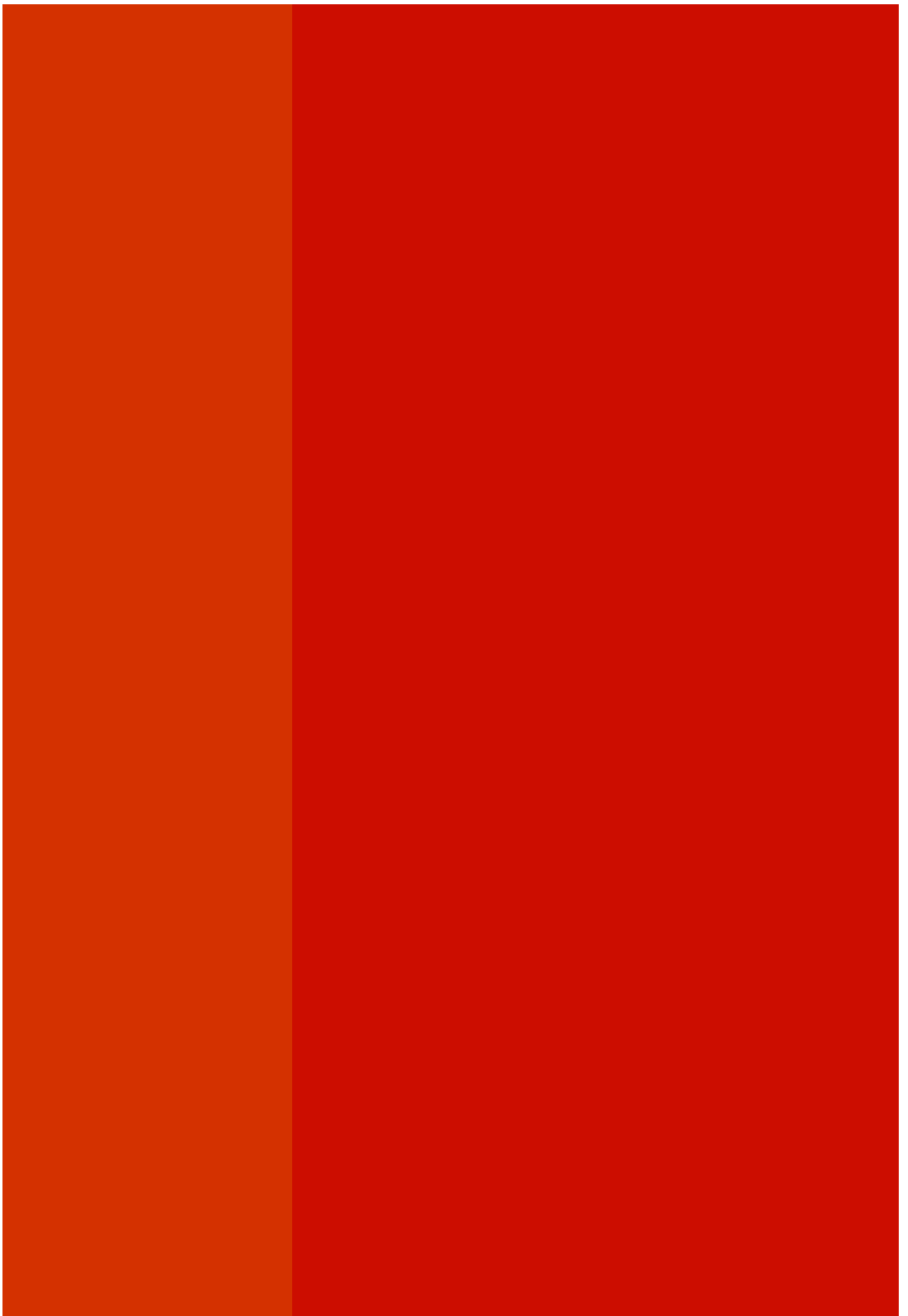


Destination Latin America: A Near-Shore Alternative

The key to capturing value from offshore and near-shore strategies





Latin America has arrived front and center as a desirable off-shore destination, a niche that India is most commonly thought to occupy. As a “near-shore” destination, Latin America offers significant value and resources when compared to Asia, especially for U.S.-based companies attracted to the region’s cost advantages, cultural affinity and abundant resources. In fact, Latin America has what many U.S. and some European companies want: low-cost Spanish-language capability and a growing, relatively low-cost, skilled bilingual workforce. In addition, Latin American time zones and cultures are closely aligned with those of the United States.

Latin America has clearly become a hot story. Companies have been outsourcing a host of functions to countries there in recent years, ranging from IT maintenance, software development and operations support to business process outsourcing (BPO), shared service centers and call centers. Leading global companies, including GM, Exxon, Procter & Gamble, American Express and Unilever, have set up large off-shore operations in the region to cater to their customers in Latin America and beyond. Top BPO vendors such as TCS, Infosys, IBM and Genpact as well as the leading suppliers of contact center services are either already established in Latin America or actively consolidating operations there. In addition, Latin America has a large established domestic consumer market that offers a healthy base of skilled resources and a sophisticated BPO sector that has been serving

a variety of industries for decades, including financial services, retail and manufacturing.

For companies in North America and Europe the interest in Latin America is twofold, as they view it as an alternative destination for English-based services as well as a location to serve their large Spanish-speaking clientele and business processes. With 40 million Hispanics and growing, the United States has the second largest population of Spanish speakers in the Americas. As this group continues to gather economic strength, it is drawing increased attention from corporate America.

As its economic stability increases, the near-shore advantages of Latin America become more compelling. Many multinational companies have expanded and are now better positioned to grow their global footprint by settling in Latin America, with Argentina, Brazil, Chile, Costa Rica and Mexico the most common locations.

Yet for many executives there are still more questions than answers. Which Latin American countries provide the most attractive destinations? Is the region economically and politically stable enough to invest in? How does it compare with Asia? Can locations in Asia and Latin America be leveraged simultaneously? This paper addresses these questions and analyzes the key advantages of near-shoring and offshoring to Latin America. It also provides an overview of the region's most attractive locations.

Why Latin America?

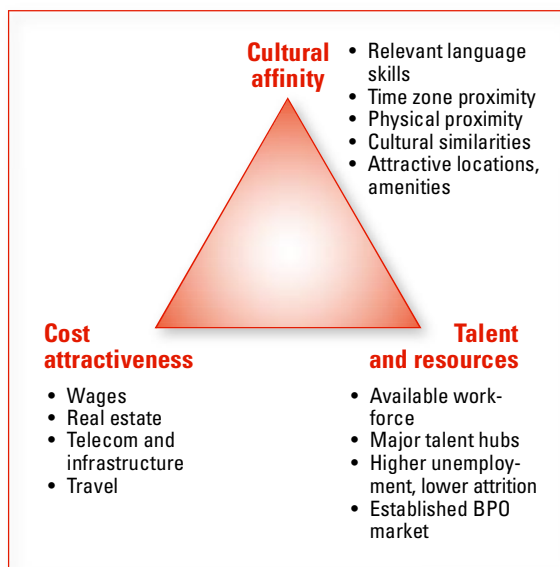
Latin America has gained momentum in the offshoring and near-shoring discussion primarily due to its language capabilities and low costs. Many Latin American countries can cater to both Spanish- and English-speaking customers,

at costs comparable to those offered in traditional offshore destinations such as India and the Philippines. Latin America is also appealing due to its proximity to the United States, similar time zones, cultural affinity and availability of workers. Figure 1 shows an overview of some key considerations around Latin America.

Latin American nations made significant strides in the most recent A.T. Kearney Global Services Location Index™ (GSLI) (see sidebar on page 4: *The 2007 Global Services Location Index*). Brazil and Chile rank in the top 10 overall among global service locations; Mexico, Costa Rica and Argentina score high as well. Brazil is a top information technology outsourcing (ITO) services provider and has the largest call center market in Latin America. Figure 2 offers an assessment of the attributes usually taken into consideration when deciding where to locate in Latin America, while the following section discusses why Latin America is such a compelling destination.

Language skills. Spanish-language needs in the United States and the growing English-language capability of the Latin American labor pool are key to the region's competitiveness as an offshore destination. For Latin American service centers, serving Spanish-speaking customers offers the threshold to a larger window of opportunity—serving English-speaking customers. As seen in India and the Philippines, a country's English-language skills are directly correlated to an increase in service exports. Mexico, Costa Rica and Argentina are capitalizing on their sizable pool of English speakers by offering bilingual services in BPO and contact centers. From an operational standpoint, bilingual centers allow companies to deliver the same processes and service levels to their entire customer base from a single location.

Figure 1
Key attributes of Latin America



Source: A.T. Kearney

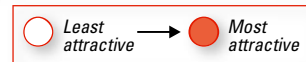
Recently, one of the world's largest health and beauty care companies operating in the United States sent its Spanish-language call center to Tijuana, Mexico, thus reducing costs by nearly 30 percent. Tijuana is a city with a large supply of highly qualified workers, so attrition is manageable. Several consumer goods and telecom firms also serve their growing U.S. Hispanic customers from Mexico. Telvista, Atención Telefónica, Hispanic Teleservices Corporation and Impulse Telecom are among the key outsourcing providers in Mexico. Global leaders such as Atento, Sitel and Teleperformance have also set up large operations in Mexico, making

the northern cities of Tijuana and Monterrey, in addition to Mexico City, leaders in Mexico's contact center and BPO market. The major international call centers in Mexico typically have anywhere from 35 to 70 percent of their positions staffed by bilingual agents. Tijuana has developed an advantage over other cities in large part because of the border it shares with the United States. Many cities near the U.S. border, including Tijuana, Ciudad Juárez and Monterrey, offer English as a second language in high schools and universities more so than other major Mexican cities. In addition, their population is physically closer to and more

Figure 2
Latin America country attractiveness assessment

Criteria	Argentina	Brazil	Chile	Mexico	Colombia	Costa Rica
Cost attractiveness						
Availability of skilled labor						
Language capabilities						
Political and economic stability						
Government support						
Cultural affinity						
Total attractiveness						
Key highlights (pros and cons)	<ul style="list-style-type: none"> • Lowest wages for skilled labor in the region • Political and economic stability for a relatively short time compared to neighboring countries 	<ul style="list-style-type: none"> • Significantly outnumbers country peers in call center and ITO industries, though it has a strong domestic focus • Limited number of English and Spanish speakers 	<ul style="list-style-type: none"> • Remarkable stability of political and business environment • Limited availability of professionals fluent in English 	<ul style="list-style-type: none"> • Closest to the United States • More developed market for BPO in the region, especially in finance and accounting • Key costs (salary, real estate) are higher than most peers 	<ul style="list-style-type: none"> • Stable economy with available labor • Reputation impact; although crime rates in Bogotá are lower than in São Paulo, the country's reputation reduces the inflow of investments 	<ul style="list-style-type: none"> • Very good bilingual skills • Strong presence of large international (captive) service centers and vendors • Limited workforce availability given population size and potential saturation

Sources: A.T. Kearney's 2007 Global Services Location Index™, Datamonitor, ADI Argentina, Invest@Chile, CINDE, best cities ranking by América Economía, Mercer Global Pay Summary, Colliers International, Gartner Group and A.T. Kearney analysis.



familiar with U.S. culture than more southern cities such as Guadalajara and Mexico City.

While Mexico remains a natural choice for many U.S. companies due its market maturity and proximity, other countries are becoming viable options as well due to attractive costs and maturing business sectors. In Argentina and Chile, for example, call center agents are trained in “neutral”

Spanish to avoid the confusion that can arise from different regional dialects. Argentina has been able to capitalize on its large English-speaking population. For example, in the city of Córdoba 70 percent of Sykes (formerly Apex Americas) call center agents serve the U.S. English-speaking market, with a focus on large telecom firms. Similarly, 50 percent of Teleperformance’s nearly

The 2007 Global Services Location Index™

Growing competition among countries, regions and cities is encouraging many to take a hard look at all offshore alternatives. Companies have to factor costs, language capabilities, education systems, infrastructure and other fundamental drivers of competitiveness into the decision-making process. Increased competition among countries ultimately raises productivity and prosperity in all locations, and means that companies are all the more likely to find the ideal solution for each one of their functional needs somewhere on the globe.

Deciding where to locate operations is a complex task that requires determining which countries are best equipped to meet a company’s specific needs. As the range of options continues to expand, companies must deal with an ever-wider variety of locations with diverse profiles and capabilities. At the same time, it becomes both harder and more important to make an informed decision on location options. The opportuni-

ties to leverage new talent pools to improve business performance have never been greater. However, concerns over attrition, wage inflation, fraud and labor shortages—particularly in the most popular locations—illustrate that no location is perfect. In the same locations where some have prospered, others have been disappointed.

For Latin American countries, the situation is encouraging according to A.T. Kearney’s Global Services Location Index (GSLI), which uses more than 40 metrics to evaluate the attractiveness of 50 countries as offshore services destinations. In the latest annual installment of the index, Latin America reinforces its burgeoning standing, with most of its key countries advancing in the rankings (*see figure on page 5*).

Brazil moves to fifth place overall and displaces Chile as the top Latin American destination despite rising compensation and real estate costs. An increase in internationally standardized certifications, as well as an improved business environ-

ment (as reflected in improved investor confidence and lowered country risk) offset the inflationary pressures. In spite of advances in the business environment from last year, Brazil still has the lowest score in Latin America on the World Bank’s “Ease of Doing Business” metric, indicating that there is still room for improvement.

Chile continues its steady march forward: The Andean country scored ninth in 2004 and eighth in 2005 before reaching its current seventh position. It is the most consistently high-performing Latin American country in the index and reinforces its standing as a solid contender in the global top 10. The main driver of its advance in this year’s index is that its cost structure has remained more or less unchanged from last year while other countries have experienced inflationary pressures. It has also improved its people score, largely as an effect of the expanding ITO and BPO market size and an increase in international certifications for its offshore centers.

4,000 agents serve English-speaking clients in the United States. Nextel and MCI serve portions of their U.S. customers from Argentina. In addition, the top call centers in Argentina offer “American English” language courses to narrow the gap between intermediate and proficient language skills. As for Spanish-language expertise, Argentina is just beginning to serve U.S.

Hispanics, a market currently dominated by Mexico. Mexico’s dominance in that market will likely decline as more companies become aware of the cost advantages of Argentina, Colombia, Peru, Guatemala, Panama and Honduras.

In Chile, the Chilean Economic Development Agency (CORFO) has launched a plan to increase its number of English speakers in an

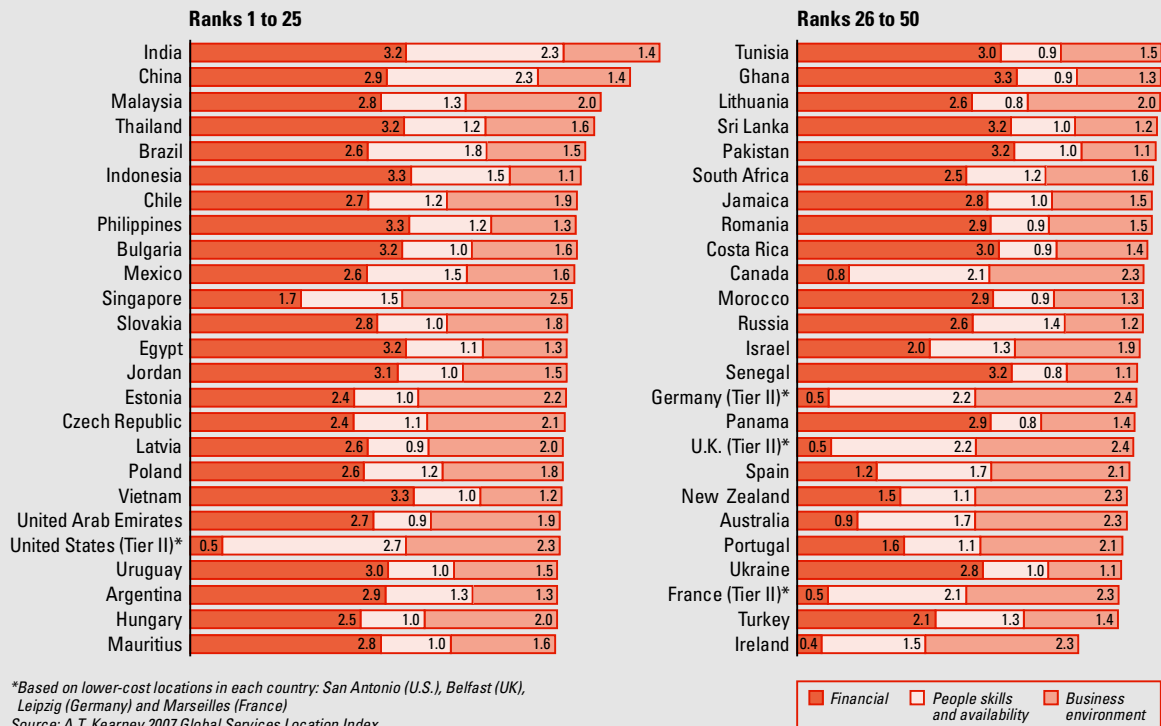
Mexico again makes it into the top 10. Uruguay and Argentina are in the middle of the rankings at 22nd and 23rd place, respectively. Jamaica holds more or less steady at 32nd, while Panama is almost catching up

with neighboring Costa Rica in the Central American contest. Costa Rica’s decrease in the ranking may come as a surprise, as it has been a leader in BPO investments in the region; however, it is disadvantaged

by a small population, high real estate costs and increasing saturation.

For more information about the GSLI for 2007, please visit www.atkearney.com.

Global Services Location Index, 2007 rankings



effort to capture more business. Chile's current estimated English-speaking population—mainly concentrated in Santiago—is comparatively small: About 2 percent of Chileans speak English, and even fewer speak English and hold a professional degree. Brazil is also making an effort to expand its English skills. While several shared service centers and regional headquarters of multinational corporations have fully bilingual staffs

In Argentina and Chile, call center agents are trained in “neutral” Spanish to avoid the confusion that can arise from different regional dialects.

(especially in higher-skilled jobs), the largest contact centers in Brazil have not yet ventured into English offerings.

Proximity. While flights to India or China can take nearly a full day, U.S. executives making site visits or attending on-site meetings in Latin America can get there much faster. They can take a four-hour flight to Mexico or an overnight flight to Santiago or Buenos Aires, which allows executives from both regions to reduce valuable business time spent in the air. Similar time zones allow offshore locations to interact with their customers in the United States on the same schedule. In setting up operations, these attributes allow

for faster implementation timelines and tighter control over the operation while reducing the complexity of systems batching processes.

Cultural affinity. The United States and Latin America share a number of cultural similarities. Entertainment, dining and social customs are very closely aligned between the two regions, and European immigrant communities in Latin America resemble those in the United States, especially in Argentina, Brazil, Chile and Uruguay. Additionally, amenities in larger cities such as São Paulo, Buenos Aires, Mexico City and Santiago are comparable to those in New York, Chicago, Miami, Los Angeles and some major European cities. This is an advantage for attracting expatriates to the region. These aspects are not to be underestimated, as similar cultures and attractive amenities provide U.S. and European companies an easier link, allow them to retain a corporate culture in captive centers, ease business relationships with

outsourcers, and make it easier for the executives who oversee these operations.

Talent and resources. The availability and quality of labor are key factors to consider in choosing a global service location. In Latin America, capturing both qualities requires focusing on the largest cities. Because companies typically offshore high-turnover functions such as data entry, order processing and call centers, they need to ensure that their desired location offers a critical mass of available labor. A robust indicator is that Latin America has a significant number of people between the ages of 15 and 39, which is a proxy for the labor

force available for ITO and BPO global service centers. Figure 3 offers a snapshot of the situation in eight Latin American countries.

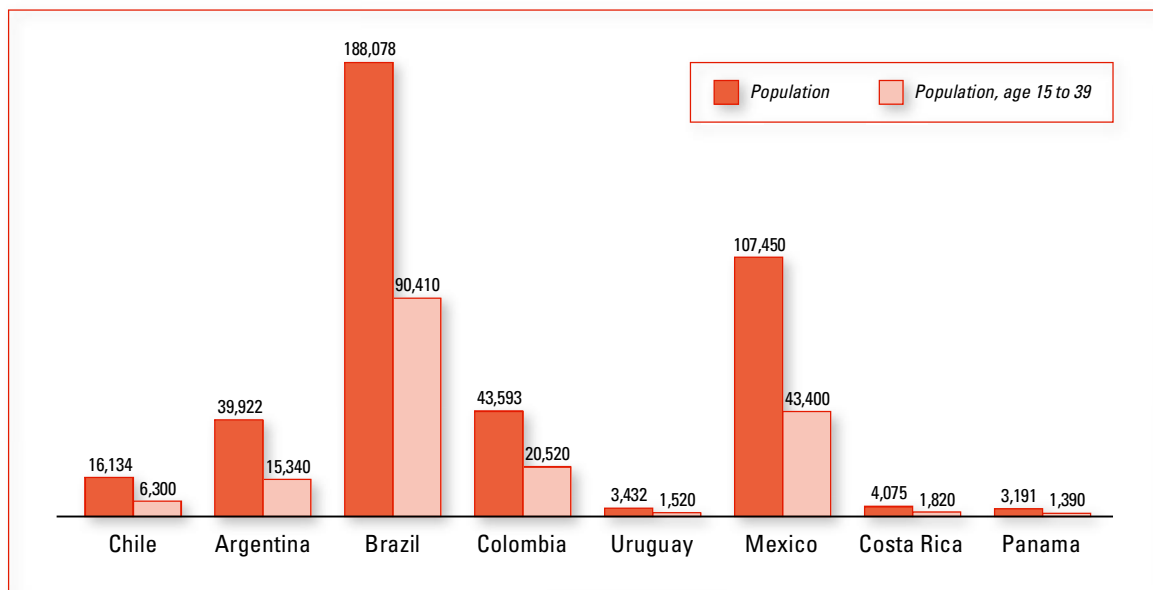
Beyond a city’s population, other labor resource indicators include the number of colleges and universities, the number of students who graduate each year, and the presence of similar operations in the region. Latin America has at least 11 major cities with a minimum of 1.5 million people and numerous universities. These cities include Buenos Aires and Córdoba in Argentina; Santiago in Chile; Bogotá in Colombia; San José in Costa Rica; Ciudad Juárez, Mexico City, Monterrey and Tijuana in Mexico; and São Paulo and Rio de Janeiro in Brazil. While the latter two are the largest metropolitan areas in Brazil, size is not an issue in this country of

180 million people and a number of other cities—especially in the southern states—also meet the criterion.

Further, the service industries in Latin America have been established domestically for decades, giving these countries a broad, sophisticated pool of technical and managerial talent that can provide services offshore. In addition, because the market for exported services has not become as frenzied as in Asian locations, attrition remains manageable.

Cost attractiveness. Language and technical skills are important decision drivers, but cost remains a critical factor for companies exploring shared services, ITO, BPO and contact center locations. Today, Latin America can claim a significant cost advantage over Europe and the

Figure 3
Latin America has an attractive labor force



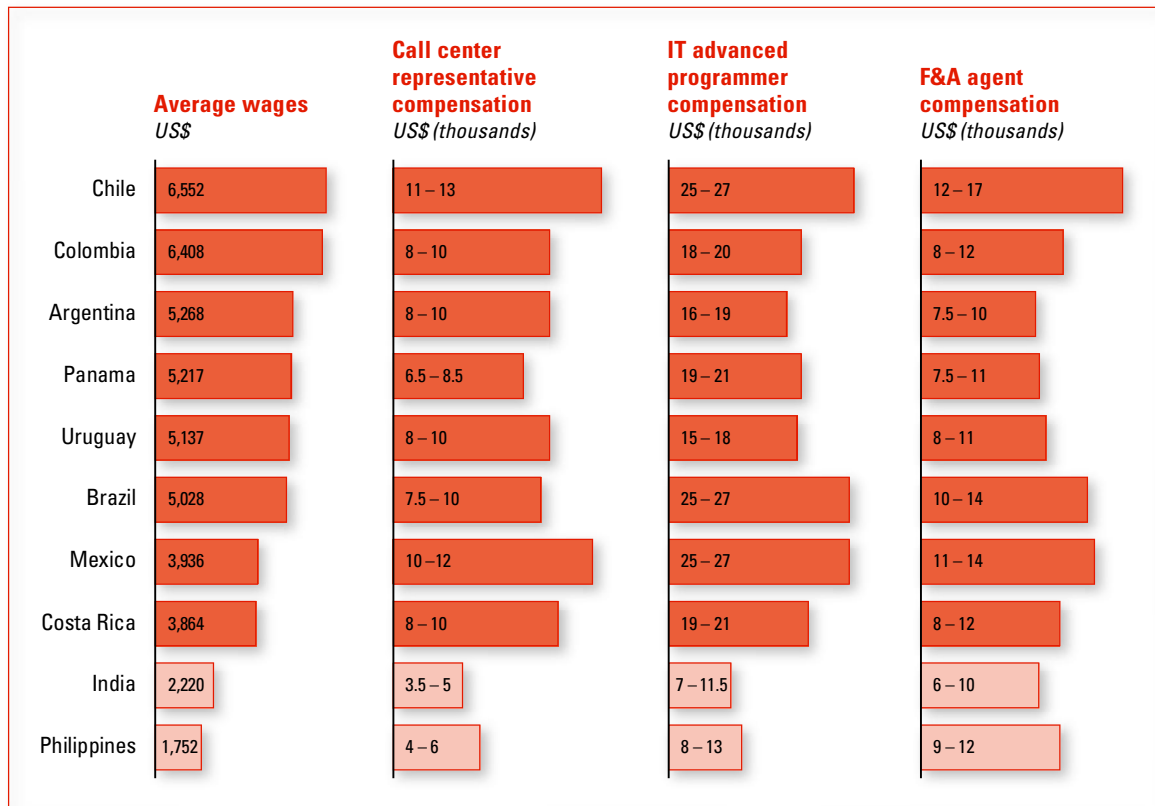
Note: Population ages 15 to 39 used as a proxy of the workforce targeted by ITO and BPO employers in a country.
Sources: CIA World Factbook, 2006; population ages 15 to 39: U.S. Census Bureau, 2005; A.T. Kearney analysis.

United States. U.S. and European companies that have chosen a Latin American location for outsourced or captive work have typically achieved savings ranging from 20 to 40 percent. Of the four largest economies in the region, Argentina has the lowest costs for outsourcing or setting up a captive operation. Today, cities such as Córdoba and Rosario as well as the Buenos Aires province are competitive with India for some services, but it is still hard to predict if such arbitrage is sustainable given Argentina's brief

record of stability. Figure 4 presents some key labor cost indicators for Latin American countries against several Asian competitors.

Mexico and Chile, while more expensive than countries such as Costa Rica or Argentina, still provide a cost-competitive alternative to the United States and Europe, with an arbitrage of about 20 to 30 percent in BPO centers. Additionally, with increasing wage inflation in India (approximately 15 percent for IT services in 2006), more eyes are turning to Latin

Figure 4
Wage comparison: Latin American countries versus Asian competitors



Sources: Economist Intelligence Unit, A.T. Kearney analysis.



America. The evidence is in the recent entrance of several Indian-based BPO suppliers into Latin America. Both TCS and Infosys have entered Latin America in response to key clients' demands to expand their global footprint.

How Does Latin America Compare to India?

A company exploring locations for its global service needs has many viable options. Beyond the obvious—lower costs—the question becomes what location best meets a company's strategy. To date, many companies are not simply choosing between Asia and Latin America, they are choosing both. For example, the investment, data and market research firm Evalueserve, which already had operations in India and China, recently set up operations in Chile to provide research about Latin America to investment banks and corporations in the United States (daytime support); offshore research for Spain; and 24-hour, five-days-a-week support for clients globally. Company officials say that Santiago presented an ideal platform for its operation, including a predictable business environment, political stability, strong finance and business talent, the same time zone as the United States and competitive costs compared to São Paulo and Mexico City.

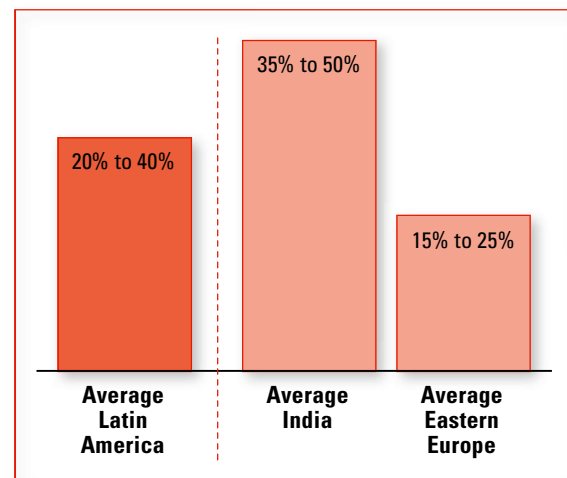
Although Latin America has a promising future, it is still not as mature as India in terms of exporting BPO or ITO services to the rest of the world (see figure 5). It has, however, had the capabilities locally for a number of years. Additionally, English-language skills in Latin America have not yet permeated the working classes to the extent that they have in India. Among the criteria that companies cite in deciding where to send functions is attrition, time zone and regional stability.

One of the major challenges that India, the Philippines and other Asian locations face is retaining personnel, especially in the overnight

shifts that are so crucial to supporting customers in the United States. Some call center operators in these hot markets report annual attrition rates ranging from 20 to more than 100 percent, while well-established finance and accounting (F&A) captive centers report a range of 10 to 30 percent. In Latin America, by contrast, attrition ranges from 10 to 25 percent for outsourced call centers and about 5 percent for captive and shared service centers. This lower attrition rate is explained by the unique attractiveness of some of these new jobs, higher unemployment rates, less competition for talent, and daytime working hours (given the time zone proximity to the United States).

One of the main advantages in Latin America is the ability to offer real-time services, which allows managers in both locations to resolve issues more quickly—something that is not always

Figure 5
Average annual BPO savings compared to the United States and Western Europe

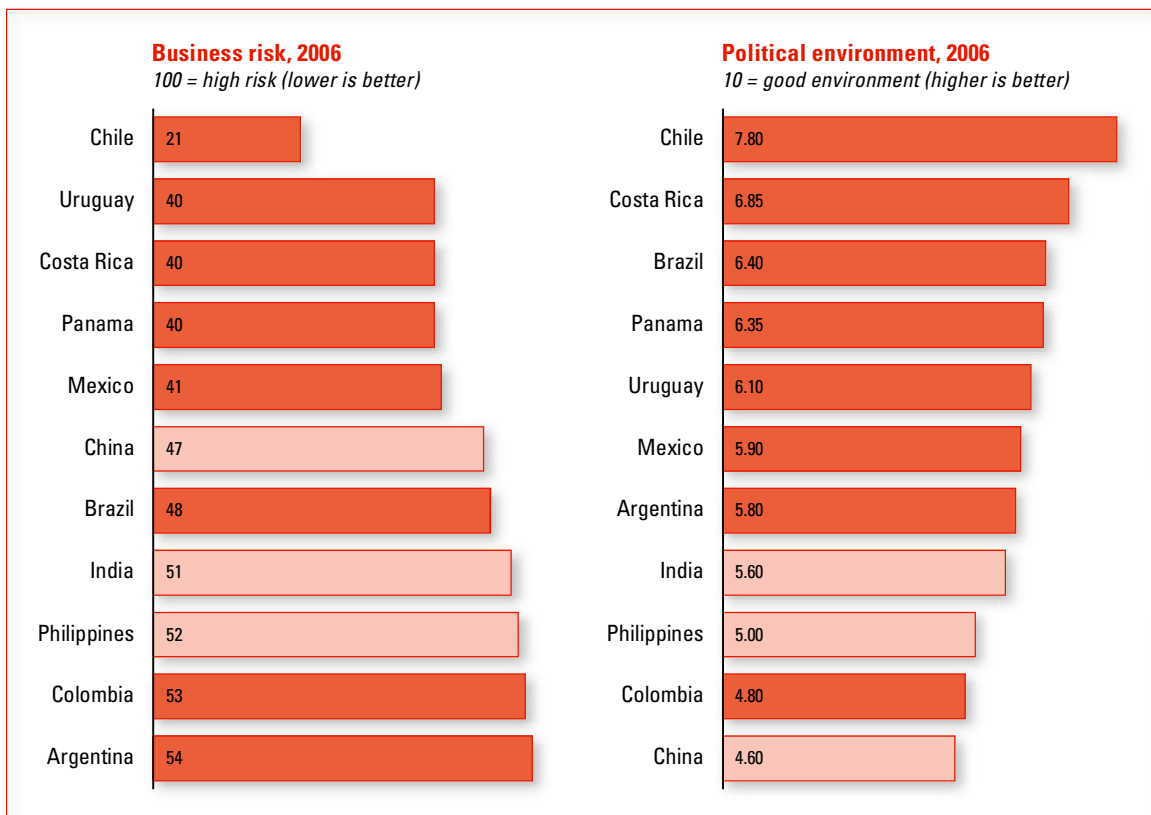


Note: Latin America includes Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico. Eastern Europe includes Poland, Hungary and the Czech Republic. Source: A.T. Kearney analysis

possible when working between the West and India. In addition, IT systems batching is less of an issue when working with centers in Latin America, since both operations (on- and near-shore) are on the same schedule. Moreover, being able to travel to the near-shore site within the same business day or early the next morning without missing work hours while airborne, adds a unique attribute to business continuity planning. This factor also eliminates the need to pay premium wages to nightshift employees.

Despite recent political pendulum shifts in some countries, the region remains stable without significant ethnic or civil tensions or major cross-border conflicts. In Asia, many service locations run a risk of internal disturbance and significant cross-border tensions. In this context, Chile in particular is ranked as one of the safest countries to do business in the world. Uruguay and Costa Rica also present favorable business environments. Figure 6 provides an overview of business and political risk in Latin America, and the

Figure 6
Where is the business and political risk in Latin America?



Sources: Economist Intelligence Unit, A.T. Kearney analysis.



sidebar, Build Redundancy, Hedge Risks, discusses ways to mitigate offshore risk.

Analysis of the Most Frequently Evaluated Locations in Latin America

The following discussion offers an overview of the eight Latin American locations that are most frequently evaluated as potential locations for outsourcing.

Argentina. Ever since the deep financial crisis that engulfed Argentina in 2001, the country's GDP has been growing at more than 8 percent per year. Aided by a sustainable exchange rate of three Argentine pesos to one U.S. dollar since early 2002 and government-controlled inflation, the country is suddenly in a position to compete

for export services. If these conditions persist, Argentina is expected to experience substantial growth in call center volume over the next several years, given the large arbitrage the country provides. However, the risk of inflation looms large, with salaries increasing in the past two years and likely to continue on an upward trajectory.

Today, some of Argentina's largest captive centers have moved beyond offering call center services to additional BPO services, including finance and accounting, translations, collections and order fulfillment. For example, IBM's six-acre state-of-the-art technological campus in the province of Buenos Aires provides data, BPO, contact, imaging and integrated IT solutions to customers in several far-off regions. Exxon has

Build Redundancy, Hedge Risks

For all of its potential, Latin America still presents some degree of uncertainty. For example, Latin America has played a leading role in global financial crises three times in the past 20 years. But in recent years reforms have begun to take effect. The United Nations Economic Commission for Latin America and the Caribbean estimates a growth rate of 4.6 percent in 2006. Inflation averaged just 6.3 percent last year, and stock markets have enjoyed three consecutive bullish years.

Still, risk management remains key. Some multinationals have expanded their presence in Latin America only after hedging their currency and political risk. These hedge strategies are built on a philosophy of

redundancy, whereby idle capacity is built up in countries with the most stable economic and political environments so as to gradually transfer workloads from one location to the other in case of a crisis or significant increases in wages or real estate costs. For example, U.S.-based clients of France's Teleperformance, with operations in Argentina, Mexico, Chile, Brazil and El Salvador, can switch operations from one country to another depending on factors such as currency exchange rates and labor availability.

Redundancy is not just for large call center operations. BPO vendors such as Accenture and IBM, and ITO players such as Neoris (a subsidiary of CEMEX), are focused on near-

shore outsourcing services. Neoris expanded to Rosario, Argentina, to serve U.S. accounts formerly served from Mexico and Miami. Hedging currency risk is less of an option in India or the Philippines, where the vendor is bound to the local currency. In Asia, redundancy is only applicable to multinational companies that are in at least two distinct economies.

Until recently, companies were unable to diversify risk by going to several Latin American countries due to widespread instability and undeveloped markets. Today, the picture has changed and risk hedging can join cultural affinity, geographic and time zone proximity and abundant labor resources on the list of benefits that Latin America offers.

also built significant capabilities to serve its regional back-office needs around HR and F&A.

The country has capitalized on its sizable English-speaking population through a creative agreement between the government, universities and several large contact centers. The country still enjoys the highest rate of annual enrollment for tertiary education in the region (56 percent). Encouraged by the government's Investment Promotion Agency, some of Argentina's largest universities offer an exchange program for flexible student employment.

Argentina's political landscape deters investors who prefer a more predictable and stable environment, a quality that is difficult to guarantee in the medium- to long-term. But most political analysts agree that the current president has a strong chance of winning reelection this year, and would most likely continue with the current monetary policy to maintain an exchange rate that makes its goods and services affordable to most developed markets. Further, Argentina's Investment Promotion Agency offers fiscal incentives that foster foreign investment.

Brazil. Boasting the largest economy in Latin America, Brazil already has a mature service market in which consumers and companies have access to high-quality customer care services. Brazil hosts some of the world's most competitive IT shops, and is becoming a world player in the ITO arena. Brazil-based ITO companies such as Politec, Stefanini, Datasul, DBA, CPM, Itaotec, Promon and Tivit are equal in size to many key international competitors and are successfully expanding their capabilities beyond Brazil. The recent formation of Brasscom, the Brazilian Association of Software & Service Export Companies, confirms Brazil's strategic intent to play the offshoring game aggressively. A recent study by A.T. Kearney assisted Brasscom

and the Brazilian government by establishing an agenda to make Brazil a key player on the global offshoring arena in coming years, mainly by capitalizing on its size and its established, sophisticated market.

Brazil also has the largest call center industry in Latin America, but it is not yet a strong competitor for operations in English or Spanish, nor for English-language BPO—mainly due to the language barriers predominant in lower-paying jobs (Portuguese is the country's primary language), rigid labor laws and a strong focus on the domestic market. Although its Portuguese language services are world-class, its largest contact centers require several months to recruit and train even a small pool of English-speaking agents. Brazil's large size, however, can still keep its local call centers busy and growing with domestic work, though vendors are starting to knock on doors outside of Brazil more aggressively.

Brazil is in a good position to leverage its competitive advantage in ITO and further develop its BPO offerings. With a large population and strong technical skills, particularly in the IT, engineering, financial and pharmaceutical sectors, Brazil scores well in the people skills category of A.T. Kearney's Global Services Location Index. Increasing graduation rates and company quality certification rates will further bolster these ratings. Already, a number of multinationals, including IBM, HSBC, GM and Nestlé, have taken advantage of these qualities and established major global IT and shared service centers in Brazil. Notably, most have opted for captive centers, highlighting a belief that Brazil can develop its BPO supply base.

São Paulo presents the best potential for offshoring services given its cultural diversity and foreign language potential. Safety and security issues in São Paulo and Rio de Janeiro are similar

to those that people have about other large cities in emerging countries. Brazil's geographic size and large population means that there are other cities, mainly in the south and northeast of the country, worth considering.

Despite all of this potential promise, Brazil still suffers from rigid labor regulations, excessive bureaucracy and some infrastructure bottlenecks. Still, most believe that Brazil is in a unique position to increase the export of services in the industries in which it has mastered practices, such as IT and call centers, and increase the number of shared service centers.

Chile. Chile enjoys unparalleled political and economic stability in Latin America and an outstanding telecommunications infrastructure. Though small in size, Chile ranks first among Spanish-speaking locations and offers the second most attractive offshore location in Latin America (seventh in the world), according to the Global Services Location Index. Chile is committed to clear investment rules, and offers a predictable business environment and adequate labor regulations that are geared toward promoting investment.

In the call center market, Chile's main focus is now on Spain, and new players from Europe are establishing themselves in the Andean country, including Amena, Energia and Teleperformance—all of which hope to attract increased call volume from Spain. The major call center operators in Chile are Atento (owned by Telefónica), Entel, Actionline, Prego, Unisono and Sitel, all of which operate locally or regionally and primarily in Spanish.

Even though Chile's call center industry is expected to see double-digit growth in the next five years, the government is more interested in attracting higher value-added functions in BPO and knowledge process outsourcing (KPO), as well as establishing captive operations that require more investment. CORFO, Chile's investment attraction agency, can already claim some success stories despite the higher salaries required there compared to neighbors like Argentina and Colombia. A few examples are Delta Airlines, Air France, Unilever and Shell Oil, all of which

Language and technical skills are important, **but cost remains a critical factor for companies looking for offshore shared services, ITO, BPO and contact center locations.**

offer support to their Spanish-speaking clients worldwide from Santiago. Additionally, Chile is making considerable steps in promoting higher value-added services such as pharmaceutical and biopharma clinical trials, as well as industrial biotechnology R&D in fields like aquaculture, food and mining, where the country can leverage its dominant position. A recent study by A.T. Kearney assisted CORFO in establishing the agenda to make Chile a stronger key player

on the service export arena in the coming years, mainly capitalizing on its remarkable business environment, availability of high-end skills and dominant position in select sectors.

Colombia. Despite a poor reputation that stems from drug-related guerrilla activity in the 1990s, Colombia has attracted some investors and is betting on fully capitalizing on the “neutral” Spanish spoken in its central region. Colombia has recently shown a growth in its contact center industry, with large international and

costs when compared to other Latin American countries. For example, the annual salary for a call center agent is estimated at \$8,000, a wage comparable to Argentina’s.

Despite all of these factors, Colombia has not yet been able to attract as many multinational companies as other countries in Latin America, chiefly due to the negative publicity the country has received about drug cartels. Even though these cartels do not represent a threat to those living in urban areas such as Bogotá, multinational companies are still reluctant to establish operations in Colombia due to apprehension about the safety of potential expatriates. Crime rates in Bogotá are actually lower than those in São Paulo and Mexico City. As the market is still under development, those willing to make a move to Colombia might benefit from an early-mover advantage.

Costa Rica. A small country of 4 million people, Costa Rica has become an important location for near-shoring from the United States, especially for call centers and shared service centers. Geographically well-situated in Central America and lying between the two oceans, Costa Rica can be reached more easily and quickly from most U.S. cities than its South American counterparts.

Costa Rica has a relatively small but skilled workforce. Its social democracy has instilled policies such as universal public schooling, health care and a national pension system. The adult literacy rate of 95.7 percent and human development index score of 83.2 demonstrate the country’s

The key contenders in the offshore race will be those countries that can best harness the Latin American trifecta: privileged location, abundant talent and competitive spirit.

domestic players such as Atento, Sitel and Contact Center Americas establishing operations there. These players average 2,000 agent positions each, making Colombia a considerable player in this field. Bogotá is a large metropolis with a healthy pool of young English speakers. Some Colombian service providers have seen growing demand for sophisticated services—such as medical and legal advice—and thus for Colombia’s growing number of young IT professionals. Colombia offers an attractive location in terms of labor

progress in people development and quality of life. A majority of the population lives in urban environments around its largest city, San José. However, the presence of multinational companies, which employ a majority of the country's available workforce, could deter companies that do not want to compete for scarce resources, especially where multinationals are well established. Still, CINDE, Costa Rica's investment promotion agency, offers world-class assistance to foreign companies that wish to settle in Costa Rica.

Several success stories can be told about this prime near-shore location. In 1997, Intel established a large chip manufacturing plant in San José that sparked the near-shoring expansion. Another operation that captured the attention of outsourcers worldwide was the first captive setup of Procter & Gamble's finance, accounting, HR and IT back office, and the subsequent successful spin-off of several of these functions to HP and IBM. By 2003, 65 percent of Costa Rica's GDP came from services, including captive and outsourced call centers, captive shared service centers and BPO providers. Notable examples include Sykes, Qalfon and People Support (call center providers); Supra Telecom, Fujitsu, UPS, PeopleSoft and Western Union (captive call centers); and Procter & Gamble, Maersk, Chiquita Brands and Dole (captive shared service centers). Today, large multinational BPO service providers such as IBM and HP are expanding their operations for Latin America and the United States through their Costa Rican hubs.

Mexico. Mexico, the second largest economy in Latin America, also has the second largest call center industry in the region—accounting for roughly 25 percent of the total agent positions in Latin America—and an enviable BPO track record in the northern states. Companies like Genpact and ACS have significant BPO oper-

ations in northern states that serve the United States, while Softtek and Neoris are growing players in ITO that also started in the north. Mexico's proximity to the United States, together with its low-cost pool of workers, has increased interest by U.S.-based firms looking to near-shore their Spanish-language (and, in several cases, English-language) operations to Mexico in recent years.

Mexico's economy has stabilized over the past eight years, with low inflation rates, sustainable GDP growth and overall strength. Despite political tensions during the 2006 presidential elections, Mexico will likely continue this positive trend given its proximity to the U.S. market and its developed global service markets.

Mexico's call center market is expected to see a 13 percent compounded annual growth rate through 2009, signaling a strong position to attract further offshore work beyond call centers. In fact, Mexico presents one of the most developed BPO markets in the region with more than 3,000 outsourced work stations dedicated to finance and accounting for the U.S. market. In terms of IT service offerings, Mexico still lags when compared to India.

Government support to investors is structured by individual Mexican states, which has benefited some investors as multiple states compete for investment and subsidize capital expenditures. However, the government recognizes that the overall approach has been disorganized and that its regulatory frameworks are deficient. As advised jointly by A.T. Kearney, the World Bank and other economic development agencies, the government is actively working on improving Mexico's attractiveness as an ITO and BPO platform. If well leveraged, the country's appealing location, relative stability, English-language skills and specialized labor availability may attract a significant volume of services in the near future.

Panama. Panama is seeking to build on its record of stability and reputation as a financial center. It is using some of its former U.S. military facilities to become another location for shared services serving the U.S. market. Dell, for example, is running a 1,000-seat call center on the grounds of a former United States Air Force base. Yet low rental costs and wages are partially offset by high telecom and energy costs and relatively rigid labor laws. So far, the contact center industry is the most prevalent, though we expect further services to be offshored there as Panama builds a track record and capitalizes on its financial and trading sectors.

Uruguay. New to the index, Uruguay ranks 22nd in the world, ahead of peers such as Argentina and Costa Rica. Uruguay has been attracting the attention of foreign investors mainly due to its stable economic and political environment and a highly educated, low-cost workforce. Attracted by its strong financial sector, players like TCS have settled in Uruguay and plan to offer high-end analytics to investment banks in the United States in addition to technology offerings. Amenities such as the Zonamerica Business and Technology Park are attracting players in the call center and

BPO space. Still, given Uruguay's labor pool limitations—the total population of the country is only 3.4 million, with little growth projected—international players have so far only sought small operations for higher-end services, which may well prove to be the country's best fit.

Decisive Years Ahead

In recent years we have witnessed increased interest among multinational companies that are looking to combine operations worldwide and expand their global footprint to include Latin America. As a result, the best-positioned countries in the region have a unique opportunity to expand their service export platforms. The next three years will likely determine which Latin American countries provide the best offshoring and near-shoring platforms. Local and foreign suppliers will continue to expand at a growing pace throughout the region, while large multinationals will continue to seek the most suitable locations in Latin America to hub their regional operations or serve as a platform for regional shared services. The key contenders will be those countries that can best harness the Latin American trifecta: privileged location, abundant talent and competitive spirit.

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A.T. Kearney, Inc.
Marketing & Communications
222 West Adams Street
Chicago, Illinois 60606 U.S.A.
1 312 648 0111
email: insight@atkearney.com
www.atkearney.com

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