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One On One

## Outsourcing's Global Landscape

Ed Sperling 12.01.08, 6:00 AM ET

Most of the outsourcing deals in the past have gone to familiar locations such as India and the Philippines for software development and customer service, and China and Eastern Europe for manufacturing.

Now the rest of the world is jumping in, making it difficult to know where to turn and how to judge what's a good bet and what isn't. Forbes.com caught up with Amit Shankardass, chief global marketing officer at global outsourcer Sitel, to talk about what's changing in this market.

### **Forbes.com: What do you need to look for if you're outsourcing to new areas?**

**Amit Shankardass:** From our perspective, the key elements are labor availability and skills knowledge. It's also important to consider protection of IP [intellectual property]. There is data going back and forth, so any leakage is not a good thing. And then you have to consider the normal things you would look for in any outsourced location.

### **What's driving this?**

In the past, India, the Philippines and Eastern Europe have been the most typical outsourcing locations. Two things have changed. First, there has been saturation in those markets--particularly the big cities in those markets. Second, there is a desire among other countries to play in this arena because of the success of places like India and the Philippines. They see an opportunity to develop their economies by servicing non-domestic clients and pulling in foreign investment.

### **Which countries are you referring to?**

We've seen a lot of growth in Central and South America. That includes Panama and Nicaragua.

### **What kind of work is being done there?**

Customer service, customer support, back-office processing and bilingual support for English and Spanish.

### **Latin America and parts of Africa have not been huge players in technology. Is that changing?**

India's economy changed dramatically with the advent of IP outsourcing there. Similarly, in Manila there were probably only a couple thousand people working in this market 10 years ago. Today there are more than 60,000 Filipinos working in this area, supporting consumers in different parts of the world. We've seen areas where we've set up our infrastructure to go from quiet little towns to vibrant economies. The early success in those areas has led other countries to jump on the bandwagon.

### **But India has been very focused on education. Is that kind of educated workforce available in other places?**

You're absolutely right, and the type of work being outsourced is very dependent upon the labor force that is available. There are different skill sets in different parts of the world. Many of these countries are attracting specific types of work. In India today, the bulk of the work is in KPO, which stands for knowledge-process outsourcing. There are a lot of skilled engineers, nurses and doctors. A doctor there can take an X-ray sent electronically from the U.S. and interpret it. In Latin America, it's a lower skill level. Nicaragua would be a place for customer service. India would be a place for more technical support.

### **Is Nicaragua comparable to Vietnam?**

It's actually more advanced in some ways than Vietnam. But it's comparable to what's going on in places like Morocco, Tunisia and Egypt. Who would have thought 10 years ago that you'd see work being done in Morocco for a Canadian company?

## **How about a place like Venezuela, which has its political differences with the U.S.?**

Our view is that it's a bit too risky. We look at the foreign investments and the stability of the government. Some governments also allow you to own a company within their country. We haven't seen that in Venezuela. We also look at whether there is an adequate, skilled workforce to do the kind of work we do.

## **How does that compare to Nicaragua?**

While Spanish is the No. 1 language in Nicaragua, English is spoken everywhere. There are about 150,000 Nicaraguans who have lived in the U.S. and returned. There was a database created there, called NicaSearch.com, which lists people with excellent English-speaking skills.

## **There's been a huge technology investment in Dubai. Is the United Arab Emirates getting involved?**

I haven't seen anything out of that location. Most of the labor in Dubai is imported. It's cheaper to source that labor domestically for the markets we're in.

## **Is this still all about price?**

When people look at labor prices, they say you can find labor in the U.S. for \$10 an hour, compared with \$6 an hour in Mexico, \$4 an hour in Central America and \$2 an hour in India and the Philippines. But there are other costs like labor management and data network and telephony infrastructure. When you look at all the factors, India and the Philippines offer a 32% to 38% savings for U.S. companies. In Central America, those savings will be about 24% to 28%. In South America, the savings are 30% to 35%.

## **Why are India and the Philippines still cheaper?**

A lot of that is the infrastructure cost. In both countries, the networking infrastructure for data is well developed. There is a lot of bandwidth. But when you go into Latin America, those economies of scale don't exist. That offsets the labor costs.

## **Where does northern Africa fit in?**

They offer about a 30% to 35% savings.

## **Any new markets that hold potential?**

We're looking at Vietnam and Russia. In India, the vast majority of work is offshore work. But as the middle class has become more affluent, they also are becoming more consumer-centric and creating a market for data services. In five to 10 years, the India domestic market will be as large as the India offshore market. That's a fundamental shift in the economy.

## **How about China?**

China is a downstream domestic market opportunity and less of an offshore opportunity. One of our clients in the financial services sector said they will never open a branch in China; there are no third parties allowed to store, manage or own information. It's not a market opportunity. There is also an inability to control and manage IP in China. That is not a market for us.

## **What about other markets?**

We're also looking at Guatemala. Each of these markets in South and Central America has a limited labor pool, though. We're also seeing opportunities in tier-2 and tier-3 cities in India and the Philippines.

## **Some of these countries have a history of political instability. How do you deal with that?**

When you're dealing with outsourcing, you have to look at risk diversification. Most companies have adopted this concept of global sourcing. Because you're sourcing on a global basis you can offset one problem area with another. Some of it also depends on weather or religious holidays or the technology infrastructure. You can balance it out globally.

## **What happens if a country falls out of favor with another one, or war breaks out?**

It is a risk that we as a global business face, and it's not always easy to mitigate the risk. You can be very prudent on the front end, but it's difficult to predict what's going to happen. As a company that provides services to our clients, we try to diversify that risk. But it will still affect us and our clients if something happens in a certain country or geography.

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