

What to look out for when  
establishing a “nearshore” platform  
to become part of your global  
delivery strategy?

BRAZIL IT is a brand name for the Brazilian Federal Government's Software and Services Export Incentive Program. The government, through a permanent agency called SOFTEX, is constantly supporting the Brazilian IT companies to be competitive in the world market and reach world class recognition

Outsource Brazil is an advisory company focused in providing near shore competitive intelligence for organizations, that need to streamline production and reduce costs through outsourcing in locations with geographical and time zone proximity, in order to keep close control and supervision. See below the services it provides:

*1 – Near shore Outsourcing Strategic Planning*

*2 – Location Advisory and Location Research*

*3 - Near shore Infra Structure and Operations Planning*

*4 - Near shore Team Profile Definition*

*5 - Investment and Acquisition Advisory*

# Establishing a “nearshore” platform to become part of your global delivery strategy?



- Standard Operating Environment
- Enterprise Architecture
- Consistent Tools & Processes
- Enterprise Service Management
- Applications
- Infra-structure
- Business Processes

# Establishing a “nearshore” platform to become part of your global delivery strategy?

Establishing a “Nearshore Platform” as part of a Global Delivery Strategy has become a must:

- ✓ Time Zone proximity is now a key success factor in several IT engagements and projects;
- ✓ Time Zone proximity also allows for better supervision and control;
- ✓ Geographical proximity offers improved cost management.

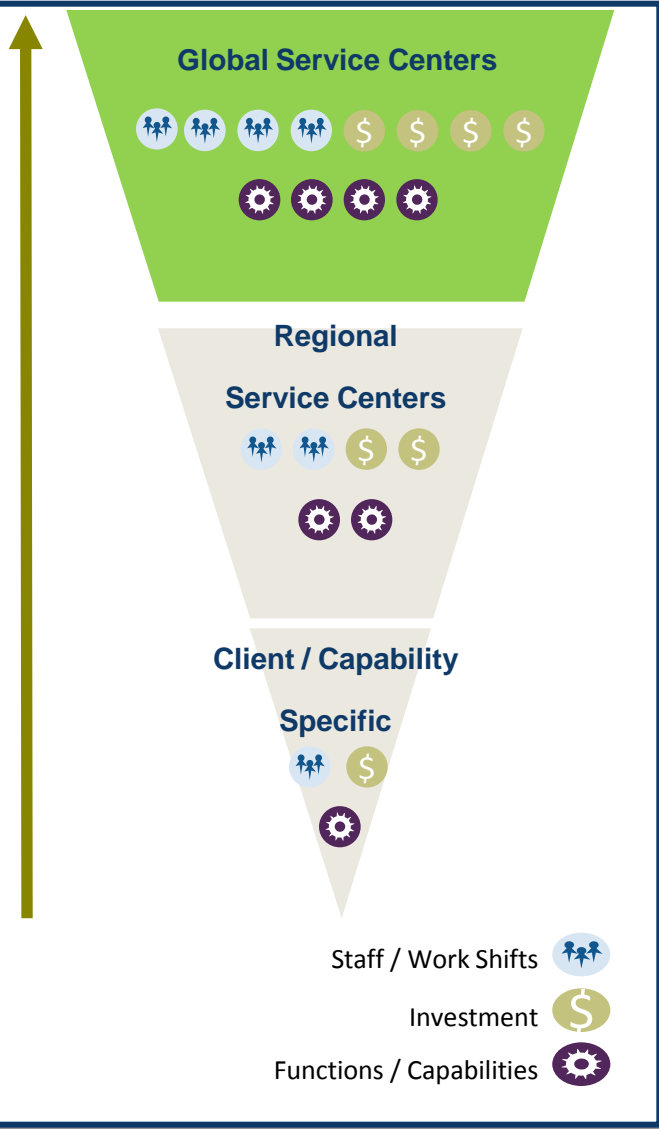
# Establishing a “nearshore” platform to become part of your global delivery strategy?

A Global Delivery Strategy is normally divided up in:

- ✓ Global Service Centers;
- ✓ Regional Service Centers;
- ✓ Client Capability Specific.

**Polling Question 1**

# Establishing a “nearshore” platform to become part of your global delivery strategy?

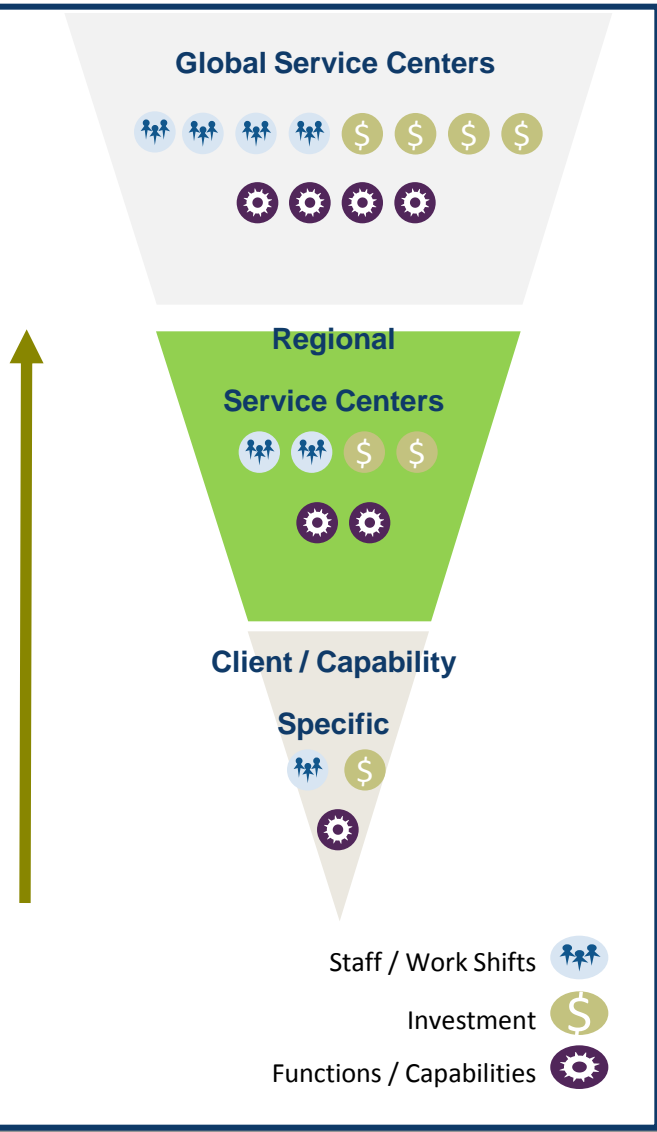


## Global Service Centers

A network of strategically positioned centers providing core services with integrated, cross-portfolio service delivery:

- Located in targeted geographies for global scale
- Supports clients from outside the Delivery Region
- Flexibility to support all service line (Apps, BPO, ITO)
- Follows established service line standards
- Operating multiple shifts
- Ability to support multiple languages
- Low cost / high quality service delivery
- Proximity to highly skilled workforce
- Robust infrastructure

# Establishing a “nearshore” platform to become part of your global delivery strategy?



## Regional Service Centers

Regional centers are maintained to provide unique and specialized near-shore / off-shore capabilities:

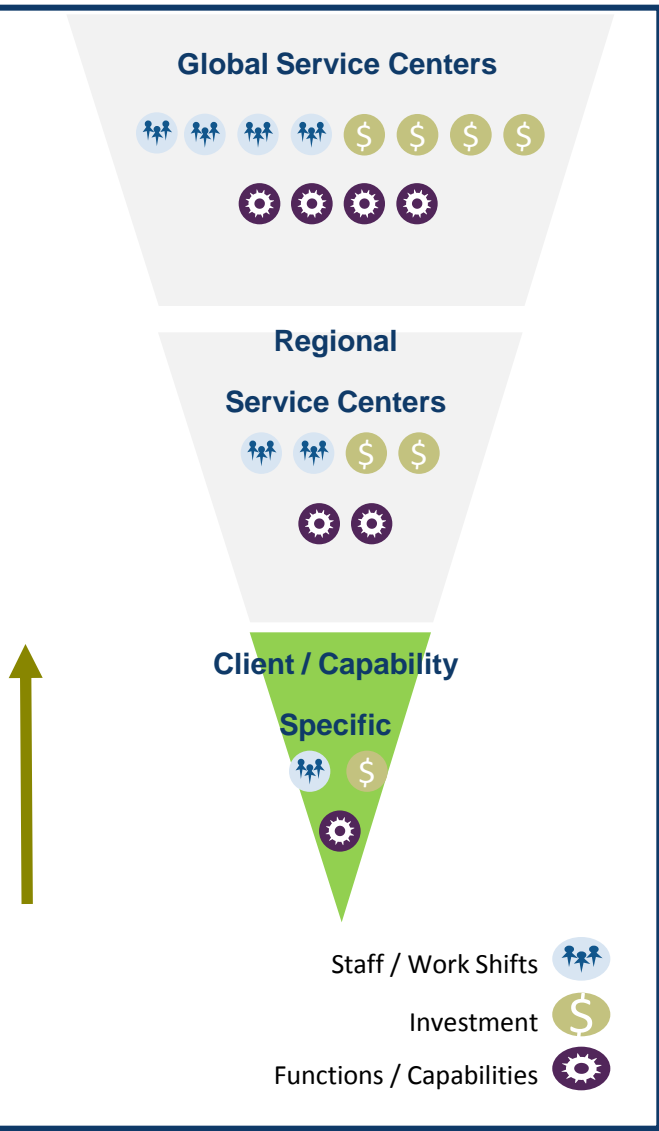
- Regionally aligned
- Supporting multiple clients primarily from within the region
- Leverages existing resources / highly specialized skills
- Follows established service line standards
- Export restrictions
- Low cost / high quality relative to the region
- Typically smaller scale than a GSC facility
- Capacity expansion funded by the region
- Examples include print centers, unique language contact centers, government and defense-related centers

# Establishing a “nearshore” platform to become part of your global delivery strategy?

## Client Capability Specific

Focused teams ensure relationship management, service management and unique requirements-driven service delivery :

- Supporting Specific Client or Unique Capability
- Capacity funded by Specific Client Contract(s)



# Regional Service Center = Nearshore Platform

For this presentation, we will focus in the process of selecting a Regional Service Center as the Nearshore Platform. The selection process will benchmark from the best practices adopted from Industry Specific Research Groups and Fortune 500 IT Multinationals.

# Overview of the Selection Process

A Site Selection Process should be used to analyze and compare countries and cities around the world in order to select a future delivery location. First, a statistical analysis should be performed to develop a short list of locations that can be further analyzed based on more in-depth analysis, as well as regional operations experience.

# Overview of the Selection Process

With the utilization of the Site Selection Process, one can ensure that new locations will fulfill the following standard requirements:

- Stable and Dependable Workforce
- High Quality
- Security and Privacy
- Cost Competitiveness

The Site Selection process is divided in **4 phases**:

- Country Selection
- City Selection
- Location Socialization
- Selection Negotiation

As a result of this **4 step analysis**, any given company will be able to identify the best suited delivery locations from both a financial and a business operations point of view.

# Overview of the Selection Process

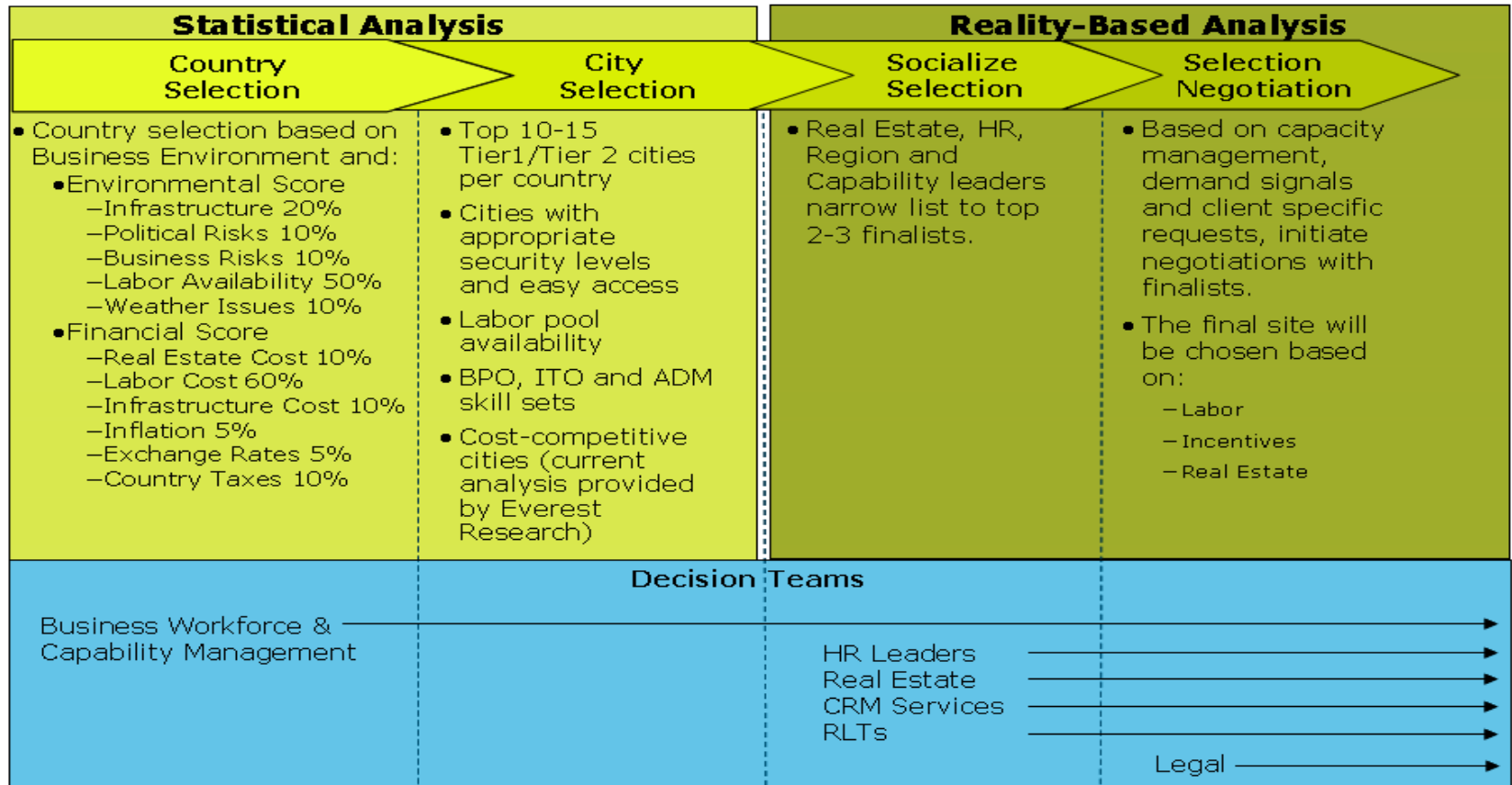
In order to carry out all the **4 phases** it is necessary to establish a team to complete all phases of evaluation. A **Business Workforce and Capacity Management (BW&CM) group** composed of business development, human resources and technical professionals from the company should be assembled to oversee all the phases and insure that all selection criteria are followed.

This will provide for a best top final selection alternative.

## Polling Question 2

# Overview of the Selection Process

## Global Site Selection Process & Criteria



# The Selection 4 Phases

- **Phase 1** – Country Selection based on criteria that will provide long term investment sustainability
- **Phase 2** – City Selection that will create a top 3 city list from each country filtered in Phase 1
- **Phase 3** – Specific skills set (ITO & BPO) are compared
- **Phase 4** – Specific direct bearing operational costs are compared (real estate, taxes, salaries benefits and labor availability)

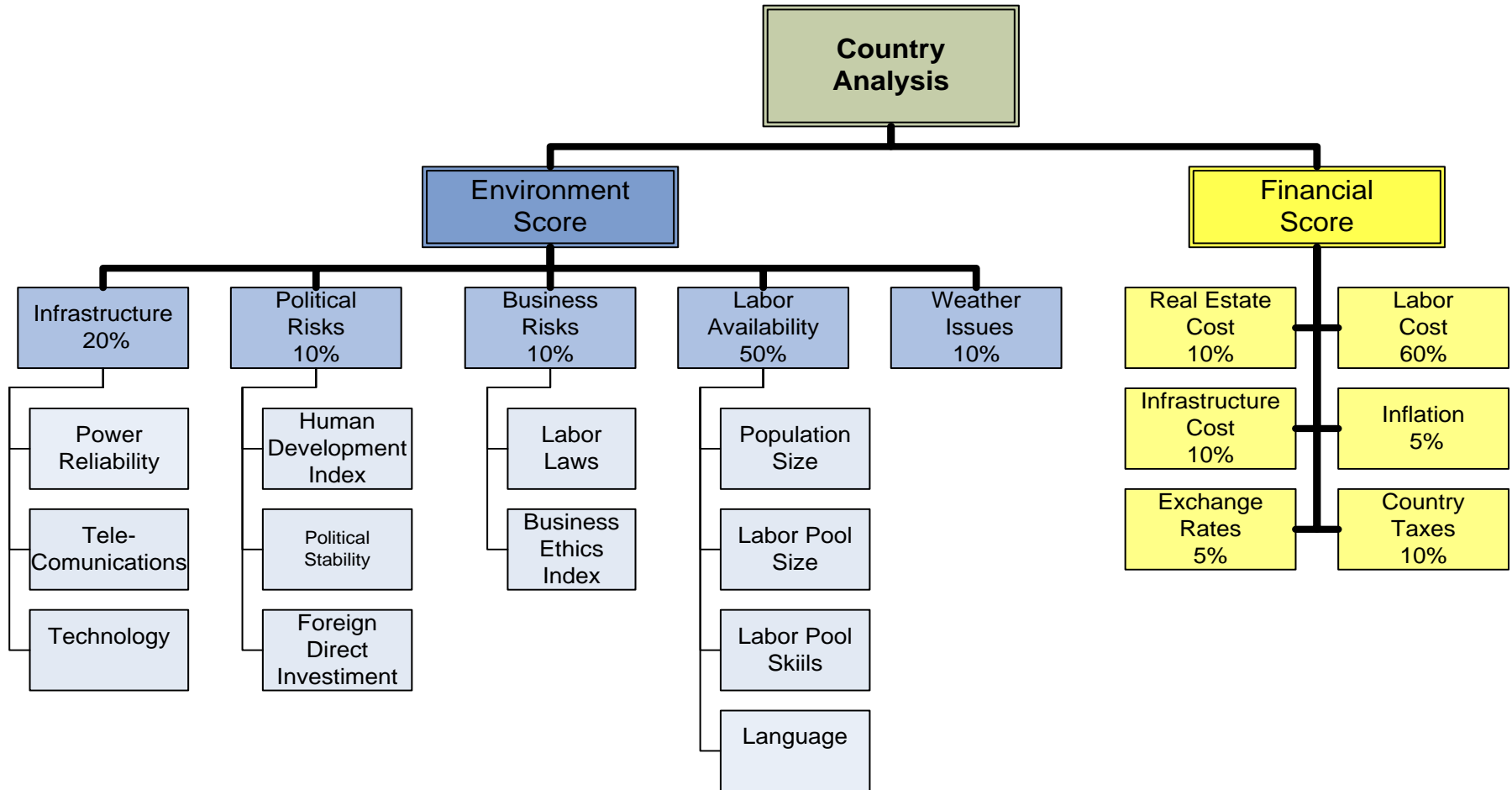
# Phase 1: Countries Ranking Data and Weights

During the **Phase 1**, a list of potential countries is compiled by combining the countries where other competitors currently run some form of delivery operations, countries in which the company has clients which have expressed interest, and countries identified by industry analysts as emerging locations.

The following data is gathered for each pre-selected country and the weights associated with each data group are used to calculate the country's overall business environment and financial score.

See next slide

# Phase 1: Countries Ranking Data and Weights



# Phase 1: Countries Ranking Data and Weights

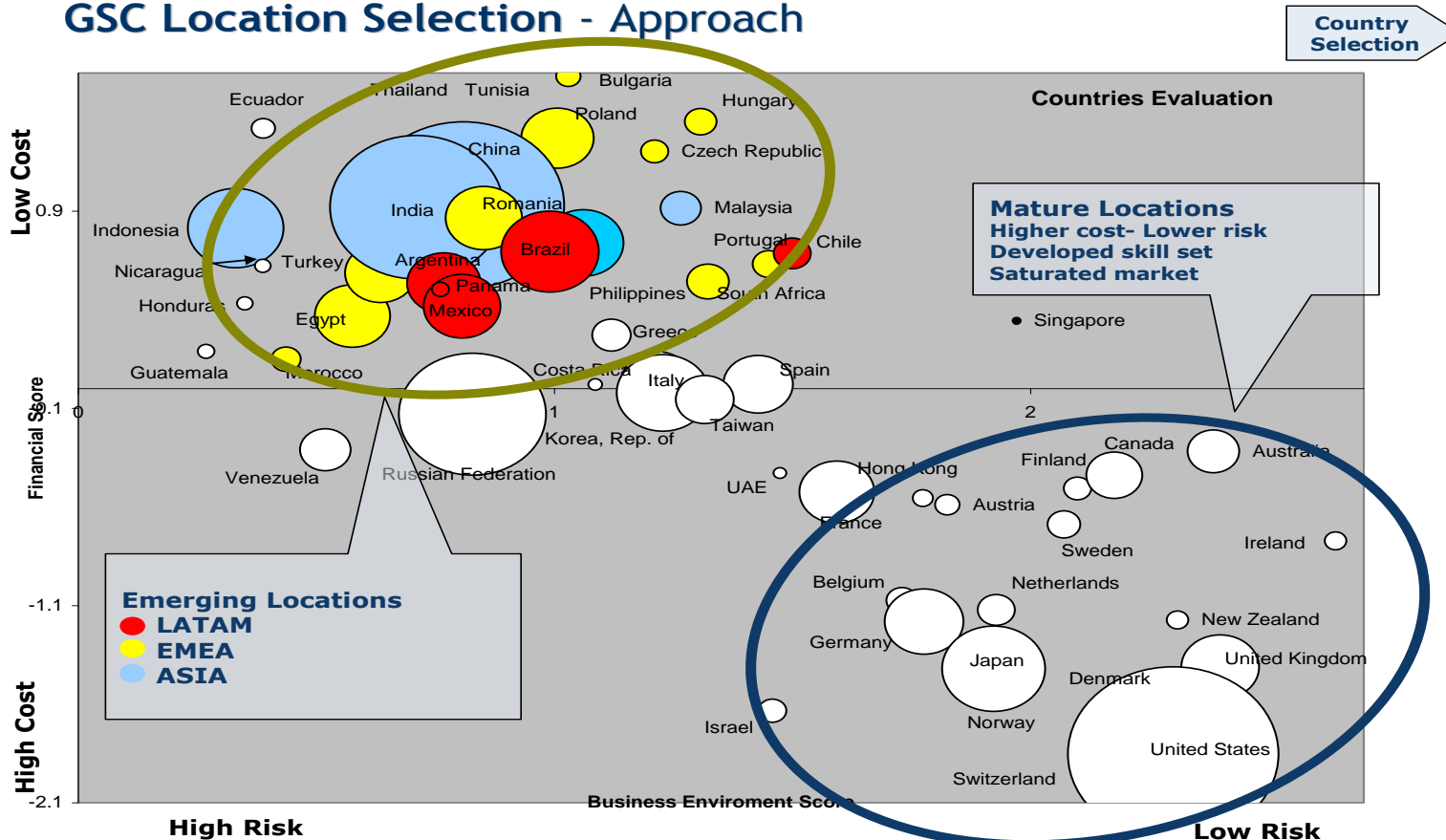
Once the scores are calculated, the countries are compared against each other and plotted on a bubble chart by region (Asia, EMEA and Latin America) and globally (all countries together).

Next slide shows a Global Chart for illustration purposes.

## Polling Question 3

# Phase 1: Countries Ranking Data and Weights

## GSC Location Selection - Approach



Site Selection Overview

page 7

# Phase 1: Countries Ranking Data and Weights

This chart clearly illustrates that countries generally fall into two specific groups:

**First**, there is a **Mature Market group** (*blue circle*) where there is very low risk to business operations, but the costs are higher than other countries. This usually means that these countries are highly saturated markets with highly developed skill sets. This characteristic provides lower business risk, but significantly increases operational costs. Some countries currently within this group are the U.S., England, Australia, France and Germany.

**The second group is the Emerging Market group** (*green circle*) where the cost of business operations is significantly lower, however there is higher risk involved. Risk can be political (i.e. unstable government, foreign relations problems...), economic (i.e. country economy is unstable which generates large fluctuations in exchange rates, increasing inflation), or even physical environment risks (i.e. tsunamis, tornados, hurricanes...). The labor pool in these countries is usually largely available and the governments are heavily involved in improving the quality of the education system. Some countries in this group include China, India, Brazil, Argentina, Poland and Romania.

## Phase 2: City Selection

In the City Selection phase, the top 10 to 15 cities from all countries identified as potential candidates during **Phase 1**, are evaluated and ranked based on infrastructure, labor pool and cost competitiveness. Like the countries, the cities are compared by region.

With the cities identified, the city selection goes through a series of steps. The first one ranks them based on security issues (i.e. terrorism, crime rates, severe weather issues) and connectivity (Number of flights required to reach the location). Based on the result from this criteria, some cities will drop off the candidate list.

The second step, **Phase 2**, ranks cities based on general (non skill specific) labor availability. The analysis uses the total number of graduates in each city and the outsourcing services market saturation (number and size of competitors).

## Phase 2: City Selection

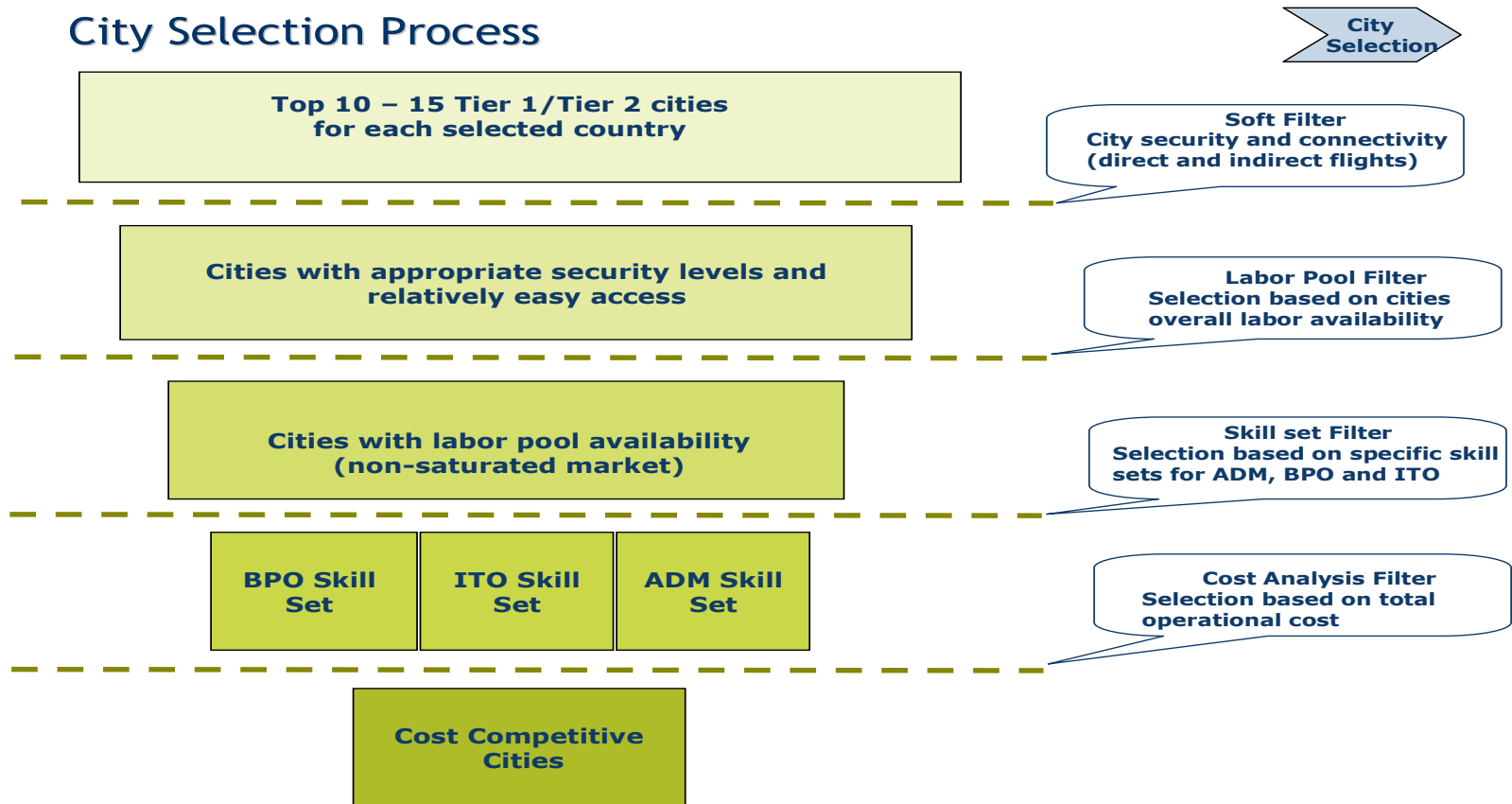
Those cities that have an adequate size labor pool will move on to **Phase 3** where specific skill sets (for BPO, ITO and ADM) are then evaluated. Cities will only drop off the list at this point for ITO and ADM if the number of local graduates in specific sciences (i.e. engineering, math, computer) does not yield the estimated number needed to fill the company's local requirements.

Another factor that could remove a city from the list is availability of experienced resources. Even a for a new site, the company may still require some number resources that possess a certain amount of prior experience.

As the last step in **Phase 4**, operational costs for each city is calculated. These costs include real estate, salaries and benefits?, connectivity, etc. Based on each specific city's cost and its labor availability, the top cities for each region are then chosen.

# Phase 2: City Selection

## City Selection Process



## Phase 3: Socialization

During **Phase 3**, a **Business Workforce and Capacity Management (BW&CM)** group facilitates regional meetings with capability managers, regional leaders, HR and Real Estate representatives where the findings for each region are presented. Each organization will provide input during the meeting related to its area of expertise:

- HR – Labor availability, qualifications, costs
- Real Estate – Building options and cost
- Capability Leaders – Information on capabilities to be placed in the region
- Regional Leadership – Overall information about the region, calculations on new business/client needs, language specific skill sets needed to support business

Using the research results and input from the above stakeholders, the top 2-3 cities for each region are identified.

# Phase 4: Final Site Selection & Negotiation

**Phase 4** is where an in-depth analysis takes place of the top 2 to 3 top cities in order to determine a final site selection. The company needs to obtain even more detailed labor information, visits the city, analyze the available real estate, and negotiate incentives with all appropriate government agencies. The following groups should participate in this Phase:

- Company's established **BW&CM group**
- Local Government representatives
- Local Economic Development Organizations
- Local Colleges and Universities

Once the local team has been identified, the **BW&CM Team** along with the regional leaders will conduct meetings to determine who has expert knowledge of the city/region, who has the appropriate local contacts and who is responsible for scheduling all the necessary meetings during the actual site visits. The following areas are explored in detail:

## Phase 4: Final Site Selection & Negotiation

The following areas are explored in detail:

**Labor** - Meetings with the local economic development teams, government representatives, temporary hiring agencies, colleges, local business representatives, and company's HR staff to review the available labor pool, job skill requirements and compensation norms. This is one of the most important components of the process and must be thoroughly researched and understood.

**Real Estate** - Meetings with the selected brokers and potential landlords to review all available sites. This review will confirm if there are existing sites which can be modified to work according to specified standards, or if a Build to Suit option is required.

Some areas that must also be reviewed during a site visit include the kind of neighborhood where the facility will be located, any amenities nearby for employees proximity to the labor force, to public transportation, and to airports.

## Phase 4: Final Site Selection & Negotiation

The following areas are explored in detail:

**Incentives - Training/Hiring** – Usually a fixed amount per employee hired. Some areas will pay all expenses of the company's Training Group including travel for on-site training. Job creation grants which allow a fixed amount per job created can also be available to the company. Some locals will provide actual hiring assistance for mass startup activities including a temporary facility if available.

**Payroll Taxes** – Some locations will rebate all or part of the company's payroll taxes and could range up to 15 to 20 per cent of all salaries paid at the site.

**Tax Abatements** – Sometimes available for up to 10 years and usually for up to the full amount. Typically covering income taxes and import duties.

**Investment Grants** – Usually tied to job creation; can be up to 50% of the upfront capital investment.

**Free or Reduced Rent** – May be available if the local community has a business park and wants to draw a technology company.

# Phase 4: Final Site Selection & Negotiation

**Criteria Review** - Information collected during the Onsite Reviews will be analyzed comparatively between the cities visited and then compared with the Site Selection Criteria using the scoring template shown in the next slide.

**City Decision - BW&CM Group**, in consultation with the geographic leadership, Infrastructure, HR and Real Estate, make a recommendation as to which city will be selected for a new “Nearshore Platform”. The Site Selection Matrix Scorecard.

## Polling Question 4

# Critical Success Selection Criteria

	Rating 1	Rating 2	Rating 3	Rating 4	
<b>Labor and Competition</b>					
Available Labor Market	Less than 100,000	100,000 - 149,000	150,000 - 199,000	Above 200,000	
Unemployment rates (Avg. MSA)	0 - 3%	3.1 - 5%	5.1 - 7%	Above 7%	
Education Level High School Graduate	0 - 20%	20.1 - 40%	40.1 - 75%	Above 75%	
Education Level Some College	0 - 5%	5.1 - 10%	10.1 - 20%	Above 20%	
MSA Union Profile	High	Med	Low	None	
Call Center Density (High, Medium, Low)	More than 5	5 to 3	3 to 1	None	
Service Sector Unemployment Rate	0 - 1 %	1.1- 3%	3.1 - 5%	Above 5%	
Service Sector Average Pay Rate	Above \$10/hr	9.99 to 8.00	7.99 - 6.00	Less than \$6.00	
<b>Infrastructure</b>					
Telecommunications (fiber)	No			Yes	
Electrical power (dual source)	No			Yes	
Outage days per year	More than 5	5 to 3	2 to 1	None	
Peak/off peak commute times within defined radius					
	20 Mile	More than 20 min	19 - 15	15 - 10	Less than 10
	30 Mile	More than 70 min	69 - 55	54 - 40	Less than 40
	40 Mile	More than 120 min	119 - 110	109 - 90	Less than 90
Travel Accessibility	Poor	Fair	Good	Excellent	
Highway Infrastructure	Poor	Fair	Good	Excellent	
Public Transportation Routes	Poor	Fair	Good	Excellent	

# Critical Success Selection Criteria

<b>Real Estate</b>				
<b>Available Existing Suitable Buildings</b>	<b>No Buildings</b>	<b>1 Building</b>	<b>2 Buildings</b>	<b>3 Buildings</b>
<b>Other Options - Build to Suit</b>	<b>No</b>			<b>Yes</b>
<b>Building Location</b>	<b>No Amenities</b>	<b>Amenities w/in 10minutes</b>	<b>Amenities w/in 5 minutes</b>	<b>Central to Amenities</b>
<b>Building Gross Rentable Area</b>	<b>30% Gross-up</b>	<b>20% Gross-up</b>	<b>10% Gross-up</b>	<b>0% Gross-up</b>
<b>Building Usable Area</b>				
<b>Building Roof Support System</b>	<b>Non-existent</b>	<b>Minimal Support</b>	<b>Average Systems</b>	<b>Ample Systems</b>
<b>Number of Parking Spaces</b>	<b>4/1,000sf</b>	<b>5/1,000sf</b>	<b>6/1,000sf</b>	<b>7/1,000sf</b>
<b>Parking Lot Expansion Potential</b>	<b>No</b>			<b>Yes</b>
<b>NNN Lease Rate</b>	<b>No</b>			<b>Yes</b>
<b>Lease Years</b>	<b>10-Year</b>	<b>7-Year</b>	<b>5-Year</b>	<b>To Contract</b>
<b>Tenant Improvement Allowance</b>	<b>No</b>			<b>Yes</b>
<b>Potential Site for Emergency Generator</b>	<b>No</b>			<b>Yes</b>

# Critical Success Selection Criteria

<b>Incentives</b>				
Local Incentives	No			Yes
State/Province Incentives	No			Yes
Federal Incentives	No			Yes
Reimbursement for Training Costs	No			Yes
Tax and other related incentives	No			Yes
<b>Quality of Life</b>				
MSA cost of Living	25% above average	15% above average	10 % above average	Average or below
Childcare Availability	No			Yes
Retail Infrastructure	Poor	Fair	Good	Excellent
Medical Facilities	Poor	Fair	Good	Excellent
Area Attractions	Poor	Fair	Good	Excellent
Colleges and Universities within a 50 mile radius	None	1	2 to 3	More than 3
Vocational Schools	None			1 or more
Weather Related Factors	Extreme	Significant	Seasonal	None

# Final City Selection Matrix

Site Selection Categories	Weighting	Country Name		
		City 1	City 2	City 3
Cities Evaluated		Rating	Rating	Rating
Population	15%	3.0	2.0	4.0
Unemployment	15%	1.0	3.0	2.0
Education	10%	2.0	1.0	4.0
Union Profile	5%	2.0	2.0	2.0
Competitive Analysis	15%	1.0	4.0	1.5
Service Sector Analysis	10%	0.5	1.5	1.5

# Critical Success Selection Criteria

Real Estate/Infrastructure Analysis				
	Weighting	Rating	Rating	Rating
Infrastruture	5%	1.5	2.5	2.5
Real Estate Availability	5%	0.5	0.5	0.5
Real Estate Cost	10%	1.0	3.0	1.0
Incentives				
	Weighting	Rating	Rating	Rating
Incentives	5%	0.5	0.5	0.5
Quality of Life Factors				
	Weighting	Rating	Rating	Rating
Quality of Life	5%	1.0	2.0	1.5
<b>Total Overall Score</b>	<b>100%</b>	<b>1.4</b>	<b>2.3</b>	<b>2.1</b>

# 3 Different Country/City Destinations Comparison

Description	Curitiba	Mexico City	Buenos Aires
<b>First Set Filters (prioritize)</b>	<ul style="list-style-type: none"> <li>•Stability</li> <li>•Security</li> <li>•Risk of Natural Hazards</li> </ul>	<ul style="list-style-type: none"> <li>•Stability</li> <li>•Security</li> <li>•Risk of Natural Hazards</li> </ul>	<ul style="list-style-type: none"> <li>•Stability</li> <li>•Security</li> <li>•Risk of Natural Hazards</li> </ul>
<b>Second Set Filters (de-prioritize)</b>	<ul style="list-style-type: none"> <li>•Connectivity</li> <li>• Infra structure Support</li> </ul>	<ul style="list-style-type: none"> <li>•Connectivity</li> <li>• Infra structure Support</li> </ul>	<ul style="list-style-type: none"> <li>•Connectivity</li> <li>• Infra structure Support</li> </ul>
<b>Main Findings</b>	<p>(+) Highest quality of life            (+) Good Health &amp; Education            (+) Attractiveness !            (+) Labor availability and qualification.            (+) Strong presence of large companies.            (+) Solid public transportation            (+) Development agents are highly active            (+) Incentives Programs: ISS Tecnológico (for companies operating inside technological park), IPTU (territorial tax) and ITBI) exemption            (+) A new technological park            (+) Good integration between companies and university for technological development.</p>	<p>(+) Excellent integration between University and Companies.            (+) Synchronism of foment actions between government and development organizations            (+) Excellent infrastructure and competitive costs for companies installation.            (+) Excellent transportation            (+) Stable business environment            (-) One of the most populated cities in the world            (-) Earthquake prone            (-) Proactive structure / to support companies to invest in the city            (-) High Crime rate            (-) Quality of Life            (-) Service Culture</p>	<p>(+) Good quality of life.            (+) Good business infra structure            (+) One of the main financial centers in Latin America            (+) Labor availability and qualification.            (+) Solid public transportation            (+) Good connectivity            (-) Does not offer special tax incentives (needs to negotiate).            (-) High Crime rate            (-) Unstable economy with high inflation            (-) Low integration between companies and university for technological development.            (-) Proactive structure / to support companies to invest in the city</p>

# 3 Same Country/City Destinations Comparison

Description	Curitiba	Porto Alegre	Recife
<b>Main topics discussed</b>	<ul style="list-style-type: none"> <li>• Recruiting</li> <li>• Union relationship</li> <li>• Tax Benefits</li> <li>• Tax incentives</li> <li>• Infrastructure</li> <li>• Real Estate</li> </ul>	<ul style="list-style-type: none"> <li>• Labor qualification</li> <li>• Union relationship</li> <li>• Tax Benefits</li> <li>• Infrastructure</li> <li>• TecnoPUC real estate options</li> <li>• R&amp;D relationship w/ TecnoPUC</li> </ul>	<ul style="list-style-type: none"> <li>• Labor qualification</li> <li>• IT background evolution in Recife</li> <li>• State Attractiveness</li> <li>• Infrastructure</li> <li>• Porto Digital property</li> </ul>
<b>Main Findings</b>	<p>(+) Highest quality of life            (+) Attractiveness !            (+) Labor availability and qualification.            (+) Strong presence of large companies.            (+) Public Transportation            (+) Development agents are highly active            (+) Incentives Programs: ISS Tecnológico (for companies operating inside technological park), IPTU (territorial tax) and ITBI exemption            (+) A new technological park            (+) Good integration between companies and university for technological development.</p>	<p>(+) High quality of life.            (+) Good integration between University and companies for innovations.            (+) Synergy with companies installed in TecnoPUC: Dell, HP, Tlantic, Stefanini, etc.            (+) Incentive program focused on ISS (IT only) and IPTU.            (+) Excellent technological park infrastructure with competitive cost for companies installation on Tecnopuc.            (+) The metropolitan area has other several parks with adequate structure.            (-) Does not offer incentives to call center (needs to negotiate).            (-) Tecnopuc has no space</p>	<p>(+) Excellent integration between University and Companies.            (+) Synchronism of foment actions between government and development organizations (Porto Digital, C.E.S.A.R. and            (+) Porto Digital with excellent infrastructure and competitive costs for companies installation.            (+) Incentive program focused on ISS (IT and Call Center).            (-) Too focused on academic R&amp;D versus Business            (-) Proactive structure / to support companies to invest in the city (Recife).            (-) Crime rate            (-) Quality of Life            (-) Service Culture</p>

Thank You!