


**A NEW WORLD OPTION
FOR OFFSHORING**

Latin American Countries Can
Offer European Businesses
Competitive Benefits

About Wipro Consulting Services

Wipro Consulting Services helps companies solve today's business issues while thinking ahead to future challenges and opportunities. As a business unit of Wipro, one of the world's leading providers of integrated consulting, technology and outsourcing solutions, we bring value to our clients through end-to-end business transformation – think, build and operate. Our model for the  **21st Century Virtual Corporation**SM includes implementing lean process transformation, exploiting new technology, optimizing human capital and physical assets and structuring next generation partnering agreements that create value and win/win business outcomes for our clients.

Contents

Introduction	2
What benefits does Latin America offer?.....	2
Which location brings the best benefits?.....	5
Latin America vs Asia	6
Conclusions.....	8
Appendix	9

Abstract

Latin America is developing into an attractive offshoring alternative to Asia for Europe-based businesses. Latin American countries offer tremendous cost savings in wages, real estate, infrastructure, travel and tax incentives. It has highly skilled young workers with excellent language skills, and there are cultural similarities to Europe due to immigration patterns. Wipro's comprehensive ranking guide to Latin America, which scores countries on cost effectiveness, talent and resource availability and business catalyst qualities, can help Europe-based businesses identify the best fit for offshoring their operations.

A NEW WORLD OPTION FOR OFFSHORING

Wipro's Research and Experience Demonstrate that Latin American Countries Can Offer Competitive Benefits to European Organisations

By Juan Diaz

Great value. Tremendous resources. These are two of the many positives Latin America offers as an offshoring location. Latin America has become a draw to industry players in the last several years as we've seen Business Process Outsourcing (BPO), Shared Service Centres (SSC) and Call Centres grow significantly in the region. Not only are large multinationals such as American Express, General Motors and Intel running their operations there, but well-known global BPO service providers, including Wipro, have established delivery centres. In fact, Wipro currently delivers finance and accounting services to the largest beverage company in Latin America from a service centre in Curitiba, Brazil.

But Latin America, like Europe, is comprised of many countries with unique cultures, governments and levels of business maturity. So, it takes experience in the region to identify and understand the subtle differences in opportunities that each country has to offer. Our research and work with clients entering this region has allowed us to develop an understanding of what is developing in each country and what the region as a whole has to offer.

What benefits does Latin America offer?

When we evaluate the benefits that Latin America offers, what rises to the top are cost effectiveness, a skilled workforce, language capabilities and cultural similarities. And, while most of these benefits clearly create an advantage to U.S.-based companies, which of course have greater geographical proximity, these benefits are just as advantageous to European-based organisations. Below are some of the key benefits we have found that the region offers:

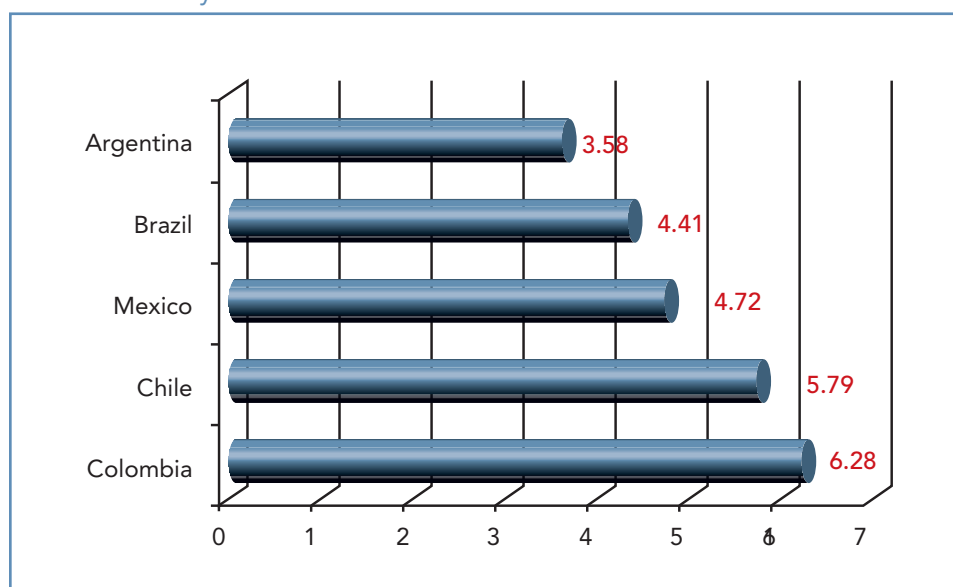
Costs: Our research on behalf of clients has shown that as a whole Latin America offers a wage arbitrage opportunity of about 30 percent when compared to the

U.S. and Western Europe. Colombia provides the most favourable cost benefits in the region, followed by Argentina. Yes, cost savings still remain greater in Asia. However, it is hard to predict how long those savings will be sustainable given that Asia is 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 14 percent in May 2010 while countries like Chile reached only 1 percent).

Compared to European offshoring and nearshoring locations, Latin America certainly provides greater savings. A study by A.T. Kearney shows that Eastern Europe provides wage arbitrage opportunities of 15 to 25 percent while Latin America can deliver labour wage cost savings of 20 to 40 percent.

Skills: Latin America has a large pool of young (an average of 27 years of age) and highly skilled workers for SSC and BPO services. Brazil, where Wipro has a service centre, has the highest number in the region because of its large population (198.7M). However, we have found that having the biggest population size does not necessarily mean having greater availability of skilled resources. As shown in the table below, the availability of this pool is higher today in other locations independent of their size:

Index Availability of Qualified Labor



Source: The World Competitiveness Yearbook 2008 - (10 = Full availability of qualified workers)

There are many universities in Latin America's main cities. This combined with South America's constant economic crisis over the last decades, has made the labour market extremely competitive. This has not only improved labour skills, but has forced universities and other education facilities to invest in new and high quality programmes.

Language Capabilities: Latin Americans are known for their language skills, which allow their countries to provide services to both English- and Spanish-speaking customers. Argentina, Mexico and Costa Rica have the best English-speaking capabilities in the region. We have found that other countries currently emerging on that front are Guatemala and Nicaragua. Additionally, Guatemalans, like Colombians, have a neutral accent that allows them to assimilate other Spanish accents and they are very good English speakers.

Nicaragua, on the other hand, has experienced a massive migration of people to the U.S., caused by the country's political instability. This, and the fact that many Nicaraguans have migrated back to their country, has improved the availability of English-speaking labour. However, political instability continues to stymie foreign investments that could potentially develop this sector in the country.

Cultural Similarity: North America and Latin America have plenty of cultural similarities, including common European immigrant groups. Countries in these regions have been influenced by European migration over the past decades. Argentina for example, has been heavily influenced by Italian and Spanish immigration. Additionally, a significant pool of qualified Latin Americans has migrated to the U.S. and Europe, either to apply to various post-graduate degree programmes (such as MBAs) or to seek new opportunities that decades of local South American economic crises and high unemployment rates have made unattainable. Many from this labour pool have since returned to their home countries and have brought with them not only greater skills and experience, but also some of the cultural nuances of their adopted country that play a key factor in business relationships. These cultural similarities are key in a BPO environment, and we've found that they help improve the interaction between the retained organisation and the outsourcer.

Which location brings the best benefits?

Across Latin America there are locations where companies can successfully establish operations to achieve a more efficient operating model. Argentina, Brazil, Chile, Colombia and Mexico are among the most popular Latin American locations for establishing operations. Wipro has developed a ranking methodology to help organisations decide which of these countries would offer the greatest benefits based on their needs and priorities. The ranking method is based on three primary business criteria, each composed of a group of key factors, as described below:

1. **Cost effectiveness:** Accounts for 40 percent of the overall ranking and is made up of three factors, with their own percentage weight:
 - Compensation cost (40 percent): The average wages and average salary of BPO professionals
 - Infrastructure cost (40 percent): Includes the average cost for Internet, real estate, utilities, telecoms and airfare cost to major destinations
 - Tax and regulatory cost (20 percent): Includes the tax burden, currency fluctuation and corruption perception rate
2. **Talent and resource availability:** Accounts for 40 percent of the overall ranking and is made up of two factors:
 - Education and language skills (40 percent): Incorporates the number of graduates per year; the adult literacy rate; mean scores on available tests (i.e., TOEFL) and quality in science, mathematics and management programmes
 - Business process experience and skills (60 percent): Includes availability of qualified labour, workforce size, IT-BPO market size and number of CMM/CMMI certified centers
3. **Business catalyst:** This represents the quality of the overall business environment and accounts for 20 percent of the overall ranking. Three factors weigh in here:
 - Country environment (40 percent): Business risk, political stability, quality of living, personal safety and employment rigidity
 - Infrastructure (40 percent): Includes quality of overall infrastructure, availability of Internet bandwidth, telecom quality and utilities quality
 - IP Security (20 percent): Includes protection of property rights and protection against software piracy

The combined score, as shown in the table on page 7, provides a consolidated ranking per location and describes some of the key strengths and weaknesses for each country.






While our methodology shows Colombia, Brazil, Chile, Argentina and Mexico to be the highest ranked offshoring destinations, other Latin American locations are gaining traction. For instance, a global BPO supplier opened operations in Guatemala in 2005 to provide nearshore services to U.S. clients and in 2008 started Financing and Accounting operations for Coca-Cola. Also, one of India's key players, which currently employs around 1,000 people, is looking to expand Finance and Accounting operations in the country by setting up a second delivery centre. Guatemala is a country that has cultural affinity to the U.S., a highly qualified labour force with bilingual capabilities (Spanish and English) and, like Colombia, its speakers have a neutral accent that allows them to assimilate any Spanish accent, making it ideal for call centre services.

We've found clear signals that Uruguay is also looking to grow within the BPO and SSC sectors. For example, in March 2010, a 600,000-square-foot free trade zone called Aguada Park was opened to provide a high-tech infrastructure to companies delivering contact centres, BPO and SSC services (among others) in a well-located region and with low infrastructure and labour costs.

Peru is another country that has managed to catch the attention of global BPO service providers. In fact, one of the biggest Indian suppliers has recently announced the opening of a service delivery centre in Lima as part of its Latin America growth strategy.

Latin America vs Asia

So where does Latin America stand in comparison to Asia? Although Latin America shows a promising future, the region is not yet as mature as Asia is today. We're well aware that Asia remains the most developed and popular destination for offshoring clients due its low labour costs, specialised skills and experienced offshoring community. However, Asia is struggling with factors such as rising wage costs, increasing inflation and currency fluctuation. Latin America doesn't suffer the inflation rates and wage increases Asia suffers every year and it contains a good mix of labour skills and low operational costs.

Country	Ranking	Advantages	Disadvantages	Companies Operating	Comments
Colombia	 (3.34)	<ul style="list-style-type: none"> • Lowest wage cost and real estate in the region • Availability of skilled resources • Sector rapidly growing in the last years (76% growth in BPO and IT services in 3 years (2005-2008) - growing market of US\$ 1 billion) • Strong government support (initiated in 2008) • Free Trade Zone specially designed for IT services companies: 50% off corporate tax and sales to the local market 	<ul style="list-style-type: none"> • Historical violence and instability perception • Less developed market in region compared to other locations in the region 	Citibank	Negative publicity about guerrilla, drug cartels and high crime rates has slowed investments by corporations. However, during Alvaro Uribe's presidential period, security and crime rates have improved significantly. Today, countries like Brazil and Mexico are ranked as even more dangerous and risky locations. With a good combination of low cost, talent pool and government support, Colombia is becoming among the best options in Latin America, especially in Call Centres. The number of local and foreign BPO suppliers operating in Colombia and the significant growth the sector has had in the last couple of years, show the country is gaining the confidence of foreign companies.
Brazil	 (3.08)	<ul style="list-style-type: none"> • Availability of skilled labour (overall population of 198.7 M and produces 65,947 IT and business graduates annually) • Largest economy in the region • Most developed and mature ITO sector compared to other locations 	<ul style="list-style-type: none"> • Low government support • Limited Spanish and English speakers 	Nestle HSBC	<ul style="list-style-type: none"> • Largest call centres industry in the region • Very strong telecom network (150 million mobile phones in operation and 50% of households linked to broadband by the end of 2011)
Chile	 (2.98)	<ul style="list-style-type: none"> • Strong political and economic stability • Strong government support • Cultural affinity 	<ul style="list-style-type: none"> • Limited Language capabilities (2% of population speaks English) • Highest wage cost compared to other locations. 	Air France Unilever	Chile is ranked as one of the best Spanish-speaking delivery locations. It's pushing to grow in the sector by covering operations as an offshoring location for companies in Spain.
Argentina	 (2.91)	<ul style="list-style-type: none"> • Lowest wage cost in the region after Colombia • Highest language capabilities in the region • Cultural affinity • Sustainable exchange rate • Exported US\$ 770 M in IT services in 2008 	<ul style="list-style-type: none"> • Political and economic instability • Low government support • Vague rules for foreign investments • Strong presence of labour unions • Strong bureaucracy • Limited availability of skilled labour 	Exxon Procter & Gamble	Inflation in 2009 was 13% and it is predicted that Argentina will suffer higher inflation increases in 2010, which adds an additional risk when offshoring to this location. It is key that these projections are assumed in the business model to ensure benefits realisation in the long term.
Mexico	 (2.70)	<ul style="list-style-type: none"> • Availability of skilled labour • Language capabilities • Cultural affinity • Most developed BPO industry 	<ul style="list-style-type: none"> • Low government support • High violent crime statistics • Highest overall cost compared to other locations. 	Santander	<ul style="list-style-type: none"> • Biggest call centre industry in the region after Brazil • Proximity to US attracts US customers

Source: Wipro Consulting research and Public source (5=Best ranking)

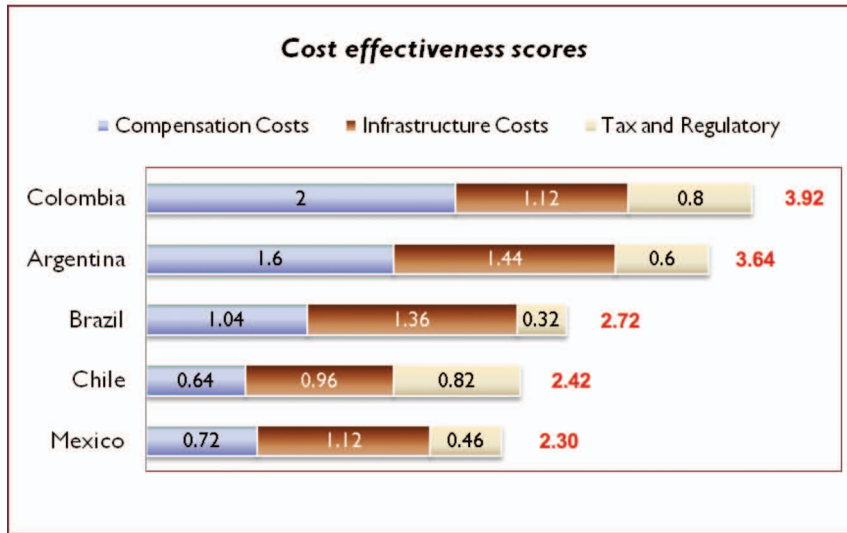
Conclusions

Multinational companies that are considering the business case for offshoring must assess all regions and locations, evaluate their advantages and disadvantages, and target the one that best fits their business strategy and offers the greatest long-term benefits. Many traditional offshoring venues are now undergoing changes that will impact the bottom-line advantages offered in the past while new locales are emerging that could offer tremendous opportunities to the right organisation.

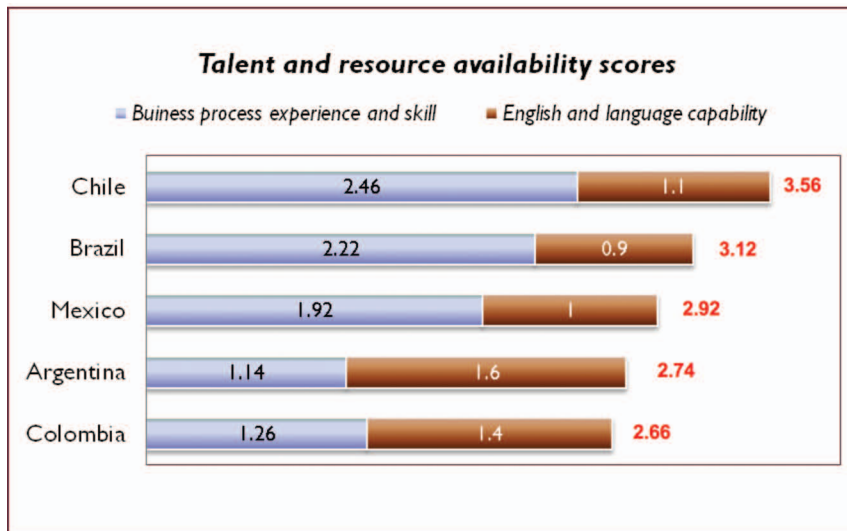
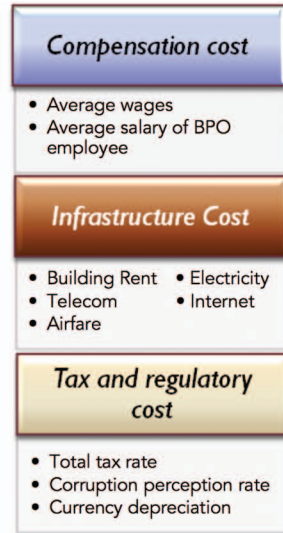
Wipro has been on the ground in Latin America and has conducted extensive research on the factors that are important to 21st-century business success. It is clear to us that if the countries in this region have not been part of the equation in these evaluations, their growing strengths in the form of value and resources should put them in the mix as contenders to help create a strategic organisational advantage.

Juan Diaz is a Consulting Manager, Finance and Accounting, for Wipro Consulting's Europe Practice. As a specialist in BPO and SSC, he has led business transformations across Europe and established consolidated delivery centres in locations including North America, India, Eastern Europe and the Philippines. He is based in London and can be reached at juan.diaz@wipro.com.

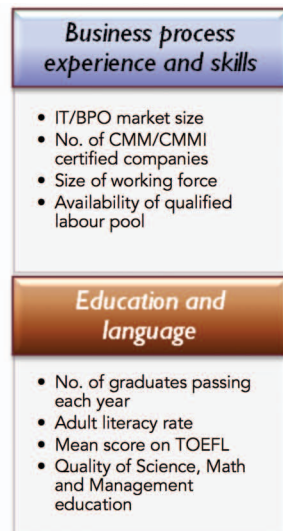
Appendix



Source: Wipro Consulting research (5=Most cost effective)¹

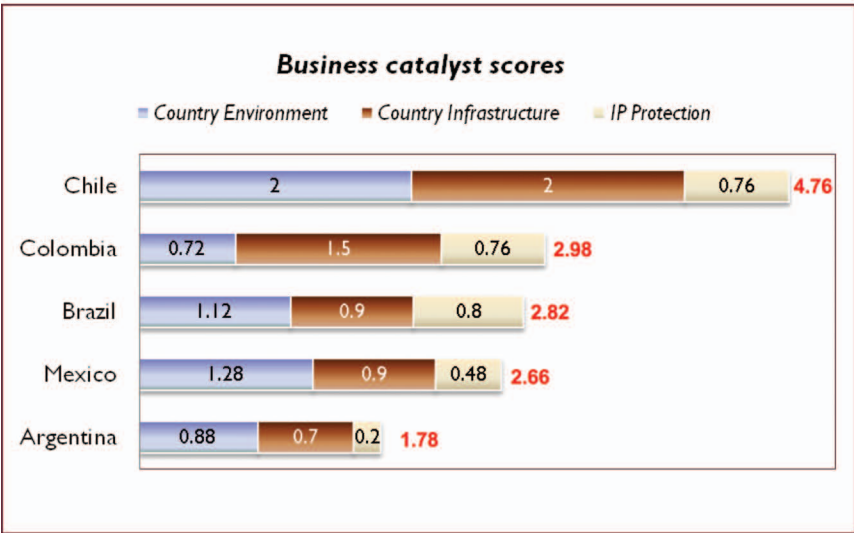


Source: Wipro Consulting research (5=Most cost effective)²



¹ Legis, Human Capital - Salary Survey and Trends in Human Resources, 07-08; UBS, Prices and Earnings, 2009; OECD Energy Prices, International Energy Agency, 2009; Colliers International Category A+ and A Building; EIU Worldwide Cost of Living Survey; Proexport; Colliers, C B Richard Ellis; International Energy Agency, 2006; Executive Perception of Tax Burden, World Economic Forum, 2008; Currency Appreciation, OANDA.com; Corruption Perception Rate, Transparency International 2009.

² Higher Education Secretariat, Brazil; Labour Observatory, Mexico; Labour Observatory, Colombia; Ministry of Education, Argentina; Ministry of Education, Chile; IT-BPO Market Size (2007) and Number of CCM/CMMI Certified Centers (2005), Gartner; IMF Balance of Payment Statistics; Education Quality Score, World Economic Forum Global Competitiveness Report, 2007; Adult Literacy Rate, CIA World Factbook 2008; Near Shore Destinations, KPMG, 2008-09; The World Competitiveness Yearbook 2008.



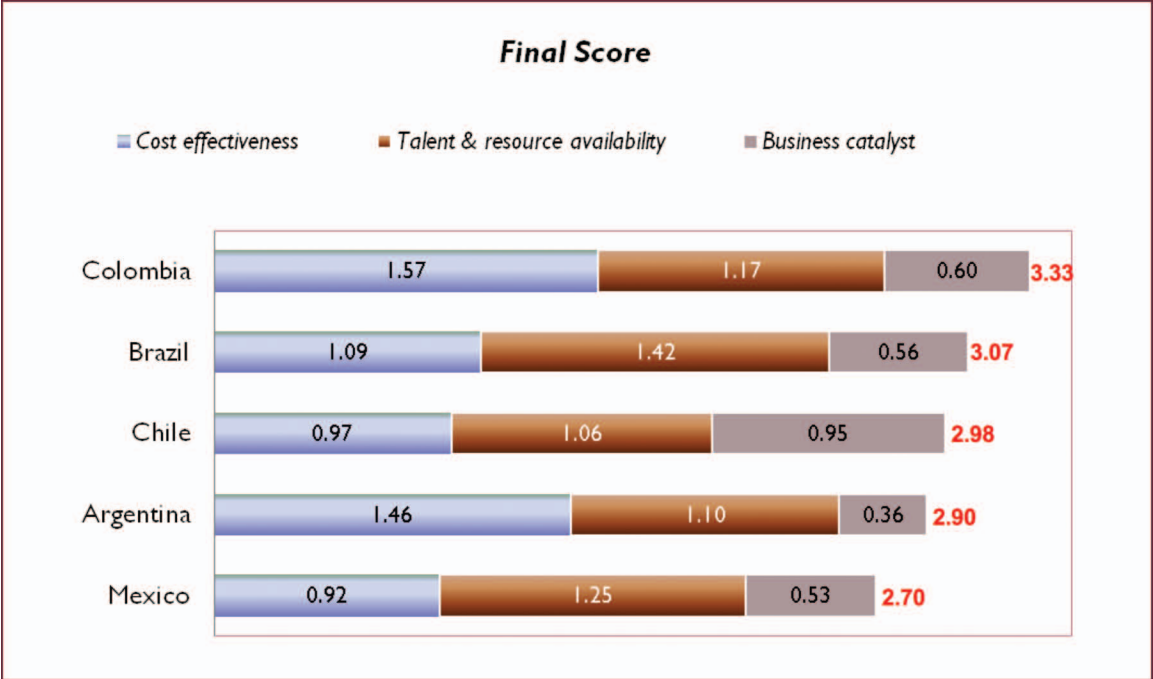
Source: Wipro Consulting research (5=Most cost effective)³

Country environment

- Political risk
- Business risk
- Personal safety index
- Quality of living index
- Employment rigidity

Country Infrastructure

- Overall quality physical infrastructure
- Quality of telecom infrastructure
- Quality of electricity supply
- Availability of internet bandwidth



Source: Wipro Consulting research (5=Most cost effective)

³ World Bank Doing Business, 2008; World Economic Forum Global Competitive Report, 2008; Economist Intelligence Unit, AON, Mercer, 2008; World Economic Forum Competitive Report, 2008.



CONSULTING | SYSTEM INTEGRATION | OUTSOURCING

NYSE:WIT | Over 110,000 Employees | 55 Countries

Wipro Consulting Services. US Tel: (302) 521 9032 UK Tel: + 44 (0) 207 432 8553 India Tel: + 91 (80) 3095 0033

United States Canada Germany Switzerland Austria Finland Portugal Japan Singapore South America United Kingdom France Poland Sweden India Romania Philippines Malaysia Australia China South Korea New Zealand

© Copyright 2011. Wipro Technologies. All rights reserved. No part of this document may be reproduced, stored in a retrieval system, transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without express written permission from Wipro Technologies. Specifications subject to change without notice. All other trademarks mentioned herein are the property of their respective owners. Specifications subject to change without notice.