



global spotlight: ON MEXICO

Mexico As An Outsourcing Destination – Experience the Benefits

Mexico for IT outsourcing? Has your company considered this hot new outsourcing destination? If not, you may want to take a look. Startups to Fortune 500 companies are discovering the benefits of using Mexican companies for their IT needs. IT outsourcing and offshoring are not new to Bay Area companies, but most are still looking to Indian companies to provide services. Companies should consider redirecting their attention closer to home. Why? Mexico offers several advantages, not the least of which is proximity which impacts everything from communication to productivity to cost reduction.

Forrester Research recommends ... “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.”

— *Forrester “Mexican Nearshore Outsourcing: A Promising Global Sourcing Alternative” (March 2003)*

Proximity and a Lower Total Cost of Engagement

The Near Shore advantage of Mexico is centered on proximity which ultimately lowers risks, increases productivity, and reduces the total costs of outsourcing engagements. For example, the ability to coordinate project work, team meetings, and problem resolution is enhanced when teams are located in similar time zones. Proximity is one factor that contributes to lowering the Total Cost of Engagement (TCE), a term that has been coined to

cover not just hourly wage, but all the true costs of engaging in outsourcing. So, while man/hourly rates in Mexico can tend to be higher than other countries like India or China due to a higher cost-of-living, other factors actually lower the cost of the engagement. Hidden costs including travel costs and time, rework, and vendor management are often reduced when companies use a Mexican firm. The ability for team members to easily travel between Mexico and the US also opens up collaboration opportunities that are sometimes impossible with outsource providers in Asia such as holding face-to-face follow-up meetings, conducting conference calls during regular working hours, or having specialized personnel on-site on-demand. When a high degree of interaction is needed, a typical offshore engagement with India requires measures to mitigate the impacts of time-zone differences 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. Due to the NAFTA trade agreement between Mexico and the US, it is easier and less expensive with a Mexican outsourcing partner to move staff on-site for initial knowledge transfer or project management.

Leading Mexico IT Outsourcing Vendor – Softtek

Softtek (www.softtek.com), a company that earned the Gartner Cool Vendors in IT Services and Outsourcing title in 2005 and was well-positioned in Gartner’s 2006 Magic Quadrant for Offshore Application Services, is a vendor to consider. A privately held company, Softtek is a relatively smaller service provider with annual

revenue of approximately \$135 million, and growing. Similar to most successful offshore organizations, Softtek has experienced growth rates that have been as high as 40 percent. The company’s primary offerings include application development, maintenance and management, as well as enterprise resource planning (ERP) integration. According to Gartner, “Softtek represents a unique combination of being a formidable offshore service provider and being the only non-Indian vendor to pose serious competition.” Softtek engages with customers and conducts business in a unique and partner-driven way and has managed to lower the total cost of engagement for several clients. Competitive advantages of Softtek include not only pricing, but also service quality, certifications, and years of experience. Softtek has a focus on quality and education and has built innovative Global Development Centers throughout Mexico and around the globe, including Brazil and Spain, with a new center set to open this summer in Baja, which will be ideally located to serve California company’s outsource needs. These centers are staffed with culturally savvy, highly skilled teams that have a high retention rate. And, they have a mature and impressive client base.

Global Selection Factors to Consider

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

- Geo-political risk
- Location
- Local government support
- Infrastructure
- Size and quality of IT professional staff
- English language proficiency
- Cultural compatibility
- Legal infrastructure

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Mexico is highly rated in each of these categories:

Geo-political Risk

Besides being the second biggest trading partner of the United States, Mexico 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, one with Japan which facilitates business.

Location

Among outsourcing destinations, Mexico has the most flights to and from 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 with the remainder 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 the competitiveness and sustainability of the IT sector.

Communications Infrastructure

A significant modernizing initiative in the telecommunications infrastructure started in Mexico 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. Productivity and business travel is fostered by the similarities between the two countries in terms of infrastructure, as well as cellular and paging services that provide seamless services throughout North America.

Availability and Quality of IT Professionals

According to a PROSOFT study, the IT services market in Mexico represents close to US\$2.7 Billion. The number of

students enrolled in IT-related programs, represents almost 11% of the national student enrollment and the number of graduates from technical schools and IT university programs annually exceeds 50,000 students. Many IT professionals work for US companies long established in Mexico, with projects similar to those in the US.

English Language Proficiency

A large number of the professionals and business executives in Mexico are fluent in the English language. This is especially true in the IT sector, where all training materials are in English. Mature companies in the service export arena offer English language programs to their employees in order to enhance communication with their US clients.

Cultural Compatibility

Mexican professionals are exposed to business practices, culture, and managerial concepts typical of the US because they work for global or US companies. Mexican society closely follows the cultural, sports, and entertainment events in the US, which help foster greater integration of the day-to-day bi-national work teams.

Legal Infrastructure

NAFTA offers a legal framework for the implementation of contract obligations, intellectual property 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 to have access in certain industries. 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 facilitates services exchange that involve physical equipment, which in other geographies can be nearly impossible due to distance, import barriers, and associated logistical and legal problems.

Is Mexico Right for you?

When considering IT and applications outsourcing requirements, companies now have a choice of service providers across geographies, and many are recognizing the numerous benefits of Near Shore offshoring from Mexico and how it can help them achieve their outsourcing goals.

To access information about Gartner's 2006 Magic Quadrant for Offshore Application Services and find out more about Softtek and Mexico as an outsourcing destination, visit www.softtek.com.

Noël Adams is President of Phase Forward (www.phaseforward.net). Phase Forward is a product management and product marketing firm in San Francisco that helps companies launch new products and services with projects ranging from new product research and market analysis to writing product requirements to outbound product marketing and product launch. Phase Forward team members also deliver workshops on a variety of new product topics.

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