



Mexico as a Near Shore Destination Advantages for the IT Global Outsourcing Market for North America

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As part of its March 2003 report “Mexican Nearshore Outsourcing: A Promising Global Sourcing Alternative”, Forrester Research published “Companies interested in the cost and quality benefits of offshore labor, but which require a closer, less risky solution should strongly consider Mexico as an important nearshore option”.

Two years since that report was published, Mexico presents itself with a unique value proposition for US corporations that is based on convenience, lower risk and an unbeatable Total Cost per Engagement. Outsourcing companies based in Mexico, like Softtek, comply with the highest standards in terms of security, quality and dependability.

When talking about Global Outsourcing, Mexico, with its Near Shore[®] approach, is positioned in a completely different playing field for global outsourcing. Mexico based companies set aside from the plethora of India based vendors, followed by newcomers from China and Russia.

Mexico’s Near Shore[®] value proposition is based on world-class services, low risk outsourcing, convenience and cost effectiveness.

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1. View of the Global Outsourcing Market for IT Professional Services

Since the mid 90's, the delivery of IT services industry has had dramatic changes. These changes have brought an evolution to the sourcing arena from a local delivery into a Global IT Service Delivery model. According to industry experts, this evolution is irreversible, and the industry players must adapt to a global labor force, while companies will make investment decisions based on the capabilities of the different countries and the return on than investment. The map of IT professional service suppliers is already changing.

Some of the factors that drive this behavior are:

- Accelerate the innovation process and time to market.
- Companies need to reduce costs to remain competitive.
- Improve the quality of software development and maintenance efforts.
- Better perception and understanding of offshore outsourcing value (low cost, high quality and faster time-to-market)
- Better understanding from global corporations on the feasibility of supporting IT functions in lower cost geographies.
- Service provider's maturity in the offshore market.
- Security and intellectual property protection concerns.

Nowadays, the majority of large US companies consider the acquisition of services through a global model to be a good alternative to fulfill their requirements in a competitive way.

Given this context, the IT professional service capabilities and offering in Mexico has inherent competitive advantages such as:

- Mexico is the geography that offers the lowest operational costs in North America.
- The North American Free Trade Agreement sets the legal basis for the commercial exchange of goods and services between the United States, Canada and Mexico.
- The UN, in its technological achievement index, positions Mexico as the best Latin-American country.
- Because of proximity, Mexico presents in many cases, a better alternative to countries such as India or China for service effectiveness and total cost of IT projects.

2. Mexico as a Global Outsourcing Services Destination

Industry experts agree that the global provider selection process begins with an evaluation of the country. Among the main things to consider:

- Geo-political risk
- Location
- Local government support
- Infrastructure
- Number of IT professionals
- Competitiveness of IT professionals
- English language proficiency
- Cultural compatibility
- Cost benefits
- Legal infrastructure

Given this context, Mexico is an excellent alternative because it has significant competitive advantages for each criterion that are difficult to match.

Geo-political Risk:

This index refers to the measurement of risk for doing business with companies located in other countries. It is important to highlight that Mexico, besides being the second trading partner of the United States, it is also the country that has the greatest number of Free Trade Agreements, including NAFTA with the United States and Canada, one with EU and recently with Japan. These treaties show the trust that global markets have on the low risk level of doing business with Mexico.

Location:

Mexico is the country with the largest amount of flights to the United States. The average flight time between Mexican and US cities varies from one to five hours. Most of the Mexican territory is in Central time zone and the rest is on Mountain or pacific times. Daylight Savings Time is followed the same way as in the US.

Local Government Support:

The Secretary of Economy launched the Software Industry Development Program (PROSOFT) as part of the National Development Plan. This program establishes goals with a ten-year vision, including initiatives that promote competitiveness and sustainability of the IT sector.

Communications Infrastructure:

A big modernizing process in the telecommunications infrastructure started in Mexico with the opening of that sector in the early 90's. Local conglomerate Telmex and global companies such as AT&T, MCI and Telefonica have invested in infrastructure modernization including fiber optics and satellite links. Thus, many Mexican cities have similar infrastructure as those in the United States.

IT Professionals availability:

The IT services internal market in Mexico represents close to us\$2.7 Billion³. Ninety percent of the requirements are taken care locally with more that 1,500 IT services companies. Moreover, the number of students enrolled in IT related programs, represent almost 11% of the national student enrollment. The number of graduates from technical schools and IT university programs annually exceeds 50,000 students⁴. The quality of public and private universities complies with world standards. Proof of this is the certification obtained by several universities in Mexico from international organizations such as the Accreditation Board for Engineering & Technology, the European Foundation for Management Development and the Southern Association of Colleges and Schools in the United States. Moreover, it is important to emphasize that because of NAFTA and other bilateral agreements between the US and Mexico, Mexican nationals are not subject to a limited number of H-1B visas; this increases the availability factor for Mexican professionals.

Competitiveness of IT professionals:

Diverse factors make the Mexican professionals competitive in a global market, especially for North America. Many IT professionals work for US companies long established in Mexico, with projects similar to those in the US. Technologies used in Mexico are primarily the same as those used in the rest of North America. Even though the average salary in Mexico is greater than countries such as India and China, are still highly competitive compared to salaries in the US. Combined with the efficiency gained in infrastructure, telecommunications and proximity, in many cases Mexico provides a lower total cost of engagement.



English Language Proficiency:

A large number of the professionals and business executives in Mexico are fluent in the English language, especially in the IT sector where all the reading materials and training are in English. Mature companies in the service export arena count with English teaching programs in order to enhance the communication between their personnel and their US clients.

Cultural Compatibility:

The United States and Mexico share the most transited border in the world. There is a constant exchange of services, goods and culture. The US exported to Mexico close to 100 Billion dollars in 2003, which makes Mexico its second largest export destination⁵. A great part of the Mexican professionals are exposed to business practices, risk prevention culture and managerial concepts typical of the US, because they work at or for global or US companies. In addition, every day life interaction between both countries gets them closer every day. Mexican society follows closely cultural, sports and entertainment events in the US. All this translates in a greater integration of the day-to-day bi-national work teams.

Cost Benefits:

The cost benefits provided by companies from Mexico go beyond low hourly rates. The benefit extends to reduce the Total Project Cost, which includes the different costs associated with the development of a project such as human capital costs in the US and offshore as well as all the indirect costs. The greatest advantage that Mexico represents due to its proximity to the US is the leverage offsite resources. It is also a more economic option regarding indirect costs such as travel and telecommunications.

Legal Infrastructure:

NAFTA offers a legal framework for the implementation of contract obligations, intellectual propriety protection and data privacy, as well as migratory measures and regulation of cross border service commerce.

Mexico is also free of US Government export bans, such as those that restrict nationals from specific countries with nuclear weapon programs to have access in certain industries.

It is important to emphasize that under the NAFTA umbrella, most of the goods are allowed to transit from one country to the other with none or very low custom fees, as well as the option of importing goods temporarily. This opens many possibilities for the exchange of services that involve physical contact with equipment, which in other geographies results impossible due to distance, import barriers, and its associated logistical and legal problems.

In this context, we can realize that the advantages that Mexico offers are many, and that the combination of Location, Infrastructure, and Low Geo-politic Risk with Cost Benefits is what makes it stand out from the rest of the countries on the map of IT service sourcing.

3. Value of Mexico Near Shore for IT Outsourcing Services

Forrester Research recommends⁴; “Companies interested in the cost and quality benefits of offshore labor, but which require a closer, less risky solution should strongly consider Mexico as an important nearshore option. Projects with intensive collaboration requirements, internal domain expertise requirements or a medium to high degree of end-user participation are often more suited to nearshore outsourcing models, since travel between vendor and client is easy and time zones permit real-time collaboration.”

The value provided by Mexican nearshore providers can be defined as:

1. **World Class Quality**
2. **Low Risk and Convenience**
3. **Cost Effective**

World Class Quality

Fortune 500 corporations that currently use outsourcing services in Mexico have mentioned that process maturity matches or exceeds India.

This perception is based on the maturity of Mexican leading companies, their quality, adherence to industry standards, disaster recovery plans, business continuity plans, security standards and quality improvement initiatives implemented by these companies.

There are 3 companies that have been assessed as CMM Level 5 and more than 30 that have adopted the SEI CMM model and are at different stages in their maturity process. The Federal Government thru the PROSOFT program (Software Industry Development Program) has implemented several initiatives to support their evolution on the CMM model.

At the same time, the leading companies in conjunction with federal and state governments, are creating value chains to integrate small and medium size companies into their services, thus increasing the capabilities and number of companies that participate in the nearshore services arena.

Proven Experience

There are several vendors suitable for the US market in Mexico, among them are Softtek, creator of the Near Shore^{®7} concept, with its Global Delivery Centers in Mexico City, Monterrey and Aguascalientes, as well as IBM Global Services with development centers in Mexico City and Guadalajara.

There is an ample scope of services that Mexican vendors can provide to Fortune 500 companies, among those are:

- Software Development
- Application Maintenance and Support
- Quality Assurance and Testing
- As well as a vast number of Business Process Outsourcing alternatives which include:
 - Call Center
 - Human Resources processes
 - End user support
 - Document Management & imaging solutions

These are some comments from industry analysts regarding the capabilities of Mexican nearshore vendors:

“Gartner believes that enterprises will increasingly look at nearshore destinations to solve their sourcing problems. With this acquisition, Mexico and Softtek become stronger candidates for U.S. customers to consider”, Gartner.⁶

“IBM has high hopes for its Mexican operations and expects to grow them during 2003. It does provide language training for Mexican employees, but it does not consider the language issue an impediment to scalability and has no problem finding English speakers in Mexico City or Guadalajara.” – Forrester⁴

About Hildebrando: “It has a strong US client list and experience in a breadth of technologies from COBOL to Java.” – Forrester⁴

Corporations that acquire services from Mexico are typically Fortune 500 companies, with a mature global sourcing program, with experience in different geographies and very strict quality and service level requirements for their vendors. However, because of its simplicity to implement, other smaller companies primarily in the software or technology sectors are using near shore services as their sole provider of IT services.

Low Risk and Convenience

Mexico has unique elements that contribute to eliminate the inconveniences of global sourcing, especially for North America.

Main factors that dissuade companies to reap the benefits of offshore outsourcing include the following:

- Legal Risks: Aspects like intellectual property protection, information security, contract dispute resolution and visa availability.
- Relationship Management: Time Zone difference, expensive and cumbersome travel and telecommunication costs. Also, there is an increasing concern regarding high turnover among Indian vendors.
- Negative Public Image: The premise that US companies that do offshore outsourcing are exporting American jobs, is an issue that has been fostered increasingly in the media and political circles.

With this context the advantages that are unique to Mexico are:

1. North America Free Trade Agreement

NAFTA sets the groundwork to provide certainty to parties in the cross-border commerce of services between Mexico, US and Canada.

Intellectual property is protected under the umbrella of NAFTA, thus providing hiring entities the means to avoid legal processes abroad that tend to be long, expensive and in some cases uncertain.

As part of NAFTA, Mexico is not subject to the H1B visa cap imposed by the US NIS. Furthermore, the Agreement contemplates temporary (TN) visas for Mexican Nationals. Nevertheless, it is important to remark that due to proximity, there is a limited need for Mexican professional to work in the US permanently.

Mexico is the second largest buyer of US products and services. Since the beginning of NAFTA, Mexico imports services and goods for around US\$100 billion annually, while India’s imports from the US are less than US\$5 billion; that is twenty times less than Mexico⁵.

Hiring services from Mexico contributes to a larger commercial exchange.



2. Proximity

Proximity brings offshore services to a whole new level. Being in the same time zone allows for agile communication among team members. Work conversations can take place in an spontaneous manner, either on the phone or using Instant Messaging technologies, which can rarely happen with India or China, where communications have to be planned, having to allocate specific times for conference calls, this times tend to be off-hours in order to address 11-12 hour time-zone differences. Closeness also allows team members to travel without hassle between Mexico and the US. This fact opens collaboration opportunities that are impossible with alternatives in Asia; like holding face-to-face follow-up meetings, have specialized personnel on-site on demand, and in case of a contingency the team can react accordingly.

Business travel between Mexico and the US is much more productive than with Asian countries, beyond the proximity factor, productivity is fostered by the similarities between the two countries in terms of infrastructure, like electrical power working at 110 volts, as well as cellular and paging services that provide seamless services for North America. These factors enable the possibility to have productive business travels of one or two days, which is not feasible in India.

Inconvenience Factors of Offshore			
	Legal Risks	Relationship Management	Negative Public Image
Concerns	<ul style="list-style-type: none"> Lack of intellectual property protection Risks in information security Contract dispute resolution Visa availability 	<ul style="list-style-type: none"> Time Zone Difference Cumbersome and expensive travel Expensive communication infrastructure High vendor attrition rates 	<ul style="list-style-type: none"> “Exporting Jobs”
Convenience Factors of Mexico			
NAFTA	<ul style="list-style-type: none"> Provides the legal groundwork that protects the parties in dispute resolution and intellectual property No dependence on cap of H1B visas. TN visas are available for professionals 	<ul style="list-style-type: none"> Allows to reduce the time and costs associated with legal processes Facilitates transit of professionals Temporary imports are considered as part of NAFTA 	<ul style="list-style-type: none"> Strengthens the North American Region Increases commercial exchange Fosters a virtuous circle with the number two buyer of US services and goods
Proximity	<ul style="list-style-type: none"> Fewer professionals are needed on-site than with Asian alternatives Contingency management is easier and more effective 	<ul style="list-style-type: none"> Facilitates day-to-day communication Opens collaboration possibilities Minimizes project risks Better communication helps in reducing turnover Higher daily work and business travel productivity 	<ul style="list-style-type: none"> The Near Shore model favors the strengthening of capabilities.

Cost Efficient

The cost advantage of offshore services comes from having more people working at a lower cost geography.

A typical offshore project has an onsite component at the client’s facilities in the US and an offshore component at the vendor’s development centers in the offshore country.

Man/Hour rates in Mexico tend to be higher than other countries, like India or China, due to a higher cost-of-living.

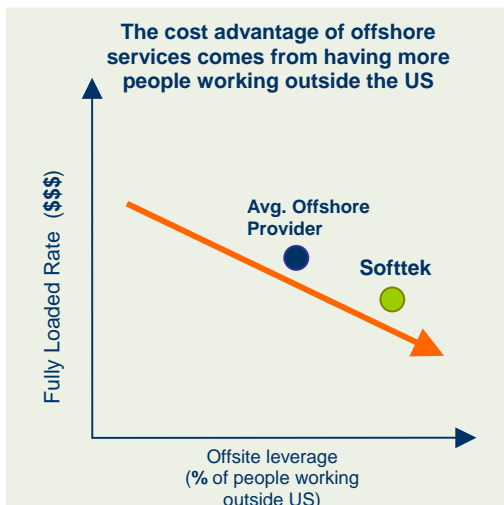
Mexico’s advantage in terms of cost resides in the possibility to carry out an important amount of work at the vendor’s facility due to closeness. The percentage of work that can be done in Mexico fluctuates around 80%, while in Asian countries is generally around 50 to 60%.

When a high degree of interaction is needed, a typical offshore engagement with India requires measures to mitigate impacts of time-zone difference and distance. Such measures include allocating a significant number of people on-site (customer locations in the US) and having a redundant project leader role, one on-site and one off-shore, due to the fact that travel and voice communication are cumbersome and expensive. In this case Mexico is highly competitive, because distance and time zone have no negative influence in the engagements.

With this context a typical engagement configuration is as follows:

	India	Mexico Near Shore
On-Site Team	40% of team	20% of team
Off-site Team	60 % of team	80% of team
Time-Zone Difference	10-11 hours	0 Hours (Central US Time)
Travel Time	25 hours	1 to 5 hours

Near Shore engagement configuration has a higher impact in the Total Cost of the Engagement than India’s lower man/hour rates.



As the graphic shows, each percentage point of increased offsite leverage has a significant impact in lowering the Total Cost of the Engagement.

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Notes: