

Bogota's Potential as a Delivery Location for Offshoring and Outsourcing Services

Perspective and Value Proposition

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Executive Summary

Over the last few years, the offshore services industry enjoyed growth rates of over 25 percent annually. Although India and Philippines were the most prominent destinations, a large number of other offshore locations emerged as attractive destinations. From 50 cities four years ago, approximately 150 cities currently support offshore service delivery.

Latin America, in particular, has seen 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. Buenos Aires (Argentina), Sao Paulo (Brazil), Santiago (Chile), and Monterrey (Mexico) have been at the forefront of the Latin American movement. Other cities, such as Guatemala City (Guatemala), San Jose (Costa Rica), San Salvador (El Salvador), and Bogota (Colombia), have seen increasing activity.

Bogota, in particular, has seen 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 has steadily improved over the years. Bogota today is a stable location backed by favorable economic indicators and has infrastructure comparable to many leading outsourcing destinations. In addition, it has a sizeable outsourcing industry employing approximately 50,000 personnel, of which approximately 15 percent are offshore focused and support customers outside of Colombia.

The above attributes make Bogota a viable and attractive destination for IT and BPO outsourcing and offshore services delivery. Given Bogota's value proposition, the location can play the following roles in the global offshoring supply chain:

- Scalable low-cost hub to provide Spanish language contact center services to pan-Latin America
- Small to mid-size bilingual contact center location for serving the U.S. market
- Risk diversification option to manage overflow of services from other parts of Latin America
- Latin American hub for scalable IT helpdesk and high-end voice-based IT services (e.g., regional sales support, corporate customer support)

This whitepaper describes the current state of the industry in Bogota, outlines key advantages and common concerns related to the city, and explores potential roles that Bogota can play in the global outsourcing and offshoring market.

Everest Research Institute used a combination of research approaches to complete this assessment. Invest in Bogota supported a detailed market assessment to size the current scope of outsourcing operations. Everest also leveraged its proprietary location databases and information to capture key insights for other cities included in the analysis. In addition, an Everest team travelled to Bogota to conduct interviews with companies currently operating in the city to understand capabilities available and assess the state of the industry. This whitepaper includes perspectives gathered from these diverse sources and encompasses quantitative insights and qualitative observations.

State of Play in Bogota’s Outsourcing Market

Bogota is no stranger to outsourcing. Colombian companies outsourced customer service, transaction processing, and IT support for more than a decade. As the largest city in Colombia and with the highest concentration of universities, Bogota was a natural candidate to be the center of operations. The city is home to numerous contact centers and IT support centers. Everest estimates that the outsourcing industry in Bogota employs nearly 50,000 people, of which over 60 percent are employed in contact centers.

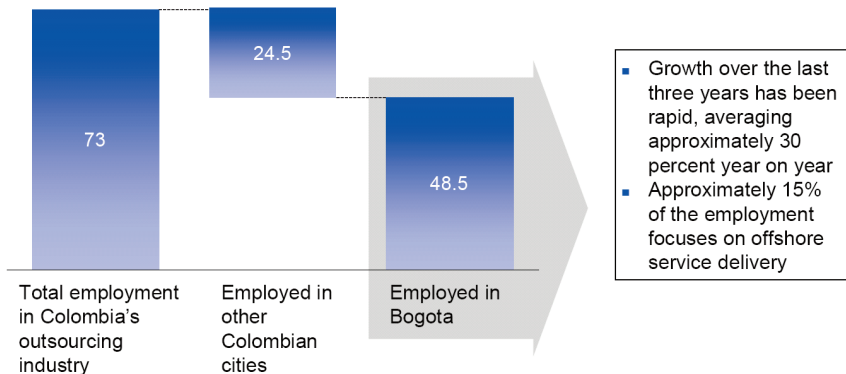
Everest estimates that approximately 15 percent of the total outsourcing employment is geared towards offshoring (see **Exhibit 1**). This includes both captives such as Amadeus, HP, and SAP, as well as third-party service providers such as Unisys and ACS.

EXHIBIT 1

Outsourcing industry profile

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

Outsourcing service provider market
2008; Number of employees in '000s



Domestic market and Latin America are largest source geographies

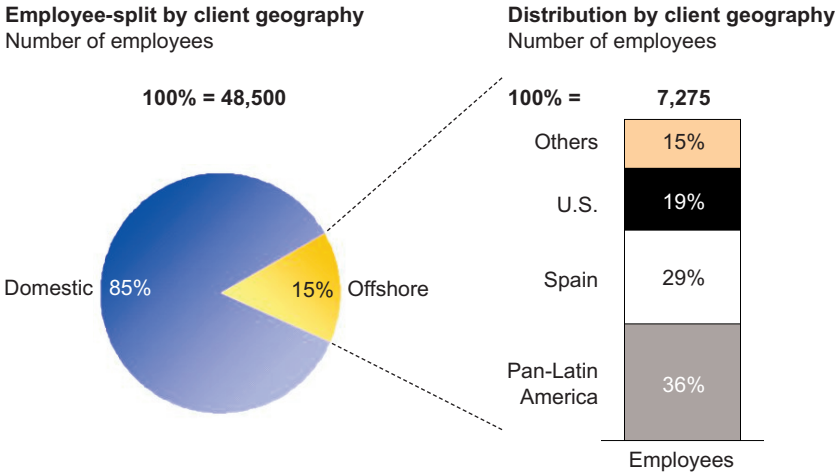
The domestic market is, by far, the dominant segment of Bogota’s outsourcing industry. Numerous companies in Colombia, especially the country’s largest financial institutions (e.g., Bancolombia), were early adopters of outsourcing and shared services. Everest estimates that approximately 85 percent of the employment in Bogota’s outsourcing industry is geared towards supporting the domestic market (see **Exhibit 2**).

EXHIBIT 2

Distribution of market by source geography

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

In comparison, about seven percent of the industry targets supporting Latin American operations. Bogota’s central location within Latin America, attractive time zone position (less than two hours’ difference with the East or West coasts of Latin America), Spanish language abundance, and low cost are key factors. IBM and SAP are examples of companies that set up operations focused on Latin America.



In addition to regional service centers, several Spanish companies have set up operations in Bogota. These include Spain-focused outsourcing service providers as well as captive centers of Spanish companies (e.g., Oesia). This is a large opportunity for Bogota and a growing segment of the market.

An important source geography that many companies are targeting is the U.S. market. Currently, less than one-fifth of Bogota’s offshore employment focuses on the United States, and this represents the smallest source geography. However, many companies are actively pursuing this segment by building on initial successes with clients.

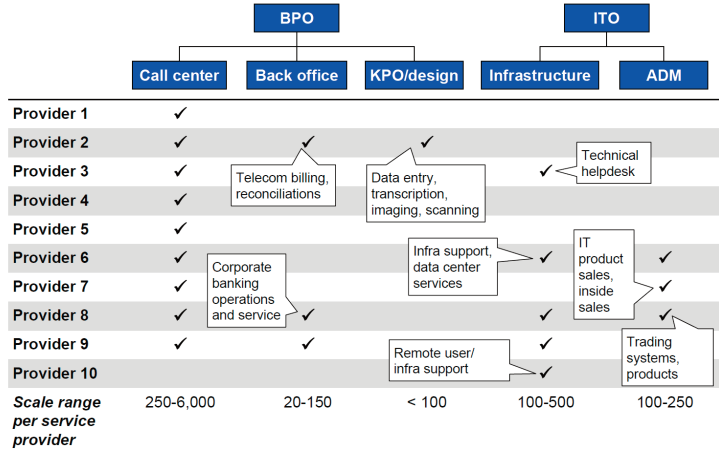
Services are currently focused on contact centers delivering both commoditized and high-value work, with an emerging non-voice services play

Contact centers are the mainstay for most delivery centers in Bogota, with over 60 percent of the outsourcing industry focused on this segment (see Exhibit 3). In terms of headcount, Bogota’s contact center industry at ~30,000 personnel is the largest among Spanish language outsourcing destinations in Latin America. The industry is starting to broaden the span of services supported from commodity contact center services to higher-value services across the voice and non-voice domains.

EXHIBIT 3

Span of services supported from Bogota

Sources: Everest Research Institute; interviews with companies



Notable examples are IBM and SAP, with both companies operating regional sales operations from Bogota. Citibank supports corporate banking clients in nine countries in Latin America from Bogota. Other interesting examples include AEI, an architectural services company that supports clients in the United States with a suite of design and drafting services.

Case Study: SAP's Regional Sales Hub – Why Bogota?

Background

In 2008, SAP chose Bogota as the location for its Regional Sales Hub. The Hub is staffed with a sales team tasked with developing and growing the SAP customer base in the SME segment (small and medium-sized enterprises) in all of Latin America except Brazil. Within a period of five months, the Bogota operation was ranked second on productivity among all of SAP's sales hubs.

Selection process

For two years preceding the decision, SAP evaluated Monterrey, Santiago, Buenos Aires, and Bogota in Latin America to identify a city to host its sales hub. The key criteria on which cities were evaluated included strong labor pool and skills, robust infrastructure, stable operating environment, attractive costs, and a track record of attracting investments.

Key decision drivers

The key reasons that led SAP to choose Bogota were the following:

- Stable economic and political environment in the city and the country
- Neutral Spanish and high adaptability with other countries (e.g., Venezuela, Argentina)
- Ability to quickly hire highly skilled, bilingual candidates
- Attractive costs compared to other locations under consideration
- Support and professionalism of national and local government officials

While senior executives perceived Bogota to be a high-risk location, the team driving the Bogota recommendation convinced key senior executives to visit the city. This proved to be a critical factor in enabling acceptance of the Bogota recommendation.

What to Expect in Bogota?

The common perception regarding Colombia and Bogota often ignores several important factors. For several decades, Colombia experienced significant issues with narcotics-related violence. However, in the last ten 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.

Bogota, in particular, has several important characteristics that are relatively unknown and unexplored. It has a large labor pool with an annual graduate turnout that is larger than any city in Central America and compares favorably with prominent cities in Latin America. It has one of the lowest cost environments in the region. Infrastructure, especially international travel connections and telecom bandwidth, improved dramatically, easing travel and communication.

Large skill pool with new skill-development initiatives

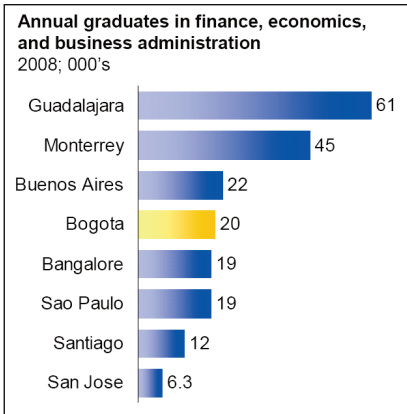
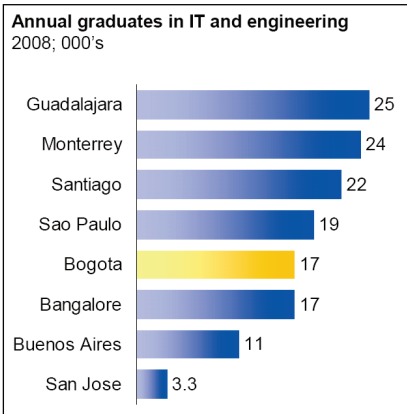
Universities and technical schools in Bogota produce 45,000 graduates annually. Upon including post-graduate degrees and technical degrees, the addressable pool for outsourcing operations numbers approximately 90,000 annually. This large pool is a potential target for contact center and low-complexity BPO operations and offers significant scalability.

For function-specific skills, the pool in Bogota is very competitive with other cities in the region (see **Exhibit 4**). The annual IT and engineering graduate pool is larger than Buenos Aires. The annual pool of graduates in finance, economics, and business administration is larger than Sao Paulo and Santiago. Interestingly, for both of these functions, the pool in Bogota is larger than Bangalore!

EXHIBIT 4

Labor pool size by function

Source: Everest Research Institute analysis



Purely from a monolingual contact center skill-set perspective, the experienced talent pool in Bogota is one of the largest among Latin American cities since Spanish, being the native language is abundantly available. In addition, the neutrality of the accent makes the contact center pool in Bogota well suited to converse comfortably with customers across a variety of geographies including Mexico, Argentina, and Spain.

However, English language skills are relatively limited except among the university graduates. Over the past few years, universities made it mandatory for graduates to have conversational skills in at least one foreign language, which has expanded the pool of English-speakers in the city. However, university graduates do not favor contact center careers. The primary target for contact centers is university students who have relatively limited conversational skills in English.

A recent initiative, "Talk to the World," aims to mitigate this skill deficiency. Funded by the Bogota city government, this program provides training to students from high schools and technical disciplines to improve their conversational skills in English. By targeting 10,000 students over a period of five years, the "Talk to the World" program aims to significantly enhance the pool of skilled resources available for the offshoring industry in Bogota. The success and extent of impact of this initiative will be a significant determinant of how rapidly Bogota can scale its services targeting markets apart from Spain and Latin America.

Low-cost, low-inflation environment

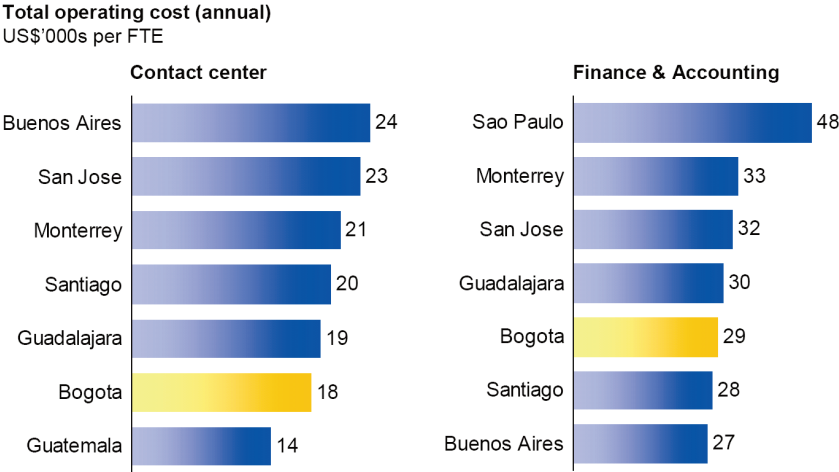
The attractive cost position is a significant driver of offshoring to Bogota. For contact center services, Bogota is among the least expensive locations in the region. Everest's analysis of total operating cost (including salaries, benefits, facilities, telecom, technology, operating overheads) indicates that Bogota is 25 percent less expensive than Buenos Aires and 15 percent lower cost than Monterrey (see **Exhibit 5**).

Bogota's cost position is attractive for non-voice BPO processes as well. It is comparable to Buenos Aires and Santiago, and less expensive than prominent cities in Mexico.

EXHIBIT 5

Total operating cost

Source: Everest Research Institute



An additional important factor is Bogota’s low-inflation environment with wage inflation in the low single digits and CPI inflation under five percent for the last five years. This is especially important when considered in the context of Bogota’s relative economic stability compared to some other cities in the region. In Buenos Aires, for example, revision of the minimum wage in 2007-2008 led to inflationary pressures for junior contact center roles. This significantly impacted Buenos Aires’ attractiveness relative to Bogota, which enjoyed a relatively low-inflation environment.

Especially with many other cities in the region (e.g., cities in Mexico) experiencing higher inflation rates, this aspect will enable Bogota to sustain an attractive cost arbitrage in the future as well.

Well-developed infrastructure, comparable labor availability, and significantly improved geo-political environment

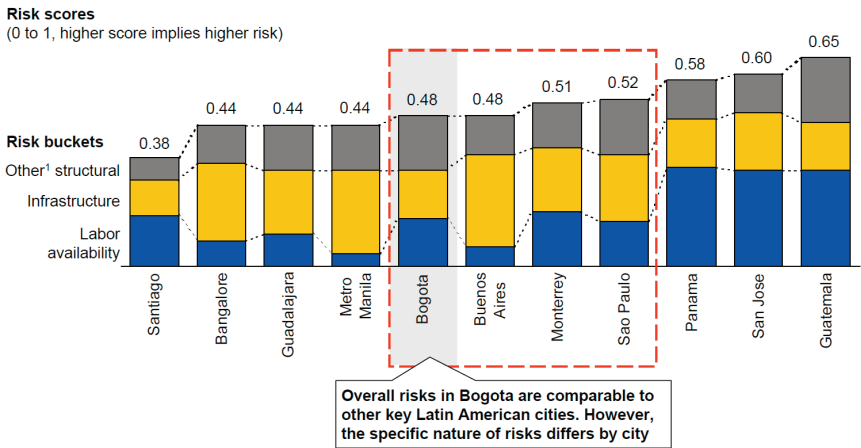
Bogota has well-developed infrastructure and a strong support environment. Real estate and facilities options are available in good measure, although slightly more expensive compared to averages for other peer cities. Physical infrastructure is strong with multiple international air connections and a good road network within the city, although Bogota suffers from significant traffic congestion on key arterial roads. Telecom infrastructure is well evolved with five different under-sea cables providing linkages to the country, allowing for backup and redundancy.

High employability of a significantly scalable talent pool in Bogota, over peer locations, positions it well from a labor risk stand-point. Further, structural risks in the form of environmental risks (geo-political, macroeconomic, quality of life) and business risks (ease of doing business, legal & regulatory framework) are an important considerations for investors considering Bogota as a location. However, it is important for companies considering Bogota to understand the nature of risks that exist and how they compare with peer Latin American cities, in order to make an informed decision based on the ability to mitigate or manage such risks.

EXHIBIT 6

Relative risks

Source: Everest Research Institute



¹ Includes environmental risks (geo-political, macro-economic, quality of life) and Business risk (Legal risk, business environment risk)

As illustrated in **Exhibit 6**, Bogota ranks favorably on multiple dimensions and is more stable than Buenos Aires, Monterrey, and Sao Paulo in terms of overall physical infrastructure and macro-economic environment (structural risk). Similarly, from a geo-political risk perspective, Bogota is comparable to Guadalajara, Monterrey, and Sao Paulo. While the incidence of violent crime in Bogota is somewhat higher than other cities, it was contained and has limited direct business impact on outsourcing operations. From an overall perspective, Everest analysis indicates that Bogota is not as high risk as commonly perceived.

An important facet is the federal government’s initiative to make the IT/BPO sector a key priority. The government is in the process of assessing and implementing initiatives to support the growth of the industry. Recent measures around creating special economic zones with reduced corporate taxes (15 percent, compared to the standard 33 percent) are measures that will support the industry.

Overall comparison relative to other locations

To conduct a holistic location comparison, it is important to assess cities across three key dimensions:

- Total cost of operation for the function under consideration
- Size of function-specific labor pool
- Overall risk of operation

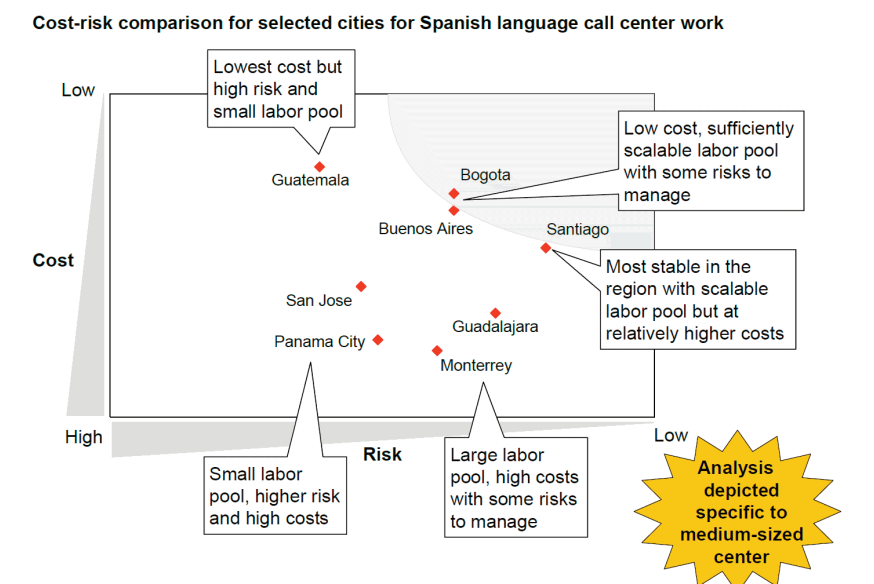
Consequently, Bogota can potentially play the following roles to gain its rightful share in the global sourcing phenomenon:

- Scalable low-cost hub to provide Spanish language contact center services to pan-Latin America
- Small to mid-size bilingual contact center location for serving the U.S. market
- Risk diversification option to manage overflow of commodity services from other parts of Latin America
- Latin American hub for scalable IT helpdesk and high-end voice-based IT services (e.g., IT product sales, remote infrastructure management)

EXHIBIT 7

Cost-risk trade-off

Source: Everest Research Institute



Achieving the benefits of global sourcing has always been based upon intelligently taking calculated risks in return for lower costs and access to additional talent that is scalable. Bogota has faced and successfully overcome significant challenges associated with geo-political environment and narcotics-related guerrilla activity. For those able to see through the historical biases of a decade ago, Bogota offers a compelling blend of low costs and good skill availability at a risk profile much lower than commonly perceived.

About the Everest Research Institute

Everest Research Institute (www.everestresearchinstitute.com) serves as a central source of independent and objective strategic intelligence, analysis, and actionable insight for leading corporations, suppliers, technology providers, and investors in the global outsourcing and offshoring marketplace.

The Institute addresses both business process and information technology sourcing topics, providing the global outsourcing and offshoring community with information that empowers highly productive, sustainable sourcing strategies and relationships. The Institute's wealth of knowledge and experience provides unique perspectives into today's marketplace and the competitive edge required to take advantage of emerging opportunities.

Everest Research Institute is the research arm of the Everest Group (www.everestgrp.com), a global consulting firm with offices in such leading business centers as Dallas, New York, Toronto, London, Amsterdam, New Delhi, Melbourne, and Sydney. Everest Group has earned a worldwide reputation for ongoing innovation as it helps clients achieve maximum value from their operations including sourcing strategy and implementation.

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