



Is Bogota at a Global Sourcing Inflection Point?

Over the last 24 months Latin America experienced strong interest with a number of global companies setting up service delivery centers in the region. A number of Latin American cities are viable options for companies looking to set up regional shared-services centers or global delivery centers. Bogota, in particular, experienced significant interest in recent times. With a large pool of university graduates supplemented by a significant number of high school graduates, and one of the lowest-cost operating environments, Bogota provides an attractive option for companies looking to set up centers in Latin America.

While historically companies associated a perception of high risk with Bogota, the situation steadily improved over the years. In the first quarter of 2010, two major companies – Convergys and Teleperformance – expanded operations into Bogota. This development is likely to provide a boost to Bogota’s and Colombia’s position in the global sourcing space.

In this research brief, we review the capabilities that Bogota offers and explore how it may evolve as an offshore destination, especially in view of recent developments.

A strong outsourcing market already exists in Bogota

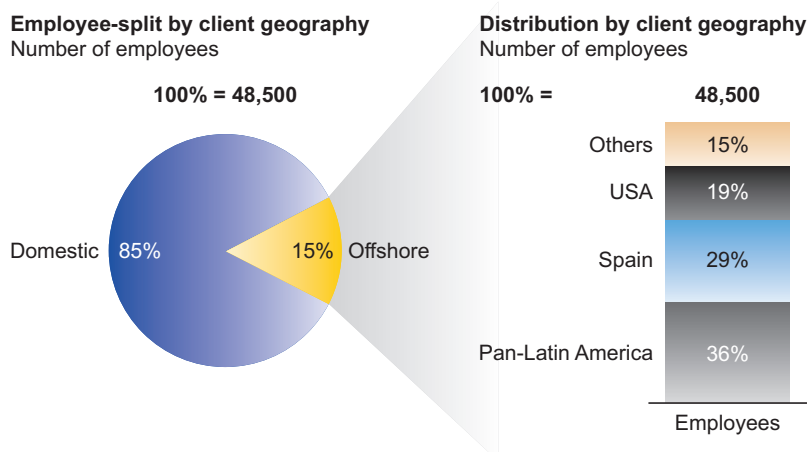
Bogota is no stranger to outsourcing. Colombian companies outsourced customer service, transaction processing, and IT support for more than a decade and Bogota is home to numerous contact centers and IT support centers.

In our 2009 whitepaper [Bogota’s Potential as a Delivery Location for Offshoring and Outsourcing Services](#), we estimated that the outsourcing industry in Bogota employed more than 50,000 people. Further, our estimates indicated that approximately 15 percent of this employment was geared towards offshoring (see **Exhibit 1**). This includes captives such as Amadeus, HP, and SAP, as well as third-party service providers such as Unisys and ACS.

EXHIBIT 1

Distribution of outsourcing industry in Bogota by source geography

Sources: Everest Research Institute analysis; Invest in Bogota; interviews with companies



However, the United States – the single largest source geography for offshoring – accounts for less than one-fifth of Bogota’s offshore services employment. In other words, only three in every 100 jobs in Bogota’s outsourcing industry support the U.S. market. This is much lower than many other locations in Latin America such as San Jose (Costa Rica) and Buenos Aires (Argentina), which have both a larger offshore employee base and a larger proportion supporting the U.S. market.



Fundamental factors are very favorable when compared to other Latin American locations

From a cost perspective, Bogota offers one of the lowest cost environments in Latin America. Entry-level salaries are low and, while mid-level managers are relatively comparable to other locations, the total cost of operating a delivery center is 20-25 percent lower than Buenos Aires or San Jose.

In addition, universities and technical schools in Bogota produce 45,000 graduates annually. Upon including post-graduate degrees and university drop-outs, the addressable pool for outsourcing operations numbers approximately 90,000 annually.

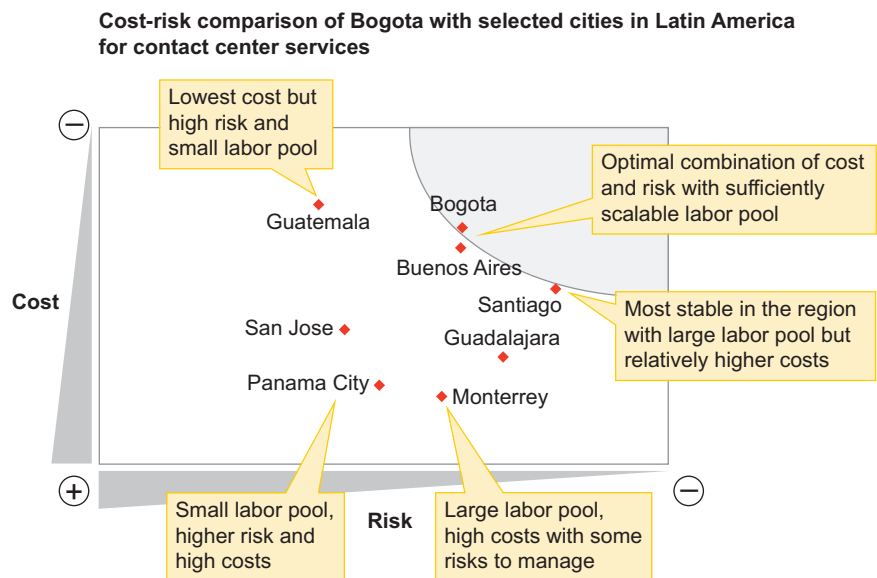
While English language skills are somewhat limited (except among the university graduates), the "Talk to the World" program aims to improve English skills among the broader graduate pool. Funded by the Bogota city government, this program provides training to students to improve their English conversational skills. With a target of 10,000 students over five years, the program aims to accelerate the pace at which skilled bilingual workers are available to the industry.

Exhibit 2 illustrates Bogota's position relative to other Latin American locations for contact center services. Among the cities compared, Bogota enjoys a relatively attractive position due to low costs and a scalable talent pool. Other cities, such as San Jose, Panama City, are relatively more advanced in terms of activity but are inhibited by a smaller aggregate talent pool.

EXHIBIT 2

Cost-risk comparison of Bogota with selected cities in Latin America for contact center services

Source: Everest Research Institute analysis



The primary risk in Bogota continues to be a relatively higher threat perception. Many companies may choose other, more proven cities, as delivery center locations but the improving environment in Bogota will improve its attractiveness in the years ahead.



Convergys and Teleperformance could provide a strong boost to Bogota

The common perception regarding Colombia and Bogota has been fueled by the longstanding issue with the Colombian narcotics trade. Issues with narco-violence have led to a strong negative perception regarding both the country's security environment as well as its potential as a service delivery location. Executive mandate has been to steer clear of Colombia; as a result, investment by U.S. companies in Colombia has been limited.

However, in the last 10 years, the situation improved significantly, with active government measures to improve the overall safety and security environment. Crime rates dropped significantly, with homicide rates falling by 37 percent every year since 2004. Cumulative Foreign Direct Investment (FDI) in the last four years grew rapidly and, in 2007, FDI inflows into Colombia were only second to Chile in Latin America.

The entry of Convergys and Teleperformance could further improve the perception and help Bogota firmly establish itself. Convergys, with its U.S.-focused, bilingual customer service center in Bogota, could drive greater acceptance among U.S. companies. Starting with 500 seats, Convergys is expected to ramp up to an estimated 2,500 seats, most of which will be focused on the U.S. market. Teleperformance, which acquired a contact center provider in Colombia, is likely to ramp up operations as well both for Europe and the United States. These companies, along with other multinationals that operate in Bogota (such as Unisys and HP Enterprise Services) are likely to further validate Bogota as a credible offshoring location.

Key takeaways:

- Low costs and a large talent pool make Bogota very competitive relative to other Latin American cities. Improving English language skills adds to the potential to support scalable operations supporting the U.S. market
- Historical concerns regarding stability and security are ebbing. The entry of Convergys and Teleperformance is likely to further accelerate acceptance among U.S. companies
- Over the next three to five years, continued improvements in English language skills, continued low-cost environment, and greater acceptance among U.S. companies are likely to accelerate Bogota's position among destinations in Latin America



Overview of Location Optimization (LO)

Everest Research Institute provides actionable insight and visionary research on a wide range of offshoring issues through its LO practice. Our LO research covers multiple regions and issues relating to offshoring locations, with a focus on helping companies assess the trade-offs of choosing between alternative locations. Our LO team combines deep subject matter expertise with broad analytical skills and insight into the global sourcing market, all of which are based on years of experience working in the offshoring industry.

LO can help you:

- Evaluate, prioritize and select different locations for offshore delivery centers as well as third-party outsourcing suppliers based upon the trade-offs between relative costs and risks
- Develop a location strategy to meet your specific objectives relative to labor pool availability, languages, cost, and risks

Key highlights of the LO practice include:

- A team of eight analysts currently tracking 125 cities globally
- Deep experience advising Fortune 500 companies and outsourcing service providers on location decisions

For more information about Everest, please contact:

Everest Research Institute
+1-214-451-3110
info@everestresearchinstitute.com

For more information about this topic please contact the author:

Anand Ramesh, Research Director
aramesh@everestgrp.com

