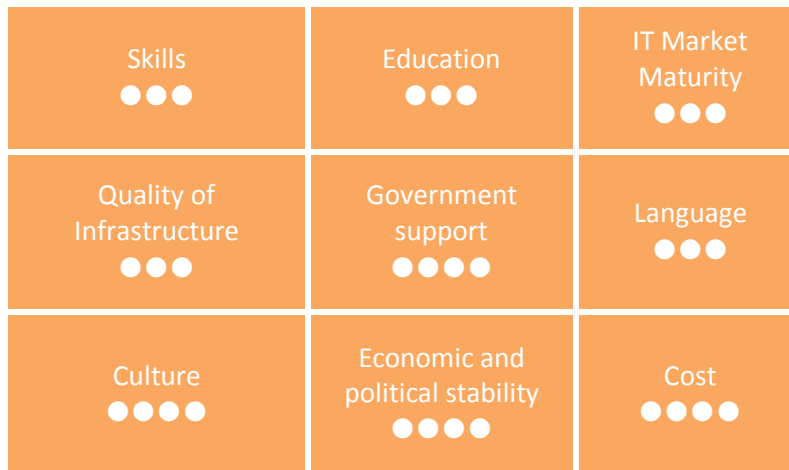| Country	Mexico
GDP 2009	US$875 billion
GDP Growth 2010	5.00%
Main offshore locations	Mexico City, Juarez and Monterrey.
Area (km2)	1,972,550
Population (million, 2009 est.)	111.2
Workforce (million, 2008 est.)	45.3
Population growth rate (%, 2009 est.)	1.1
Life expectancy (years, 2009 est.)	76.1
Illiteracy rate (%, 2004)	9
Main Language	Spanish
Time Zone	6 hours behind GMT
Broadband adoption per 100 inhabitants	9.1

Source: CIA Worldfact book, LatinFocus, IMF

Mexico offshore readiness

HFS has developed a tool to assess a global delivery location's current readiness to provide offshore and near shore services. The tool rates a location using the following criteria: skills of the workforce, education system, IT maturity, infrastructure (transport, telecoms, energy), cultural fit, language capabilities, economic/political stability, the availability of government support and cost. The tool allows executives to assess suitability of a location and compare locations easily.

Figure 9Figure 9 shows the HfS Offshore Readiness Index for Mexico.

Figure 9: HfS Offshore Readiness Index for Mexico

Skills ●●●	Education ●●●	IT Market Maturity ●●●
Quality of Infrastructure ●●●	Government support ●●●●	Language ●●●
Culture ●●●●	Economic and political stability ●●●●	Cost ●●●●

Source: HFS Research, 2011

Table 11 shows the main reasoning behind the readiness factors.

Table 4
Offshore readiness factors for Mexico

Maturity Criteria	Reasoning
Skills	According to Prosoft, Mexico has almost half a million people working in its IT industry and this figure is increasing by 10% year on year. The skills base has been increasing over the past 10 years to fuel the growing nearshore operations of local IT vendors.
Education	Mexico spends approx. 5% of its GDP on education which is in line with the other large Latin American countries like Argentina and Brazil. Mexico ranks 2nd in the Economists' list of Universities and Business schools. Like Brazil, Mexico is focusing its spending on educating its workforce and providing them with skills for the workplace. According to UNESCO literacy rates amongst adults in Mexico had reached 92% by 2008.
IT Market Maturity	Mexico has an increasingly mature IT market, but this is clustered in particular areas of the country and with big business. The Mexican government is investing heavily in IT. There is a drive to generate cost savings through outsourcing within local and national government departments and this is helping to drive the maturity of its internal outsourcing market.
Quality of Infrastructure	Overall the quality of telecommunications infrastructure is good. The only concern would be the dominance of the market by the national PTT Telmex, but rates are competitive and more competition is likely to enter the market if this changes. The road system is modern, but the size and physical geography of the country can make travelling by road impractical. The main cities are well serviced by suburban rail services and the country is investing in high speed railways between the major cities. Mexico is well serviced by airports and airlines.
Government support	PROSOFT agency provides grants for IT companies setting up in Mexico. Additional incentives are available from local government these vary from region to region, but tax credits on R&D and other investments are typical. Also the NAFTA free trade agreement helps by removing taxation and allows Mexican companies to bid on US government contracts.

| Language	The official language in Mexico is Spanish and is spoken by over 90% of the population. It is difficult to get accurate and up-to date figures on the number of English speaker in the country, but HFS has seen figures of around 5-10% of the population that seem reasonable. The quality of English, when spoken is usually very good and the Mexican government in conjunction with PROSOFT is actively promoting English language skills.
Culture	The Mexican culture reflects its diverse ethnic heritage. The largest influence is its Spanish roots and much of its culture is derived from this colonization. However, like the rest of Latin America the major modern influence is from the US. Mexico's reliance on the US as a trading partner means it is very familiar with US business customs.
Economic and political stability	Economically Mexico is heavily reliant on the US, so for example it has been severely affected by the recent economic downturn. The political situation in Mexico has stabilized over the past 4 years and the present government has shown conviction when dealing with drug violence and corruption. The biggest concern is the perception of violence by people in the US. However, this must be balanced against the large number of US residents that choose to visit Mexico on holiday.
Cost	Mexican labor rates remain very competitive and the large number of new professionals entering the market is helping to keep these costs low. Travel costs are also low given the proximity to the US. Government incentives and the NAFTA trade agreement help to lower the tax burdens of doing business.

Source: HFS Research, 2011

Appendix E:
The rest of Latin America in focus

The offshore industry is spreading all across the region with Mexico and Brazil leading the way in market size, but Colombia, Nicaragua, Chile, Panama, Costa Rica are all hoping to take an increasingly large share of the pie.

The remaining Latin America market for sourcing

Figure 10Figure 10 shows the size and predicted forecast for the Sourcing Services Market in the rest of Latin America. HFS expects the market to grow at 9.3% CAGR until 2014.

Figure 10
Sourcing market for the rest of Latin America 2009 – 2014 ($US billions)
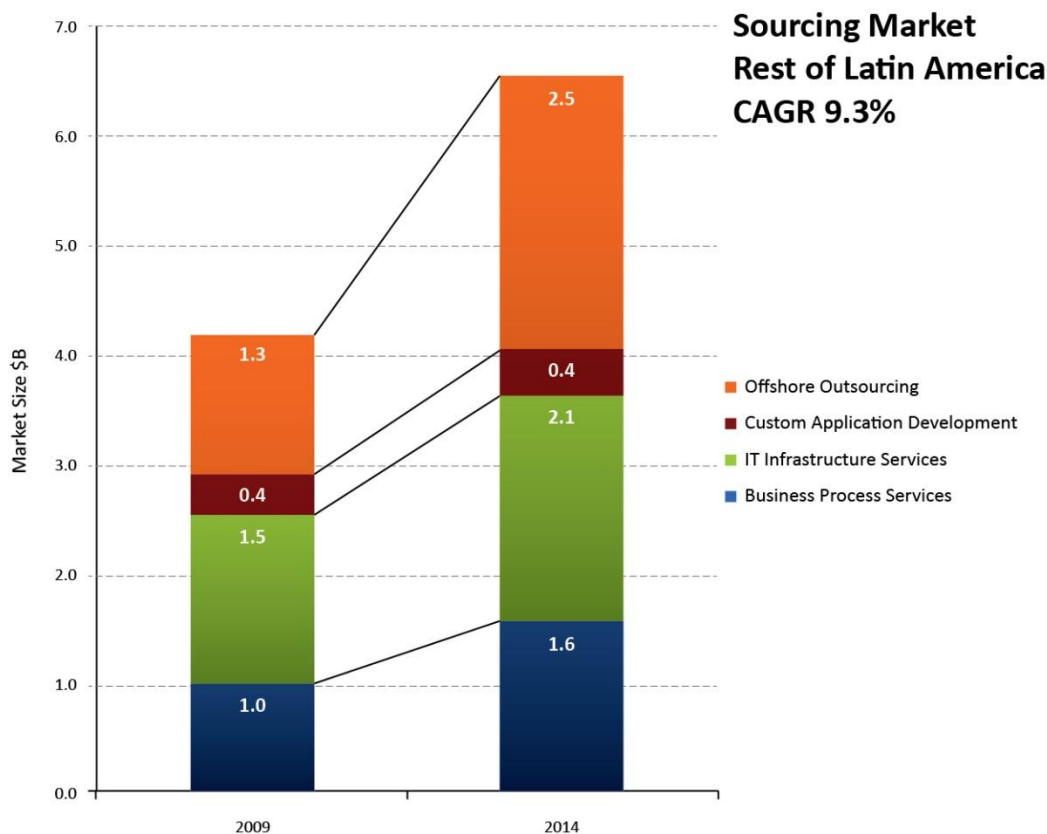
Source: HFS Research, 2011

The largest markets in the rest of Latin America category are Chile, Colombia and Venezuela. Colombia's offshore industry is predominately based on contact center outsourcing. Chile is focused on higher value services around KPO and product development. Table 12 gives a summary of key facts about the Rest of Latin America.

Table 5
Rest of Latin America: The Basics

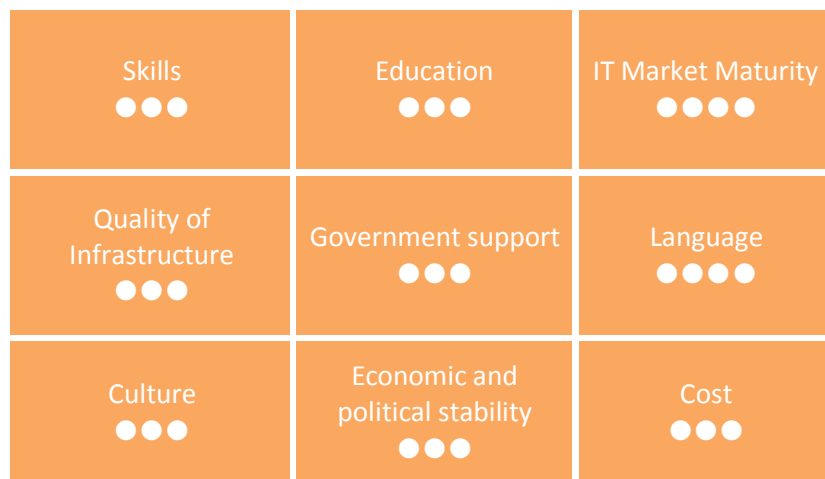| Country	Rest of Latin
GDP 2009	US$1.205 billion
GDP Growth 2010	9.50%
Main offshore locations	Chile, Colombia, Costa Rica, Panama, Uruguay
Area (km2)	7,818,095
Population (million, 2009 est.)	220
Population growth rate (%, 2009 est.)	1.5

Source: CIA Worldfact book, LatinFocus, IMF

Rest of Latin America Offshore Readiness

HFS has developed a tool to assess a global delivery location's current readiness to provide offshore and near shore services. The tool rates a location using the following criteria: skills of the workforce, education system, IT maturity, infrastructure (transport, telecoms, energy), cultural fit, language capabilities, economic/political stability, the availability of government support and cost. The tool allows executives to assess suitability of a location and compare locations easily.

Figure 11Figure 11 shows HFS Offshore Readiness Index for the rest of Latin America.

Figure 11
Rest of Latin America Offshore Readiness Index

Source: HFS Research, 2011

In many ways the rest of Latin America contains the most interesting developments and opportunities in Latin America, particularly the countries closest to the continental US, like Colombia, Costa Rica, and Panama. Table 13 gives a summary of the different factors in the other leading outsourcing countries across Latin America.

Table 6
Development factors in the other Latin America countries

| Country	Factors
Chile	Chile has developed a large offshore industry selling high value KPO and ITO services to the rest of Latin America and the US. Although it is in a favorable time zone for the US it is at least a 10 hour flight from the major US cities. The Chilean offshore industry is primarily in Santiago. Chiles has free trade agreements with US, Australia, Canada and China.
Colombia	Colombia has emerged as a contender over the past 18 months as it becomes a more secure country, with centers developing in Bogota, Cali, Medellin and Bucaramanga. Colombia has had a troubled past, but the initiatives by the Uribe government have made visiting the country much safer over the past 10 years. However, the US has recently advised tourist to by airplane domestically within Colombia. The Colombian government has the following incentives for offshoring in Colombia: Free Trade Zones offering up to a 50% tax break on sales into the local market, 40% tax deduction on the cost of purchased machinery, Service exporting companies can import capital goods exempt from custom duties and VAT. Government has also developed initiatives that emphasize the importance of English language skills to the outsourcing industry with, for example, mandatory foreign language training for graduate courses and a number of programs to increase English training across the education system.
Costa Rica	Costa Rica started to develop its high-tech near shore business back in the early 2000s, partly due to the success of Intel's operations in the country. Costa Rica has set up Free Trade Zones in San Jose. Offshore companies can use these zones to export services to the US paying no corporate income tax. However, Costa Rica is limited by its physical size, with a population of 4.5 Million and a labor pool of only 2 Million it is hard to see how the industry can expand indefinitely.
El Salvador	Dell and HP have invested heavily in El Salvador; a US caller to the Dell help desk is likely to be put through to the center in El Salvador.
Panama	Panama a number of advantages for companies wanting to do business in the US. It uses the US $ as its currency, it has Free Trade Zones where companies can export to the US paying no tax. However, the country has a small workforce of only 1.5 Million and restricts foreign workers coming into the country.
Uruguay	Uruguay probably has the best infrastructure of any Latin American country with first class broadband services, and excellent road network. The government has set up tax free business parks around Montevideo. The issue for Uruguay will be the available pool of professionals and low rate of English amongst professionals.

Source: HFS Research, 2011

Appendix F:
Market forecast

The Latin American market for sourcing

The Latin American Sourcing Services Market reached $21.4 billion in 2009. Figure 12 provides a profile of the projected growth in Sourcing Services spending by major service category in Latin America for the period 2009 and 2014.

Figure 12
Sourcing market Latin America 2009 – 2014 ($US billions)
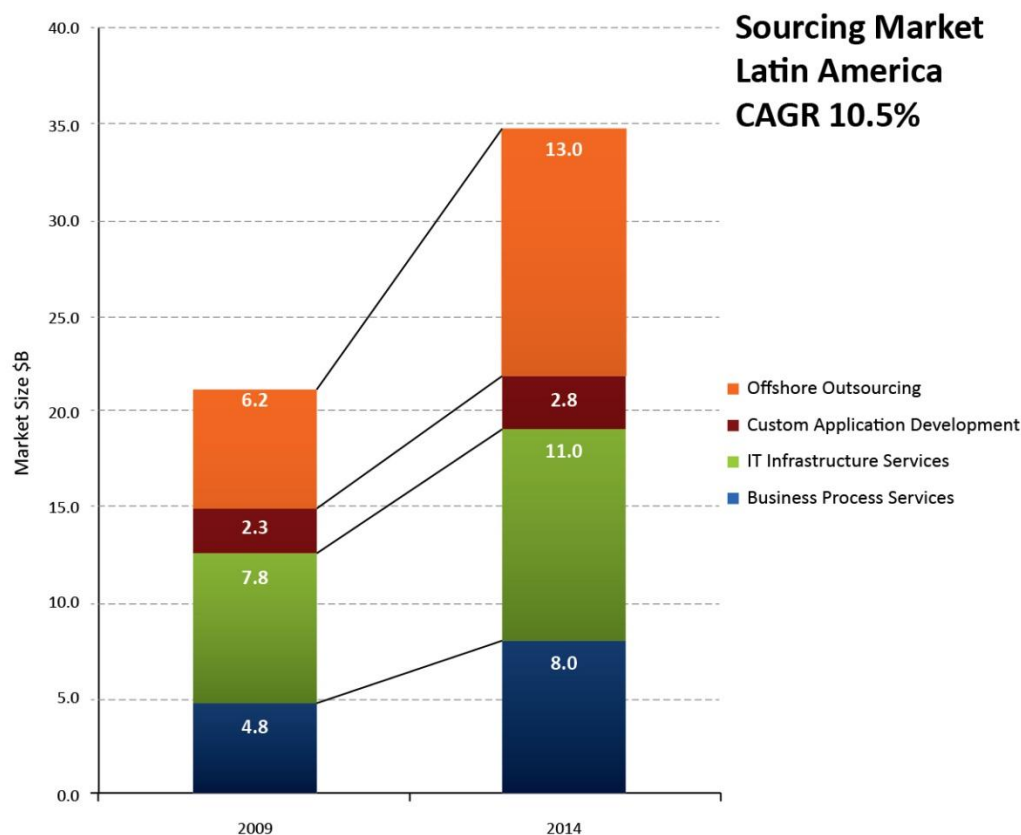
Source: HFS Research, 2011

Increasing government spending on IT services across the region. This is particularly apparent in Mexico and Brazil, government departments are looking to save money by utilizing external services. This has generated a wave of outsourcing in Mexico.
The development of high quality service delivery for offshore provision is helping drive service growth at home and within the region. Offshore providers have demonstrated their ability to deliver cost effective solutions externally are starting to market these offerings with the region, helping to develop the regions external service culture.
Multinational companies are setting up offices across the region. The organizations often have a great propensity for external service spending and expect the same high levels of service they enjoy in their home markets.
The offshore industry is spreading all across the region with Mexico and Brazil leading the way in market size, but Colombia, Nicaragua, Chile, Panama, Costa Rica and Argentina hoping to take an increasingly large share of the pie.

Appendix E:
Time differences and flight times between offshore cities

Table 7
Time differences between offshore cities

	New York	London	Paris	Madrid	Los Angeles	Miami
Bogota	0	-5	-6	-6	3	0
Sao Paulo	2	-3	-4	-4	5	2
Buenos Aires	2	-3	-4	-4	5	2
Santiago	2	-4	-5	-5	5	2
Mexico City	-1	-6	-7	-7	2	-1
Bangalore	10.5	5.5	4.5	4.5	13.5	10.5

Source: Times Altlas (based on GMT; does not include daylight saving variations)

Table 8
Average Flight Times in Whole Hours between Offshore Cities

	New York	London	Paris	Madrid	Los Angeles	Miami
Bogota	5	12	11	10	7	4
Sao Paulo	10	12	12	11	13	9
Buenos Aires	11	14	14	13	13	9
Santiago	11	15	15	14	12	9
Mexico City	5	12	12	12	4	3
Bangalore	17	10	10	11	19	19

Source: Expedia

Methodology

Market sizing and forecasting

We estimated market sizing figures using:

• Analysis of country business landscape by major industry and government departments
• Benchmarks of typical buying behavior in key industries
• Interviews with key service providers
• Analysis of service providers contracting activity
• Analysis of published service providers revenue data, headcounts and financial reports
• Analysis of published governmental data on IT industries and education

We used a combination of techniques for our forecasting:

• Application of likely growth by industry from current economic growth forecasts
• Assumption forecast based on likely relationship between economic growth and IT markets
• Assumption and cross impact with key drivers and inhibitors in each market

All of the data was gathered in December 2010 and reflects market at that point in time. All market sizing and forecasting within this report are HfS estimates.

Definitions

HfS Research has sized and forecast the sourcing services market for this report. The main feature of this market common to all the subcomponents is it is externally sourced services spend. This is the amount companies are spending on external vendors and does not include any internal costs. The individual market components were chosen for inclusion in this report to contrast the size of each countries offshore/nearshore industry and the size of the internal country market.

For the purposes of this report, HfS has included the following categories in this view of sourcing services market:
• Custom application development
• IT Infrastructure services
• Business process services
• Offshore outsourcing

Custom application development

Custom application development services provide standalone development of custom software applications and interfaces. This can include large scale customization of pre-existing software.

IT infrastructure management services

IT Infrastructure management services include a range of different client engagement models aimed at supporting and managing a client's IT infrastructure. For completeness this definition includes: full IT outsourcing, standalone workspace management, help desk and WAN and LAN network management services. It includes remote, data center and on-site services. These services typically involve a fixed length agreement, with the service provider agreeing to take responsibility for this set period. The agreement can involve the transfer of people and assets from the client to the vendor.

Business process management services

Business process management services give a third-party the responsibility to run an internal department. This definition includes finance and accounting, procurement, HR and industry specific business processes.

Offshore outsourcing

For the purposes of this report offshore outsourcing is the export of any of the above services across a national border. Typically it involves fixed length contracts for the operation of IT and business functions, and project based work such as the development of custom applications.

About the authors

Phil Fersht

Phil Fersht is Founder, Chief Executive Officer and Research Director of HfS Research, the leading global research analyst organization covering global sourcing strategies. He was named "IIAR Analyst of the Year 2010" by the Institute of Industry Analyst Relations (IIAR). This is the most coveted global award for industry analysts in technology and services. His specialist coverage areas include finance, HR and supply chain BPO, and he also focuses on industry-specific issues and the convergence of BPO, SaaS and Cloud in a business utility context.

He is an acclaimed industry analyst, practitioner, advisor and strategist across Business Process Outsourcing and IT services worldwide, having worked extensively in Europe, North America and Asia. During this time, he has advised on more than 100 major outsourcing and offshoring engagements and consults regularly with senior operations and IT executives on their global sourcing strategies. At HfS Research, Phil directs and contributes to the firm's research and social media strategy, in addition to administering the global finance operations.

During his career, Phil has worked at AMR Research (Gartner Group), leading the firm's BPO and ITO practice. Previously, he served as market leader for Deloitte Consulting's BPO Advisory Services, where he led numerous outsourcing and offshoring advisory engagements with Fortune 500 enterprises. He also worked for outsourcing advisor Everest Group leading the company's BPO research practice. Phil began his career at IDC across its European and Asia/Pacific operations.

Phil is a frequent author and speaker on IT services, Finance, HR and Procurement Business Process Outsourcing trends and issues. He was named both an "FAO" and "HRO Superstar" by FAOToday and HROToday Magazines for 2005, 2006, 2007, 2008, 2009 and 2010 and was featured as the cover story for the December 2006 issue of FAOToday as one of the outsourcing industry's most prominent advisors. He was also nominated for "Advisor of the Year" at the FAOSummit 2008. He speaks regularly at industry conferences, which have included The Conference Board, NASSCOM, IDC Directions, the Sourcing Interests Group, the Shared Services & Outsourcing Network and the Council of Supply Chain Management Professionals. He is also a regular columnist for several industry publications, including Global Services Media, SSON, FAOToday and Finance Director Europe.

Phil received a Bachelor of Science, with Honors in European Business & Technology from Coventry University, United Kingdom and a Diplôme Universitaire de Technologie in Business & Technology from the University of Grenoble, France.

When he's not running this business, Phil spends his time watching Tottenham Hotspur (a mediocre British soccer team), the Boston Red Sox (less mediocre, but not by a lot), reading, running, playing chess and sampling single malt whiskies.

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Esteban Herrera

Esteban Herrera is COO at HfS Research, where his prime focus is developing and delivering compelling and rapid research, data, insight and practical advice for our buy-side enterprise clients. He also over sees the company's commercial operations.

Esteban focuses on the issues and challenges of outsourcing buyers, ensuring they have the best insight to create and manage their outsourcing relationships. His responsibilities include providing outsourcing buyers with solid research that leverages both deep expertise and the power of social media.

A committed globalist, Esteban is an outsourcing thought leader who is passionate about the opportunities of globalization and specialization in the industry. A popular speaker and author, he advises organizations on issues of business process and IT outsourcing on- and offshore. Through his involvement in hundreds of enterprise outsourcing initiatives, he has developed unique insight and the ability to ask the right questions to set an organization on the correct outsourcing path.

A respected practitioner, adviser and researcher, Esteban has worked with Global 2000 companies in the United States, Asia, Latin America and Europe, helping them manage the entire lifecycle of back office transformations. He has lived and worked on four continents and is fluent in Spanish and Portuguese.

He has run outsourcing delivery organizations in India, North America, Latin America and Europe, and has advised on over 100 ITO and BPO transactions.

Esteban started his career at Accenture, delivering "offshore" enterprise solutions before that was a common term. At Infosys, he was responsible for delivery of services to major Fortune 100 clients. He has spent the last decade as an outsourcing advisor

to global enterprises, founding and managing The Concours Group's Outsourcing Advisory practice and most recently as a Managing Director with Alsbridge.

Esteban's work has appeared in publications such as MWorld and Directorship. He is a co-author of the influential book *Outsourcing: The Definitive Point of View, Applications and Implications* published by Wiley & Sons in 2006. In 2003 he led the landmark Research *Life after Outsourcing*, which was the first to comprehensively focus on the behaviors and processes that can make or break outsourcing success.

Esteban is a graduate of Babson College, where he majored in Entrepreneurial Studies and Marketing.

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About HfS Research

HfS Research (www.HfSResearch.com) is the foremost research analyst firm and social networking community, focused on helping enterprises make complex decisions with their business process operations, IT outsourcing and shared services strategies. It has the largest audience and regular following in today's global sourcing industry.

With 58,000 subscribers, HfS Research provides the most impactful and frequently-visited global collaborative community platform in the global services industry, providing rapid and insightful commentary, analysis and debate of enterprise outsourcing and shared services dynamics. The organization is unique in the fact that it integrates personable social networking with market research and expert advisory services.

The HfS Research mission is to provide a unique environment for collective research, opinion, experience and knowledge across the global outsourcing industry to help enterprises explore new performance thresholds. Led by industry expert Phil Fersht, the HfS Research team is a multi-disciplinary group of analysts across North America, Europe and Asia/Pacific regions, with deep domain knowledge in business process outsourcing, information technology services and cloud business services.

Launched in 2007, HfS Research's acclaimed blog Horses for Sources has more than 120,000 monthly visitors across the global outsourcing industry, and is widely recognized as the leading destination for collective insight, research and open debate of industry issues and developments. The HfS LinkedIn community, The BPO and Offshoring Best Practices Forum, is thriving with over 13,700 industry professionals sharing views and information daily. You can access information about HfS at www.HfSResearch.com and on Twitter at www.twitter.com/horses4sources.

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