

Nearshore/Offshore Site Selection

Overview

Over the course of the past decade many companies have succeeded in establishing operations beyond the borders of the United States. Significantly lower labor costs and other economic incentives are attracting more US companies to offshore and nearshore locations every year. When analyzing a remote location, successful organizations apply standard site selection criteria augmented with additional decision factors. The company must also delve into the areas of language and communication skills, cultural compatibility and political stability of the community (country) under consideration.

Communication and language skills are paramount and must be evaluated to ensure that employee/employer interaction and the customer experience will meet the organization's requirements. Many companies initiate "Accent Neutralization" and "Cultural Immersion" training programs for new employees. These types of initiatives, geared toward insuring that the communication skills of employees serving North American customers meet industry standards, are highly recommended (even in instances where English is the native tongue of the target country).

Once geography has been vetted for labor resource viability and communication skills, verify that the work standards and labor laws of the community meet the requirements of the operation. In some instances it may be necessary to revise company business practices and policies to accommodate local customs and regulations. Additional factors for consideration include: expatriate employee costs, corporate tax implications, local employer benefit and unemployment regulations, monetary exchange rate impact, technology infrastructure reliability and operational management requirements of a multi-national operation.

In general, greater attention to detail and evaluation of all key site selection criteria listed above is desirable. The risk associated with offshore locations is significantly higher than that encountered when establishing a new operation within the confines and protection of U.S. borders. The Central Intelligence Agency and U.S. Department of State web sites and related publications are valuable sources of information when initiating a search for offshore locations (creating a list of potential destination locations). These resources provide current information on political stability, economic conditions, and various cultural factors that could potentially impact the business.

Economic Imperative

The greatest area of vulnerability for most customer care organizations is balancing the needs of customers and the economic realities of delivering that support. Shrinking product margins, high labor costs and the need to fund effective service and support infrastructure with ever smaller budgets are challenges that many businesses face in these difficult economic times.

In recent years, this trend had resulted in many organizations choosing to relocate operations to far-flung locales or to outsource their service and support capabilities to firms who have invested in staffing and infrastructure in distant geographic locations (offshore).

Employer Incentives

Economic development councils, chambers of commerce, professional associations and other government-sponsored organizations are aggressively recruiting call centers and similar back office service organizations to relocate operations to their areas. The pay-off for these communities comes through the creation of jobs, the corresponding tax base and the retention of citizens who otherwise would relocate due to lack of career opportunity.

Make no mistake: this is *big business*. Soliciting new employers and developing new industries is a high-stakes game for communities in need of economic stimulus. Recruited companies often receive financial



incentives in the form of tax rate abatements, free trade zone status, low/no cost facilities, exceptions to local employee work guidelines and training subsidies. Cash-signing bonuses are also sometimes part of the packages offered to employers. However, realizing these financial benefits is not always automatic or immediate. Most often performance/time based milestones and specific results based criteria are required on the part of the company in order to reap the economic incentive benefits. Businesses contemplating relocation must understand these criteria and engage in a thorough evaluation process in selecting a community that can support all of the human capital, business and infrastructure needs of the organization over the long haul.

Location Selection

In the past ten years, high potential nearshore and offshore communities have sought to attract a number of companies with varying degrees of success. Each region, sub-region and country presents a unique set of challenges and opportunities for organizations considering a greenfield start-up. This paper provides a guide to evaluating and selecting a location that best suits the needs of your organization. In beginning the evaluation process we suggest categorizing the stage of development/evolution of each market under consideration and comparing the risk/reward associated with each using the decision criteria and models described later in this document:

The locations that your company pursues will be determined by the benefits and value offered by the government and communities associated with the region/markets under consideration as well as the business needs and requirements of your organization.

For the purpose of this exercise, we categorize potential locations in the following manner:

- Emerging
- High Growth
- Mature

Emerging Geographies

The list of emerging locations changes regularly as government and business communities seek to attract commercial enterprises that will enhance the local economy, create job opportunities for citizens and increase the standard of living in the community. Examples of emerging offshore/nearshore locations considered to be high potential as of the writing of this document include:

China
Egypt
Vietnam
Malaysia
Columbia
Nicaragua
Venezuela
Paraguay
Uruguay

High Growth Geographies

High growth destination locales are characterized by the fact that companies have successfully established multiple locations within the country. In most cases, economic incentives and lower labor costs are still attractive characteristics to be found in these communities and a labor pool that can sustain additional growth exists. Typically, the primary urban centers have seen extensive build-out and opportunities for continued expansion exists in collar suburbs and secondary cities within the country. Examples of high growth offshore/nearshore locations as of the writing of this document include:

The Philippines
Jamaica
Mexico



Guatemala
El Salvador
Panama
South Africa
U.S. (secondary urban markets and homeshore initiatives)

Mature Geographies

Mature markets/communities are typically characterized by the fact that a significant number of companies have established operations in the area and the market has become quite competitive regarding desirable locations and available talent. Examples of mature offshore/nearshore locations as of the writing of this document include:

Canada
India
The Dominican Republic
Costa Rica
Brazil
Argentina

Note: A detailed review and analysis of these geographic locations is available upon request.

Decision Criteria

When evaluating a new geography take time to properly weigh all aspects and characteristics of the target community. At a minimum consider the following:

- Economic incentives
- Facilities, zoning and local support
- Telecommunications and technology infrastructure
- Transportation infrastructure
- Remote operating factors
- Cultural factors
- Professional staff sourcing
- Organized labor impact
- Employee pool sustainability
- Educational feeder system

The evaluation process is dynamic and is best served by an iterative assessment methodology. Since the decision making process typically takes place over several months, and in some cases years, an effective tool for assessing the suitability of a site or geography and the available incentive packages is a scorecard using weighted selection criteria. Examples of typical selection criteria include:

1) Economic Incentives

Consider and compare: payment amounts, timing and distribution of monetary incentives. Clearly understand and factor in the financial costs of non-performance and payback clauses, as well as penalties for non-compliance.

2) Facilities, Zoning and Local Support

Assess: build, buy, or rent options, paying particular attention to the impact of current local zoning laws and related ordinances on your business. It's also important to gain a comprehensive understanding of the evolving political climate and a view of the opinions of community residents on the prospect of the company setting up operations in the area. Establishing whether the local business community, political leadership and population of a community are in favor of your company locating in their area is a key decision factor.



3) Telecommunications and Technology Infrastructure

Assess: Telecommunications, power and ancillary information technology services versus the requirements of your organization. In evaluating a community's technological capabilities, focus on: infrastructure capacity, redundancy, scalability, future community investment plans for further development and the ability of your organization to extend internal technologies to the new locale. Also consider incremental investments that your company will be required to make (i.e., potential need for new applications and capital purchases to offset vulnerability in the current infrastructure and your IT organization's ability to support your business in this remote environment).

4) Transportation Infrastructure

In evaluating a community and the "commutable population" that the business will draw upon, it's essential to ensure that the transportation infrastructure is capable of delivering the company's future employees to work on time, in an affordable and convenient fashion. A study of public and transportation proximity, costs and timetables is warranted. In some instances, assistance from local government agencies can be used in modifying public transportation routes and timetables in order to meet the needs of the employee base. In instances where public transportation is not available, it's important to understand cost, time and convenience implications on potential employees who will be using personal transportation.

5) Remote Operating Factors

Can the company thrive with geographically dispersed operations? Is the organization's support infrastructure (Human Resources, Payroll, Finance, IT, etc.) capable of supporting remote locations?

6) Cultural Factors

This factor is more intangible than other factors but critical to success. Can the company meet the "good corporate citizen" expectations of the community? Are there restrictions, community events or local customs that may impede or periodically disrupt standard operations? Do the work habits, standards and expectations within the community/population meet the organization's requirements? Will customers accept the cultural differences that exist between them and the employees of the company in the target community? Is there a customer perception/customer satisfaction risk?

7) Professional Staff Sourcing

Are there management and professional skill sets necessary for success resident within the targeted geographic area's population? If not, is this a community expatriate managers and professionals will find an attractive destination? Is the community/culture conducive to the professional, personal and family life of potential expatriate employees? What are the costs of maintaining an expatriate employee pool?

8) Organized Labor Impact

Is the workforce historically dependent on trade unions or workers councils to serve as an intermediary with employees? Is the prevailing business climate pro-union or neutral? What is the company's position on working with organized labor?

9) Employee Pool Sustainability

Assess the community's current and future employers, population, skill set, population growth and unemployment trends. Other employers (existing and new) are competitors in the human resource market. Competition will affect supply and demand thus affecting labor costs and the viability of the operation.

10) Education Feeder System

Assess the local primary and secondary education system. Do the graduates of these institutions possess the skill set and training necessary to be successful in the positions that the organization will offer? Are the jobs that the organization will provide seen as attractive career choices for these graduates? Where do the company's jobs fit in the hierarchy of career options available to graduates and how will this position in the hierarchy affect the longevity and retention of future employees? Are local primary, secondary and technical training institutions willing to create degree or certification programs that will provide graduates with the skills necessary to qualify for jobs with your company?



The following diagram provides an example of a Site Selection Evaluation Score Card (for a hypothetical business case):

Note: A copy of the Site Selection Evaluation Score Card is available upon request.

Workforce Assessment - Long Term Viability

When considering site location alternatives, the population of local resources to fill key management, recruiting, human resources, technical, and other professional roles must be evaluated. Reaching out to existing business and community leaders in the sought after location for information will enhance the discovery process and increase the probability of success.

If the requisite talent is not readily available in the target geography, you must assess the practicality of building the workforce through transferring new hires and existing staff or building comprehensive jobs training programs designed to create a capable pool of potential employees. Additionally, you must gauge the probability of success in terms of acceptance of transplanted staff, local work ethic versus the expectations of the company and the cultural fit between employees in the target community and the company's customer base. Many start-up operations fail as a result of one or more of these cultural incompatibilities.

A critical success factor for any service operation is the long-term viability of the workforce. The organization must ensure that the pool of available employees meets the company's employment standards. The organization must also assess the size of the population from which they can hire. Is the population adequate to meet the future needs of the operation? One common filter for initial screening of potential locations is to target communities where the employable population is ten times the projected staffing requirement. Beyond this initial filter, deep research and analysis of the current and projected workforce should be completed for each location under consideration.

Organizations should also seek non-compete agreements with the recruiting economic development or governmental organization and facility owner in the case of large business parks or shopping malls. Under



the terms of this type of agreement, the recruiting organization will refrain from soliciting additional businesses that would recruit from the company's target employee population base for a defined period of time.

The following diagrams provide an example of a potential labor pool analysis (for a hypothetical business case):

Note: A copy of Community Labor Pool Analysis models is available upon request.

Greenfield Build-Out

Once your organization has selected a location the work of planning and build-out of the operation begins. Similar to the selection process, this type of project is best completed through an iterative methodology that includes the participation of a cross-functional team working with supplemental external resources that possess subject matter expertise specific to the chosen community. A comprehensive project management process and the guidance of experienced project management leadership are essential. A partial list of the components of a greenfield build-out project plan include:

- Selection of a Project Manager to lead the cross functional project team and engage with local partners and service providers
- Selection or hiring of a local leader (Site Director, Country Manager, etc.) who will represent the organization and lead the business post start-up
- Establish a local legal entity for the company
- Engagement with local government entities to negotiate economic incentive agreements
- Engagement with local real estate/facilities selection firms
- ROI analysis of facility build, buy or rent options
- Lease or purchase negotiations
- ROI analysis of facility construction, furnishing, technology selection, etc. (re: direct expense funding by the organization, capital lease or alternative funding options)
- Selection of furnishings and facilities décor.
- Selection of local service providers (e.g., IT, telecommunications, facility maintenance, security, transportation, catering service providers, etc.)
- Localized marketing, recruiting and hiring process definition
- Banking and payroll processing services set up



Seek Professional Help

A comprehensive analysis of options and risk assessment is imperative. If your company lacks experience or resources to conduct a thorough evaluation or manage this type of project, look to established consultants and advisory firms with experience in this area for assistance and guidance. Organizations specializing in relocation and site selection can be found through trade publications and professional associations. Engagements with these firms can take the form of strategic planning, research and analysis, project mapping advisor or end-to-end project management. It is also important to legally protect the interests of the business. Engaging a qualified law firm with expertise in various areas of law and experience in the community under consideration as outside/supplemental council is advisable.

About Next Move

Next Move is a professional services/advisory firm focused on the technology and services industries. We are committed to assisting organizations develop strategic vision and tactical operating plans designed to maximize shareholder, employee and customer value.

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