Service Delivery and Demand Dynamics in Latin America

March 29, 2016
Introductions

Rajesh Ranjan
Partner
Business Process Services Research
Rajesh.Ranjan@everestgrp.com

Mario Tucci
Senior Partner and Co-Founder
Mtucci@mvdconsulting.com
Agenda

- Global services delivery dynamics in Latin America
- Regional demand dynamics in Latin America – focus on BPO
- Future trends to watch
- Q&A
Latin America grew to 9% of the global services delivery market, with Argentina and Mexico being the mature delivery locations.

### Share of delivery regions by headcount in global services delivery

2013-2014; Number of FTEs (in ‘000s)

<table>
<thead>
<tr>
<th>Region</th>
<th>2013 (in ‘000s)</th>
<th>2014 (in ‘000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>APAC</td>
<td>4,800-4,900</td>
<td>4,800-4,900</td>
</tr>
<tr>
<td>LATAM</td>
<td>6,300-6,400</td>
<td>6,500-6,600</td>
</tr>
<tr>
<td>Nearshore</td>
<td>6,300-6,400</td>
<td>6,500-6,600</td>
</tr>
<tr>
<td>Europe</td>
<td>6,300-6,400</td>
<td>6,500-6,600</td>
</tr>
<tr>
<td>Others</td>
<td>6,300-6,400</td>
<td>6,500-6,600</td>
</tr>
</tbody>
</table>

**Note 1:** Includes global services exports for 31 leading locations. Excludes domestic market.

**Note 2:** APAC: Asia Pacific; LATAM: Latin America.

Latin America’s share in new center set-ups has stayed between 15-26% over the past few years

Breakup of new center set-ups by region
2012-H1¹ 2015; Number

<table>
<thead>
<tr>
<th>Region</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>APAC</td>
<td>54%</td>
<td>52%</td>
<td>53%</td>
<td>48%</td>
<td>44%</td>
</tr>
<tr>
<td>Europe</td>
<td>18%</td>
<td>17%</td>
<td>24%</td>
<td>21%</td>
<td>32%</td>
</tr>
<tr>
<td>LATAM</td>
<td>15%</td>
<td>23%</td>
<td>16%</td>
<td>26%</td>
<td>16%</td>
</tr>
<tr>
<td>Others²</td>
<td>13%</td>
<td>7%</td>
<td>7%</td>
<td>6%</td>
<td>9%</td>
</tr>
</tbody>
</table>

1 Includes data for Q1 2015 (January-March 2015) and Q2 2015 (April-June 2015)
2 Others include Africa and Middle East region

Note 1: APAC: Asia Pacific; LATAM: Latin America
Share of GICs in new center set-ups in Latin America has increased over the last two years

The proportion of GIC set-ups in LATAM remained largely similar between 2013 and 2015. Cost Rica is the undisputed leader among Latin American countries with respect to GIC set-ups. Brazil, Chile, Jamaica, and Mexico are other locations that have witnessed GIC activity, although the number of set-ups is much lower than that of Costa Rica.

Contact center is the most prominent function that is being delivered from these set-ups; however, over the years, there has been a steady movement towards providing bilingual BP and IT-ADM processes.

Source: Everest Group (2016)

1 Includes data for Q1 2015 (January-March 2015) and Q2 2015 (April-June 2015)
Proportion of centers catering to voice BPS, IT, R&D, and engineering services has increased in the new setups

Breakup of new centers in LATAM by functions supported
2011-H1 2015\(^1\); Number

\[
\begin{array}{lcc}
\text{100\%} & 74 & 53 \\
\text{R&D and engineering} & 6\% & 10\% \\
\text{IT} & 29\% & 34\% \\
\text{Knowledge processes} & 3\% & \\
\text{Non-voice BPS} & 21\% & 12\% \\
\text{Voice BPS} & 42\% & 44\% \\
\end{array}
\]

2011-13 2014-H12015

\(^1\) Includes data for Q1 2015 (January-March 2015) and Q2 2015 (April-June 2015)

Note 1: Includes GICs and (third-party) service provider delivery centers; centers may be supporting multiple functions

Note 2: Excludes centers where function is not specified

Source: Everest Group (2016)
While voice and non-voice BPS services are more mature for pan-Latin America delivery, only certain locations support delivery for other functions.

<table>
<thead>
<tr>
<th>Functions</th>
<th>Maturity of service delivery</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice BPS</td>
<td>High</td>
<td>• Significant evidence of delivery from multiple locations in Latin America&lt;br&gt;Key regions served from Latin America locations include Latin America, North America, and Europe</td>
</tr>
<tr>
<td>Non-Voice BPS</td>
<td>Medium</td>
<td>• Only some locations within Latin America support offshore IT services delivery due to requirement of specific skill sets&lt;br&gt; Evidence of support largely for Latin America and North America region</td>
</tr>
<tr>
<td>IT services</td>
<td>Low</td>
<td>• Select list of locations support these functions from Latin America&lt;br&gt; Evidence of support for Latin America only, with limited offshore service delivery</td>
</tr>
<tr>
<td>Knowledge processes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D and engineering</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Everest Group (2016)
Everest Group’s MAP Matrix™ provides a comparative assessment of cities specific to a market function

MAP Matrix™ provides a comparative assessment of cities specific to a market function (e.g., IT-ADM, knowledge services, European language BPS)

- **Maturity**
  - Relative maturity of locations in terms of the breadth and depth of services offered

- **Arbitrage**
  - Cost savings or arbitrage over typical source markets

- **Potential**
  - Emerging opportunities or potential of these locations from a talent and risk standpoint

MAP Matrix™ assessment covers 60+ cities for the following seven functions:
- Information Technology – Application Development and Maintenance (IT-ADM)
- Contact center (English language)
- Transactional Business Process Services (BPS)
- Complex / judgment-intensive BPS
- Bilingual (Spanish and English language) BPS
- Multi-lingual (European languages) BPS
- Knowledge services

**Leaders**
- Relatively the most attractive locations - significant talent availability and low costs
- Characterized by presence of large GICs or service provider centers
- Often exhibit high competitive intensity owing to presence of many large players

**Major Contenders**
- Offer an attractive mix of talent availability and cost savings
- Sufficient talent pool to support mid- to large-sized centers
- Lower competitive intensity compared to Leaders, however, lower maturity

**Aspirants**
- Suitable for small- to medium-sized centers
- Offer early-mover advantage and low costs, however, require investments in talent development
- Typically, less mature locations as compared to other clusters

**Star Performer**
- Locations that witnessed significant new center setup activity in the past one year
MAP Matrix™ | IT-ADM

Risk profile
- Highly favorable
- Favorable, but some concerns
- Significant challenge

- Mexico City is a star performer owing to strong nearshore value proposition and abundant talent pool
- Buenos Aires is a major contender owing to attractive cost savings and access to talent
- San Jose (Costa Rica) is an aspiring location and offers opportunity for players to set up small-scale center or a spoke for nearshore locations

1. Fully-loaded, ongoing operating cost, including compensation, facilities, and technology expenses
2. Considers relevant entry-level and experienced talent

Source: Everest Group (2016)
MAP Matrix™ | Bilingual BPS (English and Spanish)

**Risk profile**
- **Highly favorable**
- **Favorable, but some concerns**
- **Significant challenge**

### LEADERS
- Buenos Aires
- San Jose

- **Star Performer**
- Buenos Aires and San Jose are the leaders for bilingual BPS work; Buenos Aires presents challenges in terms of high macroeconomic and fiscal risks.
- Guadalajara and Monterrey have emerged as strong alternatives in the last three to four years.

### ASPIRANTS
- Kingston
- Santo Domingo
- San Salvador
- Managua
- Guatemala City
- Lima
- Bogota
- Montevideo
- Guadalajara
- Monterrey
- Panama City
- Santiago

### MAJOR CONTENDERS
- Low operating cost
- Availability of talent

1. Fully-loaded, ongoing operating cost, including compensation, facilities, and technology expenses
2. Considers relevant entry-level and experienced talent

Source: Everest Group (2016)
### MAP Matrix™ | Transaction-intensive BPS

**Risk profile**
- **Highly favorable**
- **Favorable, but some concerns**
- **Significant challenge**

#### Star Performer

- **Buenos Aires, San Jose, and Guadalajara** are the major contenders for transaction-intensive BPS.
- Availability of sizeable talent pool, bi-lingual skills, and significant time-zone overlap are the key drivers for leverage of these locations.

---

1. Fully-loaded, ongoing operating cost, including compensation, facilities, and technology expenses
2. Considers relevant entry-level and experienced talent

*Source: Everest Group (2016)*
US Dollar appreciation is creating opportunities in Latin America

- Latin America economic performance have contracted in 2015, currencies have depreciated and inflation has raised
- Currency depreciation improves location attractiveness for global services delivery from locations like Chile, Argentina, Mexico, Colombia and Brazil
- Significant depreciation of the currencies has helped countries and companies in relation to the export of services, which still manifests itself as a bright spot
<table>
<thead>
<tr>
<th>Country</th>
<th>Incentive</th>
<th>Detail</th>
</tr>
</thead>
</table>
| Costa Rica| Free Trade Zone Regime             | • Income Tax 100% exemption 8-10 years  
• Income Tax 50% exemption following 6 years  
• Exemption from custom duties, VAT and general sales tax |
| Uruguay   | Free Trade Zone Regime             | • SSC, Distant Attention Center and Free Zones Regime  
• Income Tax 90% exemption 5 years  
• Free Zone 100% exemption import-export taxes  
• Distant Attention Center 100% Tax exemption |
| Panamá    | Free Trade Zone Regime             | • Multinational Headquarters regime  
• Income Tax full exemption  
• Exemption on VAT and withholding tax on dividend remittances  
• SSC executives – income tax exemption |
| Argentina | Export services regime             | • Export services not subject to VAT  
• Recovering VAT incurred on costs  
• Software Industry: BsAs Indirect Tax exemption  
• New regime for entry-exit of foreign currency |
| Perú      | CCO & BPO incentive                | • BPO & CCO not subject to VAT  
• ZOFRATACNA regime exempt from income Tax, VAT, excise Tax |

1 HQ - headquartered
Source: Deloitte
# Latin American incentives for shared service centers

## Page 2 of 2

<table>
<thead>
<tr>
<th>Country</th>
<th>Incentive</th>
<th>Detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>● Export services regime</td>
<td>● Back office Services not subject to VAT</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Other services rendered to other countries may be exempted</td>
</tr>
<tr>
<td>Brazil</td>
<td>● Certain cities regime</td>
<td>● Special incentives in certain cities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Reduced service Tax, reduced property taxes</td>
</tr>
<tr>
<td>Colombia</td>
<td>● Tax Free zone regime</td>
<td>● VAT and customs duty benefits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Income tax at 15% rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Strong double tax treaty network</td>
</tr>
<tr>
<td>México</td>
<td>● No special regime</td>
<td>● Reduced indirect taxes, strong double tax treaty network</td>
</tr>
</tbody>
</table>
How will the growing contribution of Latin America to global services influence your company in 2016?

- Expand within the same location in Latin America
- Expand to more locations in Latin America
- Expand due to movement of services from other non-Latin American locations
- Reduce due to movement of services from other non-Latin American locations
- Will not grow
Agenda

- Global services delivery dynamics in Latin America
- Regional demand dynamics in Latin America – focus on BPO
- Future trends to watch
- Q&A
The BPO market in Latin America grew by ~5% in recent times, driven by growth in HR, industry-specific, and analytics services.

LATAM domestic BPO market – size and growth
2013-2014; US$ billion

LATAM BPO revenue by segments
US$ billion

<table>
<thead>
<tr>
<th>Traditional segments</th>
<th>2015</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCO</td>
<td>79.6%</td>
<td>81.7%</td>
</tr>
<tr>
<td>HRO</td>
<td>9.8%</td>
<td>8.8%</td>
</tr>
<tr>
<td>FAO</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>PO</td>
<td>2.4%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Industry-specific BPO</th>
<th>2015</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>PO</td>
<td>2.5%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Analytics services</th>
<th>2015</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.6%</td>
<td>1.0%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Everest Group (2016)
Unlike mature demand geographies, opportunities to create business and strategic impact drives BPO adoption in Latin America than focusing primarily on cost.

<table>
<thead>
<tr>
<th>Total Value Equation (TVE) for outsourcing</th>
<th>Value propositions</th>
<th>Global context</th>
<th>LATAM context</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic impact</td>
<td>• Speed-to-market to integrate M&amp;A and build/expand geographic presence</td>
<td><img src="image1" alt="Global context" /></td>
<td><img src="image2" alt="LATAM context" /></td>
<td>Speed-to-market is a key driver, especially for global MNCs who want to expand / establish presence in LATAM</td>
</tr>
<tr>
<td></td>
<td>• Compliance and risk management</td>
<td><img src="image3" alt="Global context" /></td>
<td><img src="image4" alt="LATAM context" /></td>
<td>Access to latest technology and global best practices for LATAM operations, which are increasingly competing in a global economy</td>
</tr>
<tr>
<td>Process/business impact</td>
<td>• Access to better technology</td>
<td><img src="image5" alt="Global context" /></td>
<td><img src="image6" alt="LATAM context" /></td>
<td>Relatively lower cost arbitrage opportunities</td>
</tr>
<tr>
<td></td>
<td>• Access to expertise/talent</td>
<td><img src="image7" alt="Global context" /></td>
<td><img src="image8" alt="LATAM context" /></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Increased flexibility/scalability</td>
<td><img src="image9" alt="Global context" /></td>
<td><img src="image10" alt="LATAM context" /></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Process excellence and best practices</td>
<td><img src="image11" alt="Global context" /></td>
<td><img src="image12" alt="LATAM context" /></td>
<td></td>
</tr>
<tr>
<td>Cost impact</td>
<td>• Operating cost reduction</td>
<td><img src="image13" alt="Global context" /></td>
<td><img src="image14" alt="LATAM context" /></td>
<td></td>
</tr>
</tbody>
</table>

Source: Everest Group (2016)
The HRO market is the largest non-voice BPO segments in Latin America. MCPO and RPO are the fastest growing sub-segments within that.

HRO market size in Latin America by sub-segments

Percentage

- Multi-process HRO: ~4%
- Recruitment Process Outsourcing (RPO): ~11%
- Learning Services Outsourcing (LSO): ~13%
- Benefits Administration Outsourcing (BAO): ~18%
- Payroll outsourcing: ~11%
- SCPO: 69%
- MCPO: XX%
- CAGR (2011-2015): ~9%
The Multi-Country Payroll Outsourcing (MCPO) market exhibits significant contrast to the mature Single-Country Payroll Outsourcing (SCPO) market.

### Outsourcing market maturity

<table>
<thead>
<tr>
<th>Stage</th>
<th>SCPO</th>
<th>MCPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pioneer</td>
<td>Slow and steady growth</td>
<td>Rapid growth</td>
</tr>
<tr>
<td>Emerging rapid growth</td>
<td>Perceived as a commodity service</td>
<td>Perceived as a specialized service</td>
</tr>
<tr>
<td>Reaching maturity</td>
<td>Heavily influenced by cost</td>
<td>Based on combination of cost, quality, and coverage and expertise</td>
</tr>
<tr>
<td></td>
<td>Easy to replicate and low barriers to entry</td>
<td>Difficult to replicate and high barriers to entry</td>
</tr>
<tr>
<td></td>
<td>Highly competitive</td>
<td>Competition still getting defined</td>
</tr>
</tbody>
</table>

Note: CCO – Contact Center Outsourcing; FAO – Finance and Accounting Outsourcing; HRO – Wider HR Outsourcing

Source: Everest Group (2016)
Brazil and Mexico are most frequently included in the high growth MCPO market. Argentina, Chile, and Colombia are often included.

MCPO market size in Latin America
US$ million

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>34</td>
<td>89</td>
</tr>
</tbody>
</table>

CAGR (2011-2015) 27%

Source: Everest Group (2016)

Frequency of inclusion in MCPO deals covering Latin America

- **High frequency**
- **Medium frequency**
- **Low frequency**

Panama (Low frequency)
Costa Rica
Colombia
Brazil
Argentina
Chile
Peru
Ecuador
Venezuela

MCPO market size in Latin America

Source: Everest Group (2016)
Latin America is one of the fastest growing RPO markets on the back of healthy deal signing activity. The rapid growth is expected to continue in the future.

RPO market size in Latin America
US$ million

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2015</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>47</td>
<td>96</td>
<td>170-180</td>
</tr>
</tbody>
</table>

-20% Historical CAGR
15-20% Expected CAGR
XX% Expected CAGR

Time trend for new deals that included Latin America
Number of new deals

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18</td>
<td>13</td>
<td>19</td>
<td>16</td>
<td>28</td>
</tr>
</tbody>
</table>
Agenda

- Global services delivery dynamics in Latin America
- Regional demand dynamics in Latin America – focus on BPO
- Future trends to watch
- Q&A
### Future trends to watch

#### Global services view

1. Look for changing functional proposition of locations, e.g., Costa Rica emerging as a new location for IT services

2. Watch for legislative changes (e.g., labor, tax related laws) in the region, which can impact services industry

3. Be mindful of trade-offs between opportunities and risks (in particular security and political), especially as risks continue to evolve

4. Seek opportunities for penetration into domestic/regional demand markets

#### Regional demand view

1. Multi-tower deals, covering multiple BPO segments is likely to pick up

2. Demand from local-headquartered companies are likely to rise

3. With growth in voice channels stagnating, non-voice channels such as email, chat and social media will drive growth in CCO

4. HR (especially RPO and MCPO), industry-specific BPO, and analytics services will continue to drive LATAM BPO growth

Source: Everest Group (2016)
What is your greatest challenge in operating in and/or evaluating Latin America?

- Unstable political situation
- Doubts in Talent availability
- No clear additional value compared to other locations
- Higher costs
- Infrastructure is still not robust enough
- Bad past experience
Agenda

- Global services delivery dynamics in Latin America
- Regional demand dynamics in Latin America – focus on BPO
- Future trends to watch
- Q&A
Have a question?

To ask a question during the Q&A session

- Click the question mark (Q&A) button located on right side of your screen. This opens Q&A

- Be sure to keep the default set to “send to All Panelists”

- Type your question in the box at the bottom of the Q&A box and click the send button

- Attendees will receive an email with instructions for downloading today’s presentation
- Salil Dani, Vice President, Everest Group, will be sharing insights on Robotic Process Automation

- MVD Consulting is sponsoring the event, which will feature 150 representatives of service centers in Latin America, networking opportunities, and thought leadership on the next level of innovation
Check out our blog for the latest perspectives on global services

Wipro and HCL Deals Signal the Arrival of a Life Sciences Infrastructure Surge | Sherpas in Blue Shirts

Infosys Appoints Dr. Vishal Sikka as CEO, Making a Brilliant Pilot a Swimming Coach | Sherpas in Blue Shirts

New York’s Plan for Medicaid Services — and Why It Matters | Sherpas in Blue Shirts

Experts in the global services terrain

www.sherpasinblueshirts.com
Related content

- Recruitment Process Outsourcing (RPO) – Rise of RPO in Latin America
- Growth of BPO in Latin America across F&A, HR, and Procurement
- Central America and the Caribbean Answer the Call for English-language Contact Center Services
- Global Locations Annual Report 2015: Resurgence of Activity Amidst Evolving Propositions