



Compete or Cooperate? Bridging the Nearshore- Offshore Divide

For offshore BPO providers to succeed, they will have to tackle the Nearshoring challenge.

Nearshoring is here to stay and the Americas region is brimming with cost competitive and competent destinations, each vying to be the next big thing. But the looming question is, will these contenders co-exist with the larger and more mature offshore destinations or is this a zero sum game? While many had initially dismissed Nearshoring as a niche trend unlikely to compete with well entrenched offshore destinations, the success of many destinations in Central and Latin America in attracting investments, providing quality services and developing the desired mix of skills have proven them wrong. More importantly, the need for de-risking and diversification has propelled Nearshoring as a critical component of global sourcing.

Service providers are adopting a global strategy by developing new locations that mirror client needs as well as address the saturation of some offshore locations. Access to capabilities not found offshore such as Spanish skills and cultural affinity are making Nearshore Americas an attractive choice. Most top tier global ITO and BPO providers are expanding their Nearshore footprint either through greenfield options or through acquisitions. But the pure play offshore BPO providers have

been slower at adopting this approach. They have either been unable to find suitable mid-size acquisition candidates or have been reluctant to set up a ground-up operation due to lack of familiarity with the region. It is increasingly becoming apparent that for offshore BPO providers to succeed in this market they have to tackle the Nearshoring challenge.

Offshore to Global

The offshore provider landscape is rapidly morphing with the maturing of global sourcing. While service providers are now expected to offer seamless delivery of services across diverse geographies, it has also become important to shake off the tag of an 'Offshore' provider to mitigate the political backlash. They can bridge this perception gap by establishing a multi-regional presence, especially with a blend of onshore and nearshore delivery. This is an imperative not only for major providers like HCL, Patni and Genpact but also for the second tier companies wishing to diversify their client base and spread risk away from highly concentrated offshore locations.

Bridging the Offshore-Nearshore Divide

Capitalizing on their talent pool and nearshore advantage, nations

such as Brazil, Chile, Costa Rica and Dominican Republic have rapidly expanded their share of the outsourcing pie. Brazil exported IT-BPO services worth \$2.2B in 2008 and is likely to touch \$3.5B by the end of 2010, while Costa Rica exported around \$600M and Dominican Republic over \$450M. In fact nearshore outsourcing is expected to continue to grow annually at double digits to over \$20B by 2013. The business and service delivery infrastructure in these countries has improved significantly and is almost comparable to major outsourcing destinations such as India and Philippines. However, apart from Brazil, none of the other nearshore countries have large locally owned vendors that can go head to head with the global or India based service providers. There is a distinct lack of transformational or multi-tower outsourcing deals in the nearshore region due to relative nascency of the providers and a narrower set of skills. But the potential is certainly there, as is evident in the recent Cap Gemini-CPM Braxis deal which is seen as a bold move by the French firm to penetrate the lucrative Brazilian and Latin American market. Aegis' acquisition of Argentina based Actionline and the recent acquisition spree by ACS (Xerox) and Teleperformance across the Caribbean and Latin America

are indicators of a market that has reached a critical mass. Such strategic transactions are rapidly changing the landscape and accelerating the maturity of services capabilities in the region.

Global corporations are rapidly embracing Nearshoring, leveraging it for Comfort while expanding Offshore for Scale. Its easier to test new processes, vendor capabilities and delivery models closer to home. However nearshore vendors still have a long way to go in building complex service supply chains in a cost-efficient manner. Hence companies seeking strategic, transformative and long term deals overwhelmingly prefer offshore destinations such as India, China or Malaysia. The opportunity for Nearshore vendors is to offer a broader suite of capabilities and scale through collaborative partnerships with larger offshore vendors. Hence they can emphasize their core differentiators and strengths rather than build end to end capabilities. The offshore vendors on the other hand are seeking to establish nearshore delivery centers where client processes can be piloted and initial traction can be attained. Hence a marriage of convenience can bridge the Nearshore-Offshore divide. In this pursuit everybody wins. The clients feel more comfortable with an offshore provider that has a Nearshore center, without sacrificing the process maturity and cost efficiencies. The nearshore providers can embellish their strengths and close their capability gaps by bundling services with offshore partners.

Integrating Nearshore into the Global Services Supply Chain

With the entry of global firms and growing maturity of local service providers, Nearshoring is increasingly

becoming an integral component of a global services portfolio. Its important to plan a Nearshore strategy with long term objectives and a sustainable growth plan.

Balanced Approach to Location Selection – Its more than just the numbers:

While Latin America offers many nearshore choices, zeroing in on the exact country or location is not as simple. There is a surprisingly high variance in cost and performance factors between various countries in this region. Once a company has short-listed a few locations based on broad parameters such as the nature of services to be provided, client requirements and cost considerations, there

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has to be a more detailed drill down to identify the final location. Often factors that are not reflected in an Evaluation matrix may play a larger role. For example, Worker productivity and work ethics are not easily captured in Location reports and can only be judged through site visits and interviews with management from various groups (HR, Ops as well as Sales). Government support is still critical in this region for long term sustenance, however don't be swayed by over the top incentives. Its more important to gauge the government's efforts in ensuring skills development and inflation control. Also, statistics such as crime rates or country rankings

don't always portray the right picture. Many of the cities in Top 20 list also happen to be rated high in the Most Dangerous cities list. Countries like Jamaica, South Africa and Colombia are considered high crime, yet have a flourishing outsourcing sector. Create your own decision matrix weighing factors more important to you (and your clients) and then look for the right combination of skills availability, process maturity, risks and costs.

Localization through

Partnerships: The Americas (Latin and Central America) offers a sizable regional market for corporations and service providers. Countries in this region have a healthy growth rate and mushrooming middle class. However, tapping into this market requires considerable local expertise and a long term approach. Local partnerships can prove critical in the success of nearshore operations, especially during the initial stages. A Local partner can not only ensure faster ramp up and access to infrastructure and manpower, but they can also be the beachhead to penetrate the local and/or regional market. This is especially true in countries such as Brazil and Colombia where very little English is spoken and business customs can be quite different from North America. A good example is the recent JV between Datamatics of India and Genti Teleservices of Brazil. Genti benefits from Datamatics' expertise in non-voice BPO while Datamatics gains access to Genti's expertise in voice services, allowing the JV to offer a broader suite of services to their client base in Brazil.

The Right Business Model: For small to mid-sized providers, nearshoring should be approached with caution as the market is still maturing and a substantial amount of time and resource investment is required. At the same time not having a nearshore

presence can limit a provider's ability to expand or bid on contracts requiring such capabilities. Larger firms have the flexibility to deploy capital and resources and can often secure client commitment for testing the new location but smaller providers have to get the business model right the first time. Most large companies prefer setting up a greenfield operation or acquiring an established local firm, while smaller firms should look at entering into JV's or Strategic bundling partnerships to minimize the risks involved in ramping up or integrating nearshore delivery centers.

Widening the breadth of Business Continuity options. For mission critical processes, it is imperative to have a

seamless business continuity plan. Hot Sites, where the process is split across multiple locations, can be another reason for having a blend of nearshore and offshore locations. Often providers cross-train their employees across multiple locations to take over each other's functions in the case of an emergency. Alternatively one could sign up with a nearshore partner who can provide excess capacity when desired.

Experts Matter: It is important to seek the help of advisors with sound knowledge of the region. Experienced Advisors will quickly narrow in on the short list of location choices based on their prior experience. They can also help facilitate and negotiate the right incentives and cost package with the

local government and infrastructure providers.

As the boundaries between Nearshore and Offshore continue to blur, it is evident that clients will opt for providers that have a blended portfolio. Eventually providers will be measured by their maturity in leveraging the right location for the right skills with the optimum balance between cost savings and performance. Successful players will be the ones who create a scalable network of global delivery by harnessing the complementary strengths of Nearshore and Offshore locations. **GS**

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-Global Services Conference 2010 Attendee

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