

4. Discussion: Latin America's Future Perspectives

So far, the reader obtained a good overview on the major in- and outsourcing centers in the world. In addition, the most important causes for outsourcing and offshoring have been identified and shortly explained. Moreover, a look on the past development of FDI inflows has made clear that the world, after its severe economic downturn is now ready to tap international outsourcing's full potential. In order to get an idea of which countries might be the biggest beneficiaries of this expected outsourcing wave, recently published rankings of renowned companies have been analyzed and subsequently compared. By this procedure, the reader not only identified the most attractive insourcing countries, but also got an idea of the largeness of the outsourcing market as well as of its diversity concerning the participating nations. In other words, it became clear that countries around the world compete on becoming one of the most attractive outsourcing destinations. In a next step, the different service types that are currently being outsourced have been detected. Information has also been given on which service types are currently outsourced the most and which will probably dominate service outsourcing in the future. Finally, two upcoming trends in the outsourcing sector have been presented. Trends which have the potential to substantially change the outsourcing landscape in the long run.

After all these steps and the respective literature review involved, how can Latin America's situation now be described? Does this region play any important role in the service outsourcing scenery and will it be able to benefit from the growing trend of international labor division despite its severe competition? Is it sufficiently prepared for the surely upcoming outsourcing wave and does it possess any important unique selling proposition? A look on the presented information does not picture Latin America in a particularly good shape. According to Amiti and Wei (2004), not a single Latin American country can be found among the biggest insourcers. The biggest insourcing countries are the United States, different European countries such as Germany and United Kingdom as well as India, China

and Japan as major representatives of the Asian continent. According to the latest information, India appears to have evolved to the biggest insourcing country by far.

Whereas the analysis of the biggest insourcers is admittedly a look into the past and does not necessarily provide any valuable information about how the region is positioned today, a look into the most recent insourcing attractiveness rankings turns out to be not more encouraging. For A.T. Kearney (2011), merely two Latin American countries, namely Mexico and Chile, rank among the top ten of the most attractive service outsourcing destinations in the world. The top ten ranks are vastly dominated by Asian countries. Seven out of ten countries belong to the Asian continent. As indicated in the A.T. Kearney (2011) and the SourcingLine (2010) ranking, Latin American countries cannot offer the same cost saving advantages as their major Asian competitor. As their currencies appreciate, especially Brazil and Colombia will have to give up their hope to compete as a low-cost destination. Consequently, service outsourcers strongly focusing on this aspect, might choose an Asian company as its service provider. Contrary to the Asian region with its outstanding financial scores, Latin America seems to miss such generalized regional strength - at least according to the presented rankings. Countries of this region excel each on very different scores. Thus, Brazil receives a brilliant result in the people skills category, but appears to be particularly poor when it comes to financial scores. The same is true for Costa Rica, but with opposite signs. The Central American country performs very well on the financial dimension, but is being left behind in terms of people skills and availability. The obvious dissimilarity in the countries' characteristics makes it hard to position and market the region as a hub for a specific type of service outsourcing activity.

Whereas a generalized regional strength is quite hard to find, the search for superregional weaknesses seems not to be so difficult. According to Gartner's top 30 offshore locations, almost all Latin American countries have one specific problem in common: "Data and intellectual-property security and privacy"¹ remains

¹ Further information about this aspect, such as characteristics included under this denomination, can be found here: http://www.excellence-leadership.com/microsites/gartner/2009/gartners_30_leading_location_163341.pdf

«work in progress». (...) Although Mexico is considered «very good», the other Latin American nations are only rated «fair»" (Excellence Leadership, 2008, p. 6). English proficiency is another point of concern. According to CIO's 2006 rating, many of Latin American countries have either "poor" or "fair" English capabilities. Among the region's most promising countries for outsourcing activities, only Costa Rica is rated "very good" (Stephanie Overby, 2006). This represents another significant problem as many foreign outsourcing companies are requiring advanced English skills in order to establish a presence in Latin America and to serve from there the immense U.S. market. There is no doubt that lacking English proficiency is one of the reasons for losing potential clients to Asian countries such as India, China or the Philippines.

If the reader's attention is then focused on the different service types being outsourced, Latin America's situation turns out to be equally disillusioning. Indeed, India's domination across all types of outsourced services is mind-blowing. In other words, Indian dominance by no means is only reduced to rather classical types of outsourcing such as IT, voice or administrative functions, but also comprises the increasingly important area of product development. Specific operations include engineering, research & development and product design. It seems that India and, to a minor degree, China, got prepared by time to the growing demand of international outsourcing of these services. Only these two Asian countries absorb almost two thirds of the respective outsourcing implementations. Other major insourcing regions, including Latin America, seem to lag behind this growing trend.

A similar situation can be observed concerning companies' new shared services structure. The trend to centralize specific services and to consequently obtain an improved service quality, a higher rate of efficiency as well as substantial economies of scale seem to have reached the Latin American continent with a considerable time-delay. Whereas Latin American companies are just waking up to the shared services advantage, Asian countries such as India have already gained quite ample experience in this area. If managers of western companies decide to offshore their shared services center in the near future, they might most

probably look for an Indian service provider, but not necessarily for a Latin American one.

Another aspect which might hinder Latin America from receiving a bigger piece of the “outsourcing pie” is related to the region’s politics and governments. Although outsourcing activities are usually accompanied by substantial macroeconomic benefits (e.g. trade growth) Latin American governments do little to support these activities. Only Mexico was rated “very good” in this aspect (Excellence Leadership, 2008). But in most of the remaining Latin American outsourcing destinations, a lack of government support is still restricting greater development. This is particularly harmful as major competitors such as China are already heavily investing in outsourcing relevant factors.

The missing unity among major national and regional decision makers is another problem which affects the outsourcing destination Latin America. Instead of speaking up for a clear positioning of the region, countries tend to compete against each other. According to Henry Manzano, the Latin America CEO for the Indian IT services firm Tata Consultancy Services (TCS), this is an incorrect strategy (Matthew Malinowski, 2010). Instead, “each country should leverage its strengths to solidify Latin America's reputation as a global outsourcing hub. [Consequently, the region should be perceived] as one, big country” (Matthew Malinowski, 2010, ¶4). The reason why this strategy might not be as easy to implement as Manzano suggests is certainly related with the ever changing political situations in the region. The most recent example of political turmoil is the Central American country of Honduras where in 2009 the country’s president, Manuel Zelaya was suddenly dispossessed and flown out of the country by military forces. The great problem about political changes in this part of the world is that they are often accompanied by extremely radical ruptures, shattering even the keystones of the country’s democratic system. The most popular example or personification of such a radical political rupture is certainly Venezuela’s current president Hugo Chávez. With its

black-and-white ideology à la “socialismo o muerte”² he does not only provoke much polemic in its own country, but virtually divides the entire continent into two parties, those against and those supporting him. A negative side-effect of such political changes towards socialism is that in the minds of many executives, Latin America will still be referred to as a continent where political stability and investment security cannot be taken for granted. Although Chávez allies can be counted on the fingers of one hand and most of the region’s countries have already distanced themselves from him, Venezuela’s anti-capitalist politics remain harmful to the reputation of the entire region.

In view of the presented problems and weaknesses, Latin America seems not to be able to absorb a bigger part of future outsourcing implementations. Instead, the region appears to be in a quite unfavorable position at the moment.

But is Latin America’s situation really as hopeless as it seems? The answer is a resounding “no”. Of course, the region’s situation is not as black and white as it might be suggested to the reader in the first instance. Latin America does certainly possess some great competitive advantages and at least one unique selling proposition.

One of the region’s great strengths, for example, is its constantly growing multilingual capabilities. Although English language skills may not be as advanced as in India and remain a work in process, the region already “offers a unique ability to provide dynamic multilingual contact center services for a huge range of global markets” (Harts, 2007, p. 2). Something that is rather unlikely to see in India which proves to have limited non-English capabilities (Lance Travis, 2005). The good news for Latin America in this aspect is that many of its “countries are working to foster multilingual skills (i.e. English, Spanish and Portuguese) and accent neutralization” (Harts, 2007, p. 2). This is quite an exception to the otherwise missing governmental support for outsourcing-related factors. Thanks to concerted language programs, Latin America might soon be able to close the gap to India in

² This refers to Venezuela’s President Hugo Chavez, redefining Castro’s famous slogan in May 2007 (Chávez, 2010)

terms of English capabilities while simultaneously strengthening its competitive advantage of multilingual skills. This could give Latin America a significant competitive advantage over India and other major Asian competitors, especially concerning the establishment of multinationals' shared services centers. Another aspect where Latin America shows an increasingly strong performance refers to the region's respective IT skills. Indeed, Latin America's situation in this area is not as bad as the reader might suppose. Although IT skills might not be as sophisticated as in India, especially Mexico, Brazil, Argentina and Costa Rica show respectable results in this aspect. According to CIO's special study on major offshoring and outsourcing destinations (2006), most of the main outsourcing recipients in Latin America are already in quite good shape concerning available IT skills. In this context, it has to be mentioned that especially economic downturn had a positive effect, as the region's working market became much more competitive. "This has not only improved the labor skills, but has made universities and other education facilities to invest in new and high quality programs" (Díaz, 2009, ¶6).

Though the two presented aspects are certainly positive factors, they cannot yet be considered decisive outsourcing drivers. Contrary to this, the closeness to the US market is indeed a reason to move service operations towards Latin America. Without a doubt, this aspect can be considered a veritable unique selling proposition. The geographical proximity to the United States and the implied nearshoring option represent an immense potential for the Latin American region as major outsourcing destination. As Table 3.2 showed, the United States is still the largest buying market for offshore services in the world. Within this giant marketplace, Latin American countries can "offer an alternative to clients who are unwilling to offshore to remote locations like India and the Philippines despite the lower costs" (Value Notes -Sourcing Practice, 2007, ¶4). The geographical closeness allows US service buyers to visit its outsourcing partner more frequently. Since travelling to the provider is often necessary, a lot of money can be saved as the destination is easier and cheaper to reach (Outsource2india, 2009). Thus, the relative cost advantage of Asian outsourcing destinations obviously declines. Another great advantage which is derived from the region's geographical

conditions is to be in the same or similar time zone as the U.S. To be in the same time zone, permits to do the work simultaneously and, consequently, to have a better coordination throughout the projects (Outsource2india, 2009). For many U.S. companies this is definitely a decisive argument.

Another significant argument, but which is usually not sufficiently taken into account is the cultural one. The United States and Latin America are not only geographically close to each other, but they also have a similar cultural background. Although India and China appear to be the most attractive outsourcing destinations in the world, this aspect definitely weakens their positions. In spite of mostly excellent English skills (India), communication and coordination with partners located in those countries can cause problems, due to cultural differences (Outsource2india, 2009). Such problems can be avoided by outsourcing to Latin America. According to Gartner's study on offshore locations (2008), Latin America's cultural attributes make it quite easy to do business with the major buying locations. The region is attested a high degree of cultural affinity and adaptability to multicultural approaches and consequently is rated³ "good" or even "very good" on this dimension (Excellence Leadership, 2008). This is an important factor when dealing with a company's service provider.

Finally, the language skills of Latin American citizen play an important role. In this case, language skills are not referred to English skills, but to the Spanish ones. As an evaluation of the presented Gartner selection reveals, "Latin American countries are able to leverage their Spanish language skills increasingly in the U.S. [This is due to the fact] that an increasing number of U.S. enterprises now require Spanish language from their providers [in order to communicate] with parts of their workforce that speak Spanish as a first language" (Excellence Leadership, 2008, p. 6). But also for communicating with the companies' end customers Spanish skills become increasingly important, if not to say indispensable.

³ Each category has been rated on a five-point scale from "poor," through "fair," "good" and "very good" to "excellent."

All these positive aspects give enough reason to be very optimistic concerning upcoming outsourcing waves from the US. A sort of nearshoring sentiment is definitely noticeable in the US and has already led to an increased number of Latin American offshore implementations in recent years.

But Latin America's closeness to the United States by no means is only beneficial to US service buyers. It will certainly gain importance for other outsourcing nations, too. In this regard, a particularly great potential represents India. In the vast majority of recent literature in economics the Asian giant is only represented as the biggest absolute insourcer and consequently as the strongest competitor among major insourcing countries. But India is also a rapidly growing outsourcing market and this should not remain unrecognized. As chapter 3.3 has already shown, India's services imports as a percent of GDP have strongly increased in the last decade. Important about this fact is that especially Latin America tends to benefit from this Indian outsourcing growth. Accordingly, more and more Indian outsourcing companies "are waking up to the time zone advantage" (Value Notes - Sourcing Practice, 2007, ¶3) in order to provide a better service to their clients in the United States. But also language issues prove to play an important role. Just as American corporations, Indian companies need access to Spanish language skills, too, in order to open up the Hispanic market in the US. The just beginning Indian outsourcing trend towards Latin America is really unlikely to stop or extenuate in the short to medium term, particularly not in the view of India's projected GDP growth rates. According to a recently published paper by PricewaterhouseCoopers (2011), India is projected to have an average annual real growth in GDP of 8.1% between 2009 and 2050. Moreover, the Asian country is projected to be the second biggest economy⁴ in the world by 2050 (Hawksworth, John; Tiwari, Anmol;, 2011). Like in most economies in the world, these gigantic growth rates are likely to be induced by an increasing number of powerful multinationals. In accordance with the company's growth, multinationals, but also medium-sized businesses will sooner or later be obliged to serve also the US

⁴ GDP is measured in purchasing power parity (PPP) terms

market, and a good way to do so is outsourcing customer-related services⁵ to Latin America. Consequently, the region can expect a considerable number of outsourcing projects, coming from South Asia. The point in time when Indian outsourcing flows towards Latin America will reach its peak is virtually impossible to predict. However, it is likely that, to a certain extent, the number of Indian outsourcing implementations will be correlated to India's annual GDP growth rate. Consequently, more Indian outsourcing implementations will already be observable in the short term. Whenever the greatest outsourcing wave might hit the Latin American continent, it is crucial that the region starts rethinking now. In other words, India should no longer be considered as a simple competitor, but also as a great potential service customer. Much of Latin America's evolution will depend on how well the region is capable to emphasize and to capitalize on those aspects that are particularly important to Indian outsourcing companies (e.g. the closeness to the US market). If the region positions itself in an adequate way, Latin America could soon benefit from the great amount of Indian experience and know-how. An Indian knowledge transfer could not only boost Latin America's insourcing market, but rather the region's entire service industry in the long run.

Of course, the presented advantage of geographical proximity to North America does not solely exist for US or Indian companies. It obviously exists for businesses from other countries, too. According to the previous Indian example and the way of argumentation, the reader might expect that a huge insourcing potential will logically emanate from China, too. This assumption seems to be particularly justified as the East Asian country is expected to be the biggest economy by 2050 (Hawksworth, John; Tiwari, Anmol;, 2011). But this analogy proves to be illegitimate for one particular reason: China has not shown such strong outsourcing tendencies yet. The East Asian economy is still more concerned with insourcing of service activities than with giving them away to a foreign provider. Consequently, only a few Chinese companies have already moved their services towards Latin America.

⁵ Please note: Customer-related does not solely refer to call centers, but can also include product design.

Another chance for Latin America consists in the constantly growing labor shortage among developed countries. As mentioned in the chapters 3.9.1 and 3.10, labor shortage is an enormous problem which, little by little, will shatter the entire European continent, but also Japan and the United States. As a result, affected countries and companies already start designing special programs, aimed at the retention of its talent. Nevertheless, especially innovation-centered companies increasingly lack in qualified personnel and decide to look for the needed talent abroad. Consequently, product development has become the type of service which is outsourced the most. At the same time, access to qualified personnel has moved up to the second most important reason for service outsourcing. As it is shown in chapter 3.10, especially Indian and Chinese companies tend to benefit from western labor shortage. Latin America still seems to play a minor role. But this situation could substantially change as soon as labor shortage in Europe becomes more severe. A recently published article about Germany's labor market illustrates how serious the situation among those countries can actually become: In Germany alone, the supply of manpower will decrease by 1.8 million until 2020. Another 1.8 million will follow until 2025. In short, by 2025 there will be 3.6 million less workers available than today (Müller, 2011). And there is no reason to be more optimistic concerning other European countries. In view of this severe supply shortfall, it is likely that western outsourcing activities will exponentially increase. Especially outsourcing projects of functions, requiring top-skilled workers are likely to grow on a large scale. Concerning these upcoming outsourcing implementations, it is highly probable that western countries will not only look for Indian service providers, but rather screen the talent markets around the world. Such a global talent search might even be indispensable in order to find the adequate service personnel. Here, the good news for Latin America is that cost savings become a less important outsourcing driver in the face of scarce talent. Thus, the region's relative weakness compared to major Asian destinations is somehow neutralized. Anyway, it is hard to predict for how long Asia's cost advantage will persist. "Asia is [already] seeing far higher wage inflation than Latin America and the projections do not foresee any reduction in the annual increase in the years to come (inflation in India reached

15% in Feb. 2010)” (Díaz, 2009, ¶2). So if Latin America succeeds in providing the required talent, the region is likely to observe a growing number of outsourcing implementations from Europe, Japan and the United States.

Another trend in international business which might turn out to be equally beneficial to the Latin American region is the implementation of multinationals’ global 24/7 operation model. In most of the cases, larger companies are only responding to competitive forces by implementing such a model. However, other companies see in the global factory a great potential to reduce their cycle times in core activities such as product development. Whatever the reason is, outsourcing becomes an attractive option to provide these round the clock services to companies and their clients. The great advantage of this option is that it does not put too much of a strain on the existing manpower (India Reports, 2010). Moreover, constant improvements in the communications technology make that 24/7 operation models become more and more effective as well as increasingly cost- and time-efficient. If this trend expands in the future, many international companies will probably already have a presence or an outsourcing provider in the Indian time zone. Contrary to this, American time zones might not already be covered. This is then a great opportunity for the Latin American region, as it is only competing against the high-cost countries of Canada and United States among its own time zones. Outsourcing companies emphasizing financial aspects might then choose a Latin American destination for providing the needed services. Outsourcing of services to Latin America as part of a global 24/7 operation strategy is most likely to be seen in European companies. But also Indian companies might choose Latin America as location for round the clock servicing, particularly as time difference between the regions amounts to 11.5 hours⁶.

Moreover, the negative aspect of a missing unity among Latin American countries has been raised in the beginning of this abstract. It has been mentioned that this problematic situation leads to great difficulties in elaborating a supranational strategy that would help the region to position in the best possible way concerning

⁶ Time difference between Mexico City and New Delhi

insourcing. But as part of the consulted literature suggests, many Latin American countries have quite naturally developed a special skill set within their boundaries. Consequently, Latin America can already be considered as a type of kaleidoscope concerning special expertise and skills. Thus, Chile has evolved to an important niche destination for R&D and analytics whereas Brazil excels in IT and is increasingly demanded as strategic platform location for software developers and systems integrators. In turn, Mexico has a great amount of BPO capabilities to offer, but also provides voice and KPO services. Due to the country's size and its relatively high degree of economic development, Mexico does obviously supply IT services, too. Especially in Guadalajara - often referred to as "Mexico's Silicon Valley" - but also in Monterrey, Mexico City, Hermosillo and Culiacán, a considerable number of IT service providers can already be found. Despite this good news for Latin America in terms of diversity of available service outsourcing providers, Manzano's (2010) claim for a well-directed regional strategy does not lose any of its validity. Far from it! If all Latin American countries followed a regional strategy and leveraged their own strengths accordingly, Latin America would certainly improve its prospect of receiving a greater part of globally outsourced services. Moreover, the region could particularly overcome its current deficiency in obtained product development implementations.

As it has already been mentioned, a great competitive advantage of the Latin American region consists in its geographical closeness to the United States, the biggest economy in the world. This aspect has already led many companies to outsource some of their functions to the nearby region of Latin America. This step allows companies to serve the biggest market in a timely and best possible manner. But what if Latin America becomes itself one of the biggest markets in the world? Would multinationals not logically have a great interest in serving these markets, too? Wouldn't they tend to do so by offshoring or outsourcing some of their customer-related services to Latin America? Although this intellectual game is not played by many outsourcing experts yet, it is definitely worth thinking about this scenery, especially in view of PricewaterhouseCoopers' latest economic projections. According to the consulting firm's estimates (2011), Brazil and Mexico

are supposed to be the fourth and seventh biggest economies⁷, respectively, by 2050. This means that they would have outpaced even leading industrial nations such as Germany, France or the United Kingdom by that time. But whatever the exact size of those economies will actually be in 40 years, the projections make clear that both nations will experience considerable growth rates in the decades to come. Of course, these massive economic changes will not remain unrecognized by senior corporate strategists. They will keep an eye on these changes and position their companies respectively. If not predictable, it is at least highly probable that these decision makers respond to such changes by outsourcing or offshoring manufacturing, but also major parts of their service functions. In this context, Latin America's prospect of receiving a respectable number of service outsourcing projects can consequently be rated very good, especially in the long run.

Altogether, the presented remarks make clear that Latin America possesses some significant strengths as well as a considerable number of extraordinary opportunities. Without any doubt, these strengths and opportunities present a great potential and might lead the region to massively gain in importance, especially in the long run. In view of these positive aspects, it cannot be excluded that Latin America even rises to one of the biggest and most attractive outsourcing destinations in the world. As it is shown, chances for such a development are real and based on different facts. Nevertheless, Latin America's evolution and success in terms of insourcing will finally depend on whether or not the region is ready to tackle some of its major problems. Moreover, necessary adjustments and modifications need to be made. These actions will be crucial for the region to strengthen its competitiveness in the short run but also to tap its full potential in the medium to long term. However, these adjustments cannot wait and respective efforts need to be made now. The following abstract of this paper presents those adjustments that are particularly urgent and that, once realized, could boost the competitiveness and attractiveness of the entire region.

⁷ GDP is measured in purchasing power parity (PPP) terms