



WHITE PAPER

Nearshore in Latin America as a Platform for Growth

Sponsored by: Atento

Alberto Belle
March 2015

IDC OPINION

In this White Paper we describe how the outsourcing function for CRM/BPO and customer care is evolving from a cost center to a platform for growth, the implications for the offshore decision making, and the nearshore advantages that appear in this new context, in particular when serving sophisticated markets such as the US.

In the context of the rapid evolution of products and customers, outsourcing customer care or BPO activities means embarking on a journey with the client, where there are going to be opportunities to grow along with the customers, create new sources of revenue, and provide advanced services. Therefore, it becomes necessary to make the outsourcing decision based on a framework that covers that journey, beyond immediate measures such as salary.

This framework considers value as a cycle, where there is an acquisition phase, a sustainability phase to guarantee value creation over time, and a transformation phase, where the service can evolve and transform, creating new value-added opportunities. Costs are also considered along the cycle, which enables hidden costs to surface, and makes it possible to identify future costs and bring them to the present. The model covers the country assets, focusing on human capital, as well as the supplier capabilities. Two relevant findings emerge from this study:

- Immediate cost measures such as salary differences are no longer a key competitiveness factor for an outsourcing destination. They represent only a part of a larger cost picture, where management costs, relationship costs and attrition costs may offset any early advantage if not dealt with properly.
- Transformation is the critical factor that has not been considered yet in many outsourcing decisions. This means whether or not an outsourcing supplier can ensure the evolution of a service, allowing the client to create higher value. This requires the capacity to leverage technology to learn and innovate.
- Within this perspective, nearshoring acquires particular relevance, as the proximity, be it geographical, time zone and cultural, reduces the cost related to the ongoing relationship, facilitating the close interaction necessary to innovate and create new services along with the client. Mexico, El Salvador and Guatemala provide strengths that are described in the document.

Atento presents itself as a partner that serves the client along the whole cycle, from the attraction of the appropriate employee base, to a sustainable value delivery based on standardized processes and loyal employees, and finally through the capability to evolve and transform the services, enabling value-added opportunities.

TABLE OF CONTENTS

	P.
SERVING THE INFORMATION-AGE CUSTOMER PUTS TALENT AT THE CENTER OF DIFFERENTIATION	3
PREPARING FOR RAPID FUTURE CHANGES WHILE REMAINING COST COMPETITIVE	4
A NEW FRAMEWORK FOR THE OFFSHORING DECISION MAKING	5
HUMAN CAPITAL: ASSET AT COUNTRY LEVEL	6
COSTS: LIABILITIES AT COUNTRY LEVEL	8
SUPPLIER FACTOR: THE DRIVER OF VALUE CREATION	10
MEXICO AS A NEARSHORE DESTINATION	12
EL SALVADOR AND GUATEMALA AS NEARSHORE DESTINATIONS	14
ATENTO'S VALUE PROPOSITION	17
CONCLUSION	19

SERVING THE INFORMATION-AGE CUSTOMER PUTS TALENT AT THE CENTER OF DIFFERENTIATION

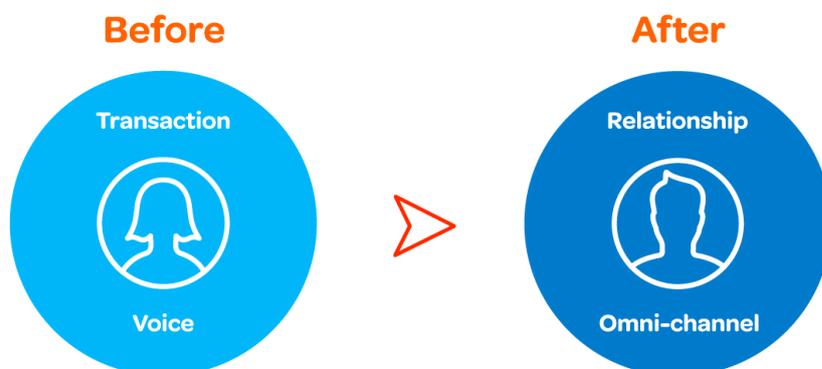
Organizations need to serve a customer base that has radically transformed over the last few years. Customers have embraced technology, and have instant access to a vast amount of product information. This has changed the expectations they have of their interactions with suppliers, toward greater value and a better experience. We describe these changes below, and discuss the implications for customer care:

- **Customers control the relationship cycle.** Customers have immediate access to product knowledge, price, and reviews, and they use that knowledge to their advantage in their interactions with suppliers. This has shifted power to the customer side, and if organizations want to lead the interaction and serve customers properly, they need to get ahead of the customer to anticipate their needs, forward resolving problems and ensuring that every interaction provides value. This is a change from a reactive to a proactive attitude in customer care, and will likely require greater use of technology and analytics.
- **Customers are social.** Customers are connected and are engaged in an ongoing conversation with other customers. Suppliers have a much more limited scope of influence, as customers tend to favor and embrace candid opinions from other customers. The social dimension has two implications for customer care: first, there needs to be quality in every interaction, as the impact of a mistake can go beyond the individual and be amplified in seconds, beyond the control of the supplier. Second, it needs to incorporate the events taking place in the social network space in order to be perceived as relevant or meaningful.
- **Customer communication is omni-channel.** Customers use different channels depending on their context and convenience, and they expect that approach from suppliers. There are a number of implications for customer care: first, it needs to be able to provide a response in the medium used by the customer. Second, it needs to be transparent to the user, accessing the history of previous events or interactions regardless of the channel. Third, it needs to ensure a uniform level of quality across channels, as customers will be immediately aware of possible inconsistencies. This is particularly true in the case of the smartphone, where different channels coexist in the same device.
- **Focus on customer experience.** The customer experience is a journey that starts before a product or service is purchased and carries on over the entire life cycle. Beyond product and service features, customer experience has become a key differentiator for business. Customer interactions are a key part of the experience journey, and cannot be considered in isolation. The perceived value of that experience will largely depend on how representatives conduct themselves in their interactions with customers.

Figure 1 shows how the customer has changed.

FIGURE 1

Customer Evolution



Source: IDC, 2015

Customer care is evolving from a reactive, transactional approach to the delivery of a rich customer experience. This experience is becoming increasingly relevant for the business, as the quality of the interactions influences customer loyalty decisions to a large extent. Therefore, talent has become a key aspect in order to decide how customer care is delivered.

PREPARING FOR RAPID CHANGES WHILE REMAINING COST COMPETITIVE

The challenges ahead for the customer care function and customer-related outsourcing functions involve not only serving a transformed customer, but keeping up with the changes in products, and services. This will need to be done complying with a growing set of regulations, and giving a high priority to security. This is particularly true in advanced, sophisticated markets such as the U.S. Customer-related functions have to incorporate those changes with agility. These challenges are explained below:

- **Increasing product complexity.** Products have a greater technological component and services are becoming more customized, with a wide range of options and personalization. This level of sophistication is directly transferred to contact center interactions. Customer interactions are growing in complexity, and require more information available to the agents, who will need to regularly update their knowledge.
- **Expectations of a higher level of expertise.** Customers tend to have a higher level of product or service knowledge, and in many cases they have usually tried to resolve a query on their own before contacting the customer service center. Customers (or prospects) are therefore becoming more demanding and expect questions addressed properly and promptly. Adequate problem solving skills and a quick service may depend on vertical specialization. This is already the case in some sectors (e.g., banking), and may become the norm in others.
- **Evolving regulatory context.** Companies are experiencing a combination of more data-intensive interactions, with more restrictive data protection regulations and a higher emphasis on protection of customer rights. This affects practically all sectors, but has particular implications for the financial and health sectors. Representatives have to adapt quickly to regulations when interacting with customers and when processing or delivering information.
- **Enhanced security:** The fast growth of mobility related services may create new vulnerabilities that need to be resolved, to prevent security breaches. Current data protection

regulations and liability clauses are good incentives for BPO providers to invest in reducing their risk exposure. Enhanced security will be both a challenge and an opportunity, and those providers who are able to implement robust security mechanisms without disrupting the customer experience will be at an advantage.

- **Increasing speed of change.** In the context of quick product changes, new regulations, and shorter life cycles, customer care has to be agile. This also means that a richer interaction is required between the customer care outsourcer and the client.
- **Cost pressures.** The increased sophistication in customer care has not reduced cost pressures. In order to address costs in this changing environment, however, it is necessary to shift the attention from immediate cost factors to a deep understanding of the cost structure and implications over time. There are two aspects here: first, hidden costs need to be unveiled in order to measure them in full. Second, future costs need to be anticipated in order to account for the future implications of decisions made in the present.

In the context of the rapid evolution of products and customers, outsourcing customer care or CRM activities does not mean taking care of a contained, well defined task. It means embarking on a journey with the client, where there are going to be opportunities to grow along with the customers, create new sources of revenue, and provide advanced services. In order to understand this approach, it is necessary to go beyond the cost center perspective. A new analysis model will be necessary, and this is described in the following section.

A NEW FRAMEWORK FOR OFFSHORING DECISION MAKING

If the relationship between the client and the outsourcing partner is going to be a journey of value creation, then it becomes necessary to make the outsourcing decision based on a framework that covers the entire journey, providing a sense of perspective, therefore going beyond immediate measures such as salary.

The framework has two analysis dimensions, as shown in Figure 2.

FIGURE 2

Offshoring Decision Making

	Country Perspective		Supplier Perspective
Value cycle	Human capital (assets)	Cost (liabilities)	Offshore provider
Acquisition			
Sustainability			
Transformation			

Source: IDC, 2015

The first dimension (on the left) is the **value cycle**. Value is considered as a cycle, where it is acquired in the first place, but value creation needs to be sustained over time, and at some point it has to be able to undergo a transformation, where new, value-added products are created. These are the three components:

- **Acquisition.** Readiness to attract talent, and start creating value in a cost-competitive way. This is the factor that has received most attention in the offshoring decision.
- **Sustainability.** Consistency of value creation over time. This factor is not always evaluated in a comprehensive way and, if not analyzed, business may not become aware of sustainability issues until they have already made the investment.
- **Transformation.** Capacity to adapt to changes in products, services, and regulations. This aspect is most frequently overlooked when analyzing an offshore destination or supplier. This is the capability to interact with customers in new ways, cover new products, and offer value-added services.

The second dimension (the three columns) is related to **country and supplier factors**, which need to be analyzed in conjunction:

- **Country analysis.** We will analyze the suitability of a given country as an outsourcing destination. The country analysis presents a dual asset perspective:
 - **Human capital (country-level assets).** Given that we have highlighted talent as a key differentiating factor for customer experience, the human factor is going to receive more attention than other elements such as technology. The analysis will cover the availability of the right talent pool in a given country and the capacity to create value over the entire cycle.
 - **Cost (country-level liabilities).** The objective of the cost analysis is to identify relevant costs along the cycle and to unveil hidden costs to bring them to the present. In this way, a comprehensive cost picture can be created, anticipating future scenarios. Although cost is not a liability from a strict accounting-based point of view, the term is used in a broader sense.
- **Supplier analysis.** This analysis will reflect two elements. On the one hand, it will show the capabilities and resources of a given supplier. On the other hand, it will reflect how a supplier can extract value from a country in order to create a unique proposition.

The following sections look at country and supplier factors along the three elements of the value cycle.

HUMAN CAPITAL: ASSET AT COUNTRY LEVEL

This section will explore the criteria to determine if a given country can provide the required human capital along the entire value cycle in order to become an attractive offshoring destination to serve the U.S. market.

As mentioned, the human factor is the asset that makes the difference, and therefore most of the analysis will concentrate on it. The three phases in the cycle are presented below.

Acquisition

This refers to the readiness of a labor pool of candidates with the right skills for customer care, enabling a service supplier to start operating. Labor availability has two aspects – quantity and quality:

- **Quantity.** This criterion reflects the availability of a large enough pool of candidates for a supplier to operate in the country. This will depend on the balance of supply and demand factors:
 - **Supply factors.** Given that most agents are university students or graduates, the capacity of the educational system to create graduates, students, and in some cases high school graduates is a key factor. The other source of talent may come from the industry itself, from employee turnover.

- **Demand factors.** The demand for the customer care job profile in a given country will condition the availability of talent. Demand is determined by the popularity of the country as a customer care offshore destination and by the company base already established in that country.
- **Quality.** This criterion refers to the availability of the right skills for the customer care industry. In the case of services to U.S. customers, general English speaking capabilities and government initiatives to promote English education are important. The ability to speak Spanish is a natural advantage, given the significant (and growing) Spanish speaking population in the U.S. The industry-specific skills will be given by the existence of a well developed customer care industry that guarantees the existence of a set of standards and provides a base of experienced employees with managerial profiles.

Sustainability

This criterion illustrates whether or not the value creation can be sustained. Sustainability translates into several factors:

- **Potential for grow and scale versus saturation.** If a country has a relatively small labor pool available, but prospects for an increasing number of candidates, it has growth potential. This will be determined by two factors:
 - **Demographic pyramid.** A high proportion of young people in the country and a growing university base will enable a country to meet future growth needs. A limiting factor is the country's population. If the demographic potential is high but the base (population) is small, it can reach saturation as the number of companies established increases.
 - **Future balance between supply and demand.** If demand grows too fast, then the labor pool volume may be insufficient, and the market may overheat, creating salary inflation. Demand may be caused by the country itself becoming a highly popular offshoring destination, and can be influenced by employment demand from local industry in other segments. Overall unemployment rates and the growth prospects in the economy may signal the propensity for the market to overheat.
- **Employee loyalty.** In order to deliver value, employees need to stay in the company for a period of time once they have completed their learning curve. This is particularly relevant in the case of complex products. Loyalty will depend of several factors, such as how the customer care profession is perceived and valued, or whether there is a culture of attachment to the employer.
- **Stability.** This refers to the sustainability of operating as a business in a given country. A stable sociopolitical environment is important both for business operations and for employee productivity. A stable legislative framework, where regulations related to labor or international transactions do not keep changing, is a significant stability element. Finally, the severity of economic cycles is important in order to forecast and plan a business strategy.

Transformation

This refers to the capability of a country to facilitate innovation and provide human and technological resources, enabling the supplier to create value-added services for the client. This kind of opportunity may appear at a later stage, but may ultimately determine the continuity of a supplier in a given country. There are several aspects to be considered:

- **IT user maturity.** In particular, the degree of technology skills of the young generation in that country. This will condition their propensity to adopt new tools (e.g., chat, multichannel) and the use of sophisticated services (e.g., with integrated analytics).
- **Breadth of service capabilities.** Value-added opportunities may lead companies to enter new or adjacent service domains. The availability of employees with skills in different areas (from

sales to collection) can enable the creation of those services. A country specializing only in one type of service would be a riskier option if new opportunities need to be catered for.

- **Variety of vertical industries served.** A variety of verticals facilitates the transfer of innovation and initiatives from one sector to another, accelerating the implementation of new processes. A varied domestic industry base with high-quality customer care can also serve as a repository of high-quality employees and pave the way for new or advanced outsourcing services.

COSTS: LIABILITIES AT A COUNTRY LEVEL

In this section, we will explore the cost implications of offshoring decisions. This is one of the crucial aspects of the framework because this analysis allows greater cost visibility in two areas: first, it allows the discovery of future costs that will appear along the value cycle, which can be brought to the present. Second, it points to areas where hidden costs may appear, bringing them to the surface.

Talent Acquisition

The cost related to attracting the appropriate employee profile in a given country:

- Visible costs:
 - **Recruiting/scarcity related costs.** This refers to cost related to the recruiting process, and not the salary itself. In some countries, where demand is overheated, some employers have to offer direct recruiting bonuses to candidate, and the process itself is more complex.
 - **Initial training/skill gap costs.** This cost is related to the training required for the newly recruited employees, and the length of the learning curve until the employee is productive.
- Hidden costs:
 - **Labor/bureaucratic costs.** Starting a business in some countries, as well as hiring, may have some cost implications in terms of authorizations, licenses, or other costs. Cost implications may be monetary, or an opportunity cost (delays in obtaining a license or authorization could paralyze the business).

Sustainability

The cost related to training and retaining employees, and ensuring that operations are running adequately:

- Visible costs:
 - **Salary.** This is the main visible cost. Labor arbitrage has been the key element in many offshore decisions. Part of this cost is a component related to labor rigidity, and indirect labor costs that need to be adequately measured.
- Hidden costs:
 - **Employee attrition.** If employee turnover is high, the cost of replacing agents can be significant, in particular if they are skilled and experienced. There is another cost implication, productivity loss, if the employee does not stay for a long enough period in order to generate value.
 - **Management/collaboration costs.** The outsourcing supplier and the client company need to be in regular contact as part of the ongoing relationship and to tackle problems as and when they arise. This would involve direct travel or communications. There are a number of reporting processes that need to be in place, and there needs to be a clear and shared understanding. This cost category will be proportional to the distance between suppliers:

- **Geographical distance.** This reflects the cost related to traveling to the contact center. This may be exacerbated in the case of bureaucratic issues with visas and permits.
- **Time zone distance.** If the time distance is long, it may be difficult to resolve problems in real time, as the people involved may not be available, or because other players involved are outside business hours. In many cases, additional personnel need to be provisioned at the supplier and/or client side.
- **Cultural distance.** There may be issues with countries with different cultures (business, language, etc.) and this could lead to communication problems. This may require more comprehensive reporting and tighter control, which translates into higher costs or more staff needed. There may be other spillover effects such as delays, and this could damage the brand or lead to a loss of business.

Transformation

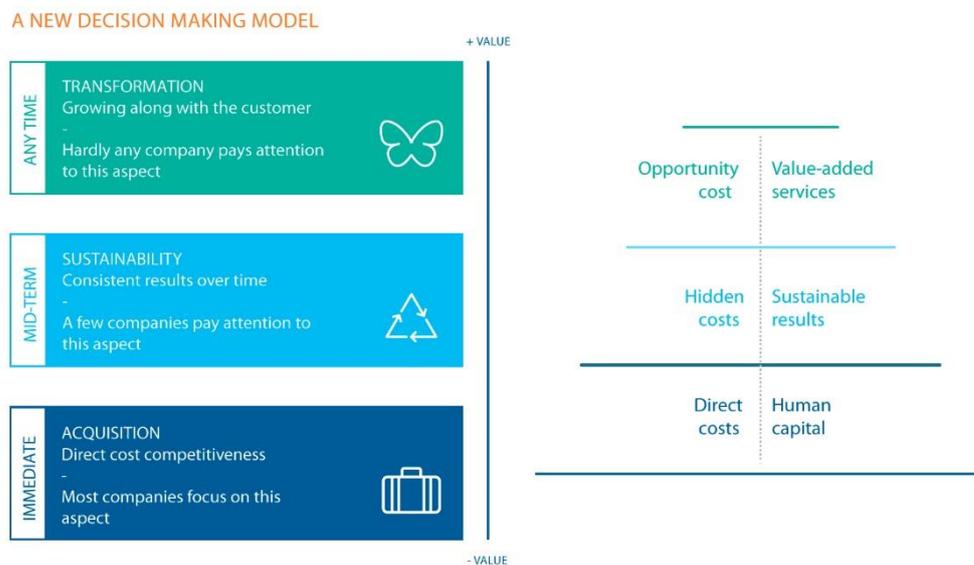
Making the most of new opportunities can involve upfront costs if the skills or resources needed are not readily available. In this respect, costs are mainly indirect or hidden, as they are related to future opportunities.

- Hidden costs:
 - **Change-related costs.** This cost is related to the distance factors described above. In order to set up a new process, significant travel may be needed, as well as frequent communications and problem resolution. Also, the speed of business in the outsourcing country may be different to that of the client company, and this can have a knock-on effect on the business. This could generate a direct cost or an opportunity cost, by not being able to generate additional value for the customer.
 - **Skill shortages.** If it is necessary to acquire new skills significantly different from those initially planned, and they are not readily available, the business will incur additional costs related to training or recruiting.
 - **Technology infrastructure.** If the technology required for a new process or activity is not available in the country, or the IT supply base does not meet the supplier needs, they may need to invest in the technology infrastructure or, in extreme cases, look elsewhere for other opportunities.

The framework is summarized in Figure 3.

FIGURE 3

Framework for Decision Making



Source: IDC, 2015

SUPPLIER FACTOR: THE DRIVER OF VALUE CREATION

The outsourcing provider is the ultimate creator of competitive advantage for the client. The experience and skill of the provider can maximize the strengths offered in a given country, and minimize or compensate its limitations. The supplier therefore has to combine its internal resources with the country assets to create value and make a difference to the client.

Talent Acquisition

This is the capacity of the supplier to attract talent from the employee base in that country. This will be determined by several factors:

- **Attractiveness and reputation.** If the company has a good reputation, candidates will want to work for it. Therefore it will have better access than the competition to the employee pool and recruiting costs will be lower.
- **Recruitment initiatives.** An employer with expert recruiting staff and agreements with universities can establish internships as a starting point for professional careers, thereby helping to reduce the skill gap.
- **Country-specific experience.** The more business experience a company has in a given country, the easier it is to resolve bureaucratic issues and to comply with local regulations.

Sustainability

- **Career plan.** A company offering a career progression roadmap to its employees, with well-established training programs, is far more likely to retain employees, reducing attrition costs and promoting long-term relationships within the company and with external partners.
- **Standardized processes and reporting systems.** If a company has standardized processes to ensure high-quality delivery, it promotes consistency and reduces the risk and related

cost of employee attrition. Efficient feedback systems and standardized reporting systems benefit both customers and employees, creating space for self-improvement. This can offset the human resources limitations in a country.

- **International customer base.** A supplier already serving international clients has experience of resolving issues related to geographical, time zone, and cultural distances, and is better prepared to provide outsourcing services.

Transformation

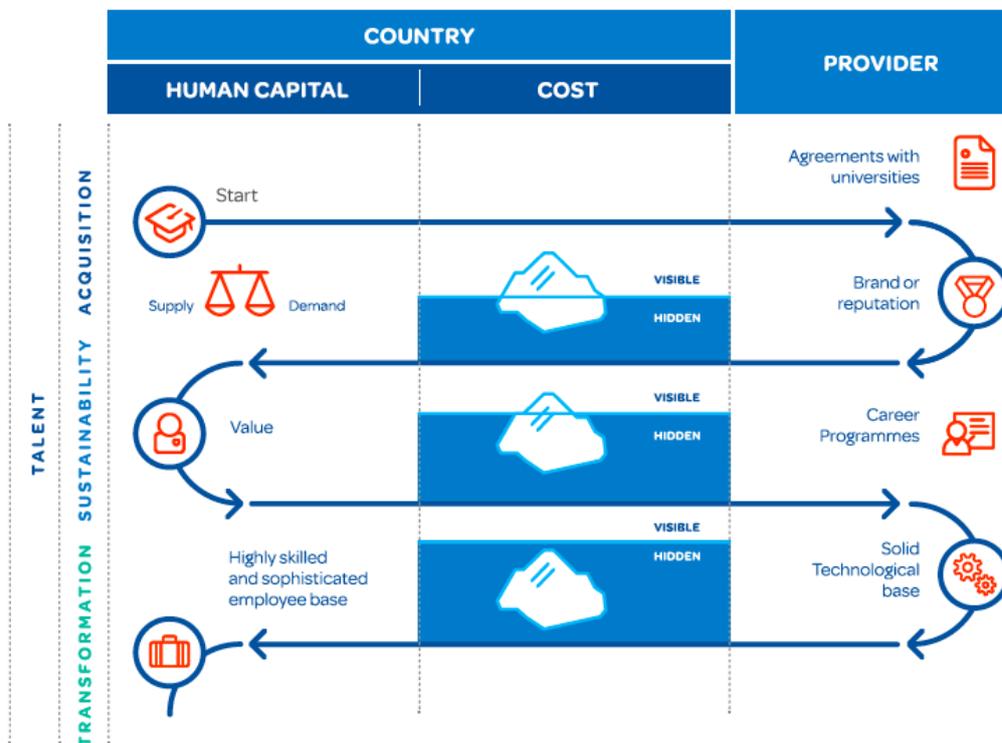
Suppliers' capacity to create advanced and more sophisticated services will better serve the client, generating higher margins and improving career opportunities for employees. This could be done through new, value-adding services for the client or by expanding specialization to new areas or even vertical markets. The factors enabling transformation are:

- **Technological base.** A company with a solid technological base is far more likely to evolve its service offering to the client company, enriching the communication channels with customers and enabling agents to create greater value.
- **Service portfolio.** A company with an advanced service portfolio already has experience with the challenges of creating new services and has more resources to create opportunities for the client.
- **Presence in vertical markets.** Experience in vertical sectors can facilitate the transfer of best practices between different units, increasing opportunities.

The value journey is summarized in Figure 4.

FIGURE 4

The Value Journey



Source: IDC, 2015

MEXICO AS A NEARSHORE DESTINATION

This section assesses the attractiveness of Mexico as a nearshore destination, according to the framework described in the previous sections. The analysis will cover the human capital (country assets) and the costs (country liabilities) along the three stages in the value cycle.

Human Capital

Talent Acquisition

- **Quantity:**
 - **Supply factors.** Mexico, as the second largest economy in Latin America, has a large university population that could meet demand from the call center and outsourcing industry. There are a number of cities with high populations, urban environments, and universities, providing a labor pool for the CRM/BPO industry.
 - **Demand factors.** Mexico has been steadily growing in popularity as a nearshore destination for the U.S. This has been caused by U.S. companies moving their own call centers to Mexico and by a growing base of outsourcing companies serving the U.S. Despite the growing demand, however, the labor pool has been increasing, which has ensured labor availability and reduced the risk of overheating.
- **Quality.** Mexico offers Spanish language skills, enabling the region to cater to the Spanish speaking population in the U.S. The ratio of bilingual (Spanish and English) candidates is still below that of other offshore regions, but central and state governments are making efforts to improve proficiency in English. In terms of service standards, there is already a significant number of service providers in the region, serving the domestic and international markets for more than a decade, which has established a base of service culture and skills, as well as managerial talent, in the sector.

Sustainability

- **Potential for grow and scale versus saturation:**
 - **Demographic pyramid.** Mexico has an overall young demographic pyramid. Despite showing some early signs of population ageing, and birth rates gradually decreasing, there is still a large proportion of the population between 20 and 39 years old, which is the typical age range for call centers.
 - **Future balance between supply and demand.** The growth in the number of call center and bilingual candidates has been able to meet demand. Given the economic slowdown in the country in comparison to previous years, it is more likely that there will be a sizeable labor pool available, as the macroeconomic environment is not expected to change in the coming years.
- **Employee loyalty.** Employee geographical mobility in Mexico is lower than in other offshore regions. Factors such as a family-oriented culture make employee relocation or long-distance commuting a less desirable option. Time zones are another factor, enabling agents to serve the U.S. market in the daytime, reducing the need for night shifts and therefore the pressure to change jobs.
- **Stability.** Mexico has experienced a long period of political and economic stability and steady growth, thanks to the reforms carried out in the previous decade. Despite having a less predictable economic environment than other regions, and despite the impact that crime levels have had on the country's reputation, Mexico has continued to attract outsourcing investments, and on the whole it remains a relatively stable offshore destination.

Transformation

- **IT user maturity.** Job candidates have an average age below 30, and have relatively strong computer and technology skills. They are also more likely to use the Internet and smartphones.
- **Breadth of service capabilities.** Mexico has one of the most mature outsourcing and call center industries in Latin America, providing a wide range of services. This guarantees the availability of capabilities if a given service needs to evolve into different domains.
- **Variety of domestic industries/verticals.** The CRM/BPO industry in Mexico is very diversified, serving most vertical markets, either locally or internationally.

Cost

Acquisition

- Visible costs:
 - **Recruiting/scarcity related costs.** Mexico has a sizable labor pool and despite growing demand it has been served without the need to resort to bonuses or similar practices.
 - **Initial training/skill gap costs.** The gap between university education and labor-related skills has been a chronic problem in Mexico for years. In the call center sector, however, this is less of a problem than in other industries, as in many cases there are agreements between academia and university, where students can start developing skills on the job.
- Hidden costs:
 - **Labor/bureaucratic costs.** Mexican bureaucracy is slow and decision chains are long, with complex approval processes. This can be an opportunity cost for companies that are ready to start providing services, but are pending regulatory approvals.

Sustainability

- Visible costs:
 - **Salary.** Salaries for call center operators in Mexico are significantly lower than those in the U.S., which represents a cost advantage. However, they are higher than in most Latin American countries, and particularly compared with countries in Central America. Government incentives and the NAFTA trade agreement help to lower the tax burdens of doing business.
- Hidden costs:
 - **Employee attrition.** Attrition in Mexico is significantly lower than in other outsourcing destinations worldwide.
 - **Management/collaboration costs.** One of the greatest advantages of Mexico over other offshore destinations for U.S. companies is the proximity at all levels:
 - **Geographical distance.** It is possible to fly to the nearshore destination in Mexico in a few hours. This facilitates and accelerates collaboration. Also, the NAFTA agreement between the U.S. and Mexico simplifies travel requirements.
 - **Time distance.** In many cases, the time zone between the U.S. client and the Mexican provider is the same, which makes it possible to resolve problems in real time, accelerates processes, and significantly reduces the cost of night shifts.
 - **Cultural distance.** Mexico has many cultural similarities to the U.S., in their legal and business systems, and in their communications, with a growing Spanish speaking population, especially in comparison to Asian offshore providers.

Transformation

- Hidden costs:
 - **Change-related costs.** Given the proximity at all levels between Mexico and the U.S., it is much easier to implement a new project, particularly if it involves a learning curve or an iteration process with many interactions required.
 - **Skill shortages.** The existence of a well-established outsourcing market providing other services (IT, BPO) and covering a wide range of vertical markets is a positive indicator in terms of labor availability, and reduces the risk of a skills shortage.
 - **Availability of technological infrastructure.** In terms of IT/telecoms availability, the main gap in Mexico is between urban and rural environments. Large cities, where most contact centers are established, have good access to communications and are technologically well served.

EL SALVADOR AND GUATEMALA AS NEARSHORE DESTINATIONS

This section assesses the attractiveness of El Salvador and Guatemala as nearshore destinations, according to the framework described in the previous sections. Both countries will be analyzed together, but their respective differences will be highlighted when appropriate.

Human Capital

Talent Acquisition

- Quantity:
 - **Supply factors.** El Salvador and Guatemala are small countries in comparison to the rest of the Latin American region. Their respective populations are 6.3 and 13.5 million. Both countries have made an effort to establish a solid educational base, and this has increased the size of the labor pool for this industry.
 - **Demand factors.** Both countries have experienced double-digit growth in their customer care/BRM industries, and they have been able to serve demand without overheating the market.
- **Quality.** Industry associations and their respective governments are actively promoting English proficiency and bilingual education. On top of that, companies established there have described positive traits in the labor force, such as industriousness, customer-oriented attitude, and efficiency.

Sustainability

- Potential for grow and scale versus saturation:
 - **Demographic pyramid.** El Salvador's demographic pyramid shows an overall young population, but the reduction in birth rates could indicate a potential stagnation in the midterm. The Guatemalan demographic pyramid is the youngest in Latin America.
 - **Future balance between supply and demand.** Both countries have been able to cope with double-digit growth. However, as both countries are relatively small economies, there is some risk of overheating if there is a short-term peak in demand. Their continued efforts to improve English language skills across several sectors are providing a growing base of professionals to support outsourcing investments. There is high unemployment in both countries, and this will prevent the market from becoming saturated if the educational programs in place show the expected results.
 - **Employee loyalty.** At this point in the cycle, the labor force's main priority is to join the workforce, rather than changing jobs. El Salvador, for instance, has good employer-worker relationships and has not been affected by any major disputes.

- **Stability.** El Salvador dollarized its economy in 2001 and offers greater certainty to investors as a result of the elimination of foreign exchange risk and lower transaction and financial costs compared to non-dollarized countries. Guatemala has experienced economic growth in the past decade, although growth has recently slowed. Both countries remain challenged by high levels of inequality and the upward trend in violent crime, particularly in Guatemala. However, both countries are experiencing far greater stability than decades ago.

Transformation

- **IT user maturity.** The young population, university students in particular, have IT skills comparable to many other countries, and are active users of social networks and cloud services as consumers. Mobile phone penetration in Guatemala is particularly high.
- **Breadth of service capabilities.** Both countries have capabilities in customer service, selling, collection, and some levels of outsourcing. However, as they are relatively new outsourcing destinations, they don't have the comprehensive capabilities of more mature countries.
- **Variety of domestic industries/verticals.** Both countries are small economies, and don't have the wealth of local industries in different verticals in comparison with large countries such as Mexico, where local industry has been served for years. They have some expertise in verticals such as aeronautics (El Salvador), the agro-industry, banking, and logistics. Vertical specialization will increase as both economies grow.

Costs

Talent Acquisition

- Visible costs:
 - **Recruiting/scarcity related costs.** There are no signs of scarcity for this employee profile in El Salvador or Guatemala that could represent an additional cost (e.g., bonuses).
 - **Initial training/skill gap costs.** The efforts carried out in both countries to produce a well-trained labor pool have resulted in appropriate skill standards, which makes the skill gap small and manageable.
- Hidden costs:
 - **Labor/bureaucratic costs.** Bureaucracy is cumbersome, and regulations are often complex and inconsistently applied. This represents an added cost when setting up in these countries.

Sustainability

- Visible costs:
 - **Salary.** Salaries are very competitive in comparison to other countries in Latin America.
- Hidden costs:
 - **Employee attrition.** Attrition in both El Salvador and Guatemala is significantly lower than in other outsourcing destinations worldwide.
 - **Management/collaboration costs.** In both countries, proximity at all levels results in low and manageable costs to maintain collaboration and working relationships:
 - **Geographical distance.** The location of both countries enables a short access time to major cities in North America (a few hours' flight). They offer access to a natural two-oceans logistics corridor.
 - **Time zone distance.** Both countries are in the same time zone as U.S. Central Standard Time (CST).
 - **Cultural distance.** There is a close cultural affinity, as most families have relatives living in the U.S., and tens of thousands return every year from the U.S. when their visas expire.

Transformation

- Hidden costs:
 - **Change-related costs.** Given the proximity between El Salvador and the U.S., it is much easier to implement a new project, particularly if it involves a learning curve or an iteration process with many interactions required. The cultural proximity is an advantage in the case of adapting specifications and discussing requirements.
 - **Skill shortages.** Foreign investment in recent years has helped create a skill base to serve U.S. customers. There is still room for a broader scope of services, as the industry keeps growing and educational programs deliver the planned results, and there will be a more mature set of skills available that will enable value-added services.
 - **Availability of technological infrastructure.** Both countries have adequate telecoms infrastructure for CRM / customer care services. The significant growth in telecommunications has been promoted by a favorable regulatory and business framework encouraging the presence of large operators offering a wide range of services.

ATENTO'S VALUE PROPOSITION

This section outlines Atento's value proposition according to the framework we have been using.

Talent Acquisition

- **Attractiveness and reputation.** Atento has a good reputation in the countries where it operates. The company was named one of the 25 best multinational companies to work for by the Great Place to Work Institute in 2013 and 2014, and is the only CRM CPO provider in the industry with such recognition. It also won GPTW regional awards in Central and Latin America, and at a country level it has won national GPTW awards in 11 of the countries it operates in. Having a good reputation as an employer can hedge a company against labor scarcity, as candidates are willing to apply for that company.
- **Recruitment initiatives.** Atento has bilingual recruitment analysts specialized in the use of psychometric tests in English, and who are capable of recruiting bilingual agents. Its agreements with university institutions have made recruitment easier. Resources dedicated to quality recruitment reduce recruitment costs, and help bridge the skills gap.
- **Experience in the country.** Atento has long-term experience in most of the countries where it operates, enabling it to reduce hidden costs related to bureaucracy and accelerate approvals.

Sustainability

- **Career plan.** Atento has an employee culture of long-term relationships. It nurtures those relationships on one hand with career plans and on the other with motivational programs and integration activities such as sports, cultural activities, and a social responsibility framework. This reduces attrition costs at both an agent and managerial level, and promotes consistent value creation.
- **Standardized processes and reporting systems.** Atento considers standardized operational processes a key element in its value proposition, enabling it to offer a consistent quality level across all sites, reduce operational costs, and facilitate scalability. Process standardization can offset the risks of a country with a young outsourcing industry, as the supplier can internally provide proven methods and capabilities.
- **International customer base.** Atento's customer base comprises more than 400 blue-chip companies, serving over 550 million consumers. This ensures a quality delivery that meets the standards of large multinationals, as well as a consistent customer experience to a customer base across different geographies. International experience helps reduce managerial costs related to management and ongoing collaboration with clients in different countries.

Transformation

- **Technological base.** Technology has received a great deal of attention and investment at Atento, particularly in three areas: first, an integrated communication platform, which makes it possible to serve an omni-channel customer. Second, a mobility solution providing support to multiple types of field services, and integrating different support areas. Third, the Business Intelligence and Analytics, enabling new value-added services for customers, while enriching data internally. A strong technological base enables it to innovate and offer value-added services.
- **Service portfolio.** Atento has a strong presence in customer care and sales. Currently, it is growing in collection and technical services, and the offering is developing beyond basic CRM into integrated BPOs (back-office and face-to-face). The growing service base will facilitate the exploration of new opportunities with clients.

- **Presence in vertical markets.** Atento's key strengths in vertical markets have been telecoms and financial services, but its capabilities have expanded into other sectors, such as IT, consumer products, travel/leisure, and healthcare. These sectors are growing in importance and revenue, and they are generating best practices and learning opportunities that benefit the company on the whole.

Figure 5 describes the importance of the combination of country and supplier.

FIGURE 5

Value Integration Between Country and Supplier (Atento)

THE KEY IS THE COMBINATION COUNTRY + SUPPLIER



Source: IDC, 2015

CONCLUSION

This paper has shown that in order to make an outsourcing decision in relation to customer care / BPO, it is necessary to go beyond pure salary cost differential or immediate profile availability, in order to ensure a value-based journey with the client. IDC has created a framework that, in addition to immediate factors (talent acquisition) includes also the capacity to provide value over time (sustainability), and the capacity to change and create new services in the future (transformation).

When these aspects are taken in consideration, the nearshoring option acquires particular relevance, given that the proximity to the US at all levels makes service management or the implementation of innovation initiatives easier and less costly to manage in comparison to other destinations.

In this paper, the profile of three nearshore destinations has been presented: Mexico, El Salvador, and Guatemala.

- In the case of Mexico, the country has a sizeable pool of candidates, along with a very mature CRM / BPO industry, which paves the way for growth in value-added, sophisticated services.
- In the case of El Salvador and Guatemala, the sustained efforts made by their respective governments and industry bodies, have made those countries an attractive destination for nearshore investment, offering a growing customer-oriented, motivated and well trained labor pool, as well as an appropriate technological infrastructure

In IDC opinion, the advantages of an outsourcing destination cannot be considered in isolation, without having in mind the supplier, and vice-versa. The supplier can leverage the country specific advantages, while insulating the service quality from country-specific limitations. For instance, the potential limitations in the pool of English speaking candidates, or the risk of saturation, can be overcome by the capacity of the supplier (Atento) to attract the best talent, and to leverage their existing reputation as an employer. Similarly, the existence of a standardized set of processes and world-class service can bridge skill gaps in the workforce and ensure a consistent level of quality.

It is the combination of the outsourcing destination and the service supplier what creates the competitive advantage, very much like a chemical formula, where two elements need to be present to create a reaction. Atento, thanks to its long-term presence and experience in Latin America, is in a privileged position to make the most of the assets offered by those countries.

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

IDC Spain

Plaza Colón, 2. Torre I. Planta 4º
28046, Madrid Spain
+34 91 787 21 50
Twitter: @IDC
idc-insights-community.com
www.idc.com

Copyright Notice

This IDC research document was published as part of an IDC continuous intelligence service, providing written research, analyst interactions, telebriefings, and conferences. Visit www.idc.com to learn more about IDC subscription and consulting services. To view a list of IDC offices worldwide, visit www.idc.com/offices. Please contact the IDC Hotline at 800.343.4952, ext. 7988 (or +1.508.988.7988) or sales@idc.com for information on applying the price of this document toward the purchase of an IDC service or for information on additional copies or Web rights.

Copyright 2015 IDC. Reproduction is forbidden unless authorized. All rights reserved.

