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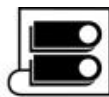
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Is Nearshoring A Real Alternative to Offshoring?

Blackwell Consulting

**By Alex Bell, Vice President;
Diego Ferrer, Executive Vice President;
Darwin John, Advisor;
all of Blackwell Consulting Services**

As companies struggle to compete in today's global economy, offshoring work to other countries has emerged as a valid alternative in reducing the costs for crucial business operations. More than 75 percent of businesses are using offshoring companies to perform vital business functions¹ — call centers, back-office operations and other strategic business operations, to name a few—to stay competitive and run efficiently. Such countries have the talent that companies desire: government-sponsored workers; Capability Maturity Model (CMM) level 5 certification; and low pay rates.

Over the past several years, offshoring has become the mantra for cost reduction. Despite all the talk about security concerns including political instability, language and culture barriers, legal difficulties and intellectual property rights protection among others, companies continue to move large components of their business offshore. And, although offshoring received a lot of scrutiny and criticism in the early stages, it has proven to be beneficial for companies that have embraced it. Increasingly, another cost-reducing alternative showing its strength is nearshoring.

How Nearshoring Can Help

With nearshoring, organizations have the benefit of outsourcing operations offsite, but in a way that is convenient — physically, culturally, managerially and financially — to the overall business. This has become a viable solution for many companies because "nearshore country locations offer the advantage of similar time zones, ease of travel and potentially greater control due to familiarity or physical and cultural proximity to the customer."² Areas such as Canada, Mexico and South America are becoming hotbeds for nearshoring. While offshoring is still a very popular option with companies, organizations that want to hedge their bets and curb the inherent risks of

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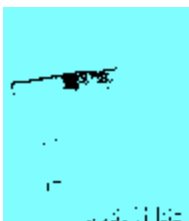
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offshoring have an option closer to home.

More Than Just Proximity: Time Zone & Travel for Close Collaboration

For some companies, one of the attractions of offshoring is the round-the-clock factor derived from being in disparate time zones. The flip side of this is there is little to no opportunity for businesses to work collaboratively with their offshore partner due to the time difference.

With nearshoring, the benefit of proximity is more than just working in the same, or close, time zone. For small projects that require close interaction with the company and its outsourcing partner, nearshoring is an excellent solution with less expensive travel costs and shortened travel time as an added benefit. Furthermore, the complexity of managing security and crisis issues is lessened with closer proximity. Another benefit of nearshoring proximity is the ability to build trusted relationships with decreased risk of linguistic or cultural misunderstandings.

What we have seen recently is a trend to move non-critical back-off functions offshore while performing critical projects with nearshore resources. This model has proven to be successful for many companies because it allows them to operate in almost the same mode they have become accustomed to for years. The nearshore operation becomes more like just another office location rather than a separate entity.

Another important component in the nearshoring model that is a key benefit to organizations is the North American Free Trade Agreement (NAFTA). Because nearshoring partners can take advantage of the NAFTA treaty, it is much easier for them to gain access to visas. Plus, NAFTA ensures that intellectual property is protected.

Remember Managers: Question Transparency

How you manage a nearshore partner should be no different from how you manage any vendor. Offshore management plans today are a no-brainer for most companies - they put complex and rigorous processes in place to manage their offshore vendors - but not all put the same level of thought into their nearshore plans. This is largely because the transparency of working with a nearshore partner gives organizations a false sense of security. In many cases, the nearshore partner is transparent to you because they are a subcontractor to your onshore outsourcing partner. It is your responsibility to ask what components of your project the outsourcer is nearshoring and what they are keeping in-house for their own staff.

Companies that directly work with a nearshore partner must still take precautions to ensure protection on every front. The same processes that you put in place to work with an offshore vendor should be translated to the nearshore vendor. Another alternative is to use a trusted, neutral third-party to establish a buffer zone and manage the relationship.

Costs: Infrastructure and Travel Costs Can Add Up

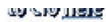
While cost savings may not be as great as offshoring, having your nearshore partner run your essential business operations will nevertheless reduce costs. Certainly, we all realize that travel cost is one way in which companies save, however, in most cases, the more significant area for cost savings is infrastructure costs.

Nearshore centers, like offshore facilities, upgrade their technologies in order to better collaborate with their nearshore partner.³ There may be some nominal expense on the part of the company to integrate with the nearshore facility, but the costs are generally not as great. Furthermore, through our experiences working with nearshore partners, we have seen a technology upswing trend. Most nearshore partners tend to come with a more robust technology offering than offshore partners, thus the need to purchase, enhance or build is less than what may typically be true with an offshore partner. Before you jump into an agreement, understand the infrastructure costs.

Nearshoring Risks

There are far fewer risks of choosing nearshore versus offshore, but each come with their advantages and disadvantages. As Kimberly Harris of Gartner Research says, choosing a nearshore country like Canada "can provide some cost savings...[and] fewer risks may provide viable options".⁴

Of course, offshoring is cheaper than onsite — but if that is your only criteria when outsourcing your business operations you are not paying attention to the goal: Not only inexpensive labor, but also convenience; the ability to collaborate easily and effectively; and manageable risk. Nearshoring allows you to achieve all of these, enabling you to manage your outsourced business operations with minimal risk. This does not mean, however, that nearshoring is free of risks. Often the best solution is a combined model of onsite, offshoring and nearshoring. But the bottom line is don't let the hype of the offshoring discussion steer you away from what is practical and agreeable for your company.



¹ Young, Allie, et al. "Global Sourcing Demands New Strategies", *Gartner Research*. February, 2005.

² Young, Allie

³ Bradford, Adrian. "Make Sure Outsourcing Is a Good Idea for Your Call Center," *Garner Research*. June 2003.

⁴ Harris, Kimberly. "The Offshore Insurance BPO Market Has Not Yet Matured," *Gartner Research*, Feb 2004

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