

Selecting an Offshore Location: What Really Matters

A company looking for the first time at where to offshore work faces a bewildering array of locations: India, the Philippines, Eastern Europe, South Africa, Mauritius to name just a few. The world, seemingly, is your oyster. But whilst there is no shortage of opportunity, offshore location strategy is not a free for all. In reality the range of offshore options is actually rather simpler than it first appears.

Let's take a quick tour of the major global locations:

- **Eastern Europe** – Poland, Romania, Hungary and Czech Republic continue to be indispensable in most offshore strategies due to their rich mix of technical and language skills. As a result, most outsourcing programmes that require extensive European languages will have an East European hub (for example you will struggle to set up a price-competitive call centre covering Dutch, French, German and Finnish anywhere else in the world). Inflation has eroded the cost differential with West Europe to some degree, but in many locations the business case is still strong.
- **Africa** – Africa may yet provide the big next wave in outsourcing. Certain locations already have proven track records (such as IT support in South Africa; French-language work in NW Africa). Others (such as Egypt) offer a promising mix of scale, language, technical skills and education – ideal ingredients for large scale offshoring activity. However, whilst obviously there is huge variety across the continent, at present Africa is not integral to many global sourcing strategies. Africa provides some options, but not yet the killer mix of scale, price and talent to make it a key offshoring region (and Egypt's global appeal has been clearly hampered by political uncertainty).
- **Latin America** – Despite hosting some of the world's most vibrant and rapidly growing economies, Latam is not a key offshore location for most UK or European organisations. High inflation and regulation have impaired Brazil's attractiveness; security risks have affected other promising locations such as Mexico and Guatemala. Nevertheless Latin America is a major market in its own right which global companies need to serve; it is also the indispensable nearshore option for North America – but as such it is essentially a regional option in the global sourcing market.
- **Philippines** – The Philippines has emerged in the past decade as a major global sourcing hub, bigger in some sectors than India. A large population and availability of skilled English-speaking talent have made the Philippines particularly popular with US companies. Far fewer UK/European organisations offshore work here though, primarily because India provides a closer and cheaper alternative.
- **China** – China is the manufacturing story of the century; but in services terms it is essentially still a regional player. Its biggest offshore markets have been South Korea and Japan. Many new offshore investments play a broader 'APAC' role, but few provide services to UK or European destinations. Historically Chinese outsourcing has been held back by limited English language and middle management skills. This is rapidly changing so China could yet emerge as a major global services location.

- **India** – Despite stressed infrastructure and over a decade of rapid outsourcing growth, India is still the elephant in the global sourcing room. India's tier 1 locations (such as Bangalore and Delhi) continue to attract vast numbers of skilled resources; in addition tier 2 and tier 3 locations are well established. Supply is somehow still managing to keep up with demand, and as a result, the investment case for offshoring to India remains strong. The net result – the clear majority of new global outsourcing deals in ITO and BPO have an Indian hub.

So this very brief tour reveals three types of location. The global hubs (India, Philippines), the regional centres (China, East Europe, Latam), and the challengers (such as Africa). The global hubs cannot do everything – nearshore locations such as those in East Europe or Latin America are required for language skills; onshore locations are required for reasons of culture, interaction and proximity. And there will always be exceptions for specialised and highly skilled niches (think Manila and animation). But for the majority of transactional back office work, the pattern will resemble this global / regional model, for which the location options are fairly well defined. There remain a few good reasons to go 'off-piste', but most companies don't have the appetite or expertise to blaze a new trail, or the scale to provide critical mass to a new location.

Ultimately, when it comes to outsourcing, it is important to remember that although you need to maintain oversight and confidence in your supplier's offshore locations, you should also make use of their location expertise. In fact in most outsourcing deals, the question of location is answered in the first instance by the supplier not the buyer (i.e. you select a supplier on the basis of their proposal, which will include a location recommendation). The key question for you is to test the rationale of the location on offer, and to drill into the detail (ultimately you are choosing a city, not a country).

And once the contract is signed the question of location does not disappear. Over time your needs and your supplier's capabilities will evolve – you need to make sure that the location strategy recognises this (for example the rebalancing of work between nearshore and farshore).

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