



Latin America Service Providers at Crossroads

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Latin America has enjoyed the last couple of years with significant growth in the outsourcing sector. However with this growth in the market and the changing sourcing dynamics, are the Latin American service providers geared up to enough to enjoy a sustainable growth?

Introduction

The last couple of years have been good for Latin America, with unprecedented growth in the outsourcing sector and significant M&A activity resulting in entry of several large global IT and BPO companies. Most US customer surveys rank Latin America as the third most desirable destination for outsourcing (after India and China) and global rankings of countries in the region have been improving consistently. The latest 2011 AT Kearney Global Service Location index ranks four South American countries i.e. Mexico, Chile, Brazil and Costa Rica among the top twenty. While Costa Rica is a new entrant to the top 20 others have held on to their positions and Mexico has leapfrogged five spots to be within striking distance of perennial leaders India, China and Malaysia. This is a clear indicator of Latin America's rise as a prominent player in the global sourcing arena. On the M&A front, big ticket deals like Apax Partners' USD 950 million investment in Brazil's TIVIT and Cap Gemini's USD 560 million purchase of 55% stake in CPM Braxis are helping the region rapidly achieve critical scale. While all these positive developments may point towards robust growth, they also underscore some looming issues that could potentially stall the growth or make it less equitable for the concurrent economic and social development of the region. Majority of the growth in Latin America's BPO sector has come on the back of demand for Spanish and bilingual services. However the IT outsourcing sector has lagged behind BPO in most countries, barring Brazil and Chile. Abundant availability of ERP and Industry specific skills as well as a large domestic market has resulted in a vibrant IT outsourcing industry in these two countries. The reason for the region's success – strong Nearshore bilingual capabilities – could also become its Achilles heel. The challenge for Latin America is whether the industry is able to leap beyond the stereotypical image of low cost Spanish centric services, and stake its claim as a global player for complex solutions and value-added services that would rival the likes of India, Canada and Ireland. This is essential for the long term sustainability of outsourcing sector in the region. Let's look at some startling facts about the state of the outsourcing sector in the region. Latin America has very few home-grown service providers of significant global scale, with only 5 companies booking revenues of \$250 Mn and above, and none with revenues over \$1 Bn. Service delivery maturity still lags industry benchmarks, with only a handful of companies possessing CMMi Level 5, eSCM-SP or Six Sigma accreditations. In fact IAOP's Global 100 list of providers has less than 10 companies from the entire region. While revenue is a function of scale; quality and service level maturity is an attribute that should be integral to service delivery at any size to ensure greater customer confidence. Latin American providers have excelled at service quality; however they have not invested heavily in embedding process rigor or automation in their operations. This has resulted in challenges with scaling up and prevented many providers from taking on larger deals requiring significant upfront investments or economies of scale. Economic conditions and a maturing market has brought about shifts in buying patterns, as clients now demand domain specificity, bundled solutions and transformative capabilities. Global providers have morphed their service offerings to address these needs, converging ITO and BPO as well as adopting a solution-centric approach. Mid-size providers in Latin America will need to evolve from offering a buffet of services to engaging in a Solutioning approach, to thrive in a more mature market. This requires a higher discipline of service delivery and a more consultative selling strategy. For many this may be a tough proposition, hence opening the door to partner with or be acquired by a larger global firm. Another area which Latin American providers need to focus on is in the development of higher value services. Having become pigeon-holed as a destination for contact center or generic IT services, the region has to do a better job of provisioning services that provide a higher yield on resources. This will prevent labor saturation and enable an upward career path for the workforce to aspire to. While a few countries such as Costa Rica and Chile have done a good job of steering its industry in this direction, others continue to pick the low hanging fruit of a rapidly eroding tree. Development of higher-end IT and BPO services requires a significant investment from providers in training, up-skilling, process and technology enhancements. Latin American providers can leverage the Nearshore advantage to jump on the

rapidly emerging opportunity for Cloud Business Services. This is an area where offshore providers face challenges due to infrastructure and latency issues, hence offering a window of opportunity. Another area of specialty where Nearshore providers have excelled is with Agile computing, Product Design, Web enablement and Social Media services. A natural affinity amongst Latin Americans for these skills along with a cultural familiarity makes these services a great fit for the region. There needs to be a greater focus on enabling these sub-segments rather than trumpeting the afore-mentioned generic services.

Finally, one key factor that keeps Latin America from generating more globally competitive outsourcing companies is the relative lack of aggressiveness in the go-to-market approach. While many of the firms have benefited from a healthy domestic and regional market, they have taken a more opportunistic approach to the US and global markets. These factors when put together places Latin American service provider at a distinct disadvantage compared to global service providers. A key market, the Latin American players have not aggressively sought is the European Market where they can give a cost arbitrage of an additional 10-15% over the Eastern European players. With similar language capabilities and neutral accents in countries like Columbia and Guatemala, a large chunk of the European market is left unexplored by the Latin American firms. Latin American firms need to globalize! While global service providers have rapidly expanded Nearshore to offer a global delivery model to their clients, very few Nearshore providers have looked outward to create a truly global footprint. With the notable exception of companies such as Softek, Stefanini and Belatrix, most of the providers in the region have limited presence outside the region. To put in perspective, TCS has scaled its Latin American operations to over 7,000 employees in the region and is looking at USD 1 billion in revenue from the region by 2014-15. They came to Latin America not just to serve their US customers from a Nearshore location but also to capture the regional market. Aegis expanded into the Latin American market by acquiring Argentinian firm Actionline. Wipro has delivery centers Brazil and Argentina. WNS entered the Latin American market through Costa Rica. In total, twenty Indian companies have established software development centers, BPOs, KPOs and Call Centers in all if Latin America employing nearly 18,000 Latin Americans. Today clients seeking Nearshore delivery prefer the comfort of working through a global or Indian service provider that can mirror their processes and domain expertise in the Latin American region. It is time for Latin American providers to look beyond the usual spectrum and weave a strategy to globalize their service offerings and compete with their global counterparts

About the author

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