WILL THE REAL NEARSHORING PLEASE STAND UP?

By Daniel Tkach, CEO, PartnersMarket Consulting

NEARSHORING IS AN APPEALING concept. It has started to be looked upon as a desirable service option that could give an IT global service provider a competitive advantage. The phenomenon is similar to “going green.” “Green is good,” saves the earth, hopefully consumes less energy and saves money; thus we see the widespread appending of “green” to pretty much every product coming out in the marketplace, from cars to vacuum cleaners. And, of course, “green IT” is hot.

Nearshoring is a deceptively simple concept. A quick Internet search will give us definitions that are similar but their small differences hide major variants of the meaning of nearshoring. For instance, one definition reads:

“The transfer of business or IT processes to companies in a nearby country, often sharing a border with your own country. In the U.S., nearshoring describes work sent to Canada or Mexico.”

Another one explains:

“Nearshoring is the process by which an activity is transitioned from an onshore location to a geography, which is closer than an offshore location. Typically, this would be a short flight away”

And, yet another one tells us:

“Nearshoring means sourcing service activities to a foreign, lower-wage country that is relatively close in distance or time zone (or both).”

What is the difference? By the first definition, nearshoring requires geographical nearness; by the second, just being closer than an offshore location (typically India, China or the Philippines) is enough, and by the third, a far away country that is on a similar time zone as the outsourcer would qualify as nearshore. If we take the U.S. to be the outsourcing country, Brazil would not qualify as nearshore by the first definition, which would designate only Mexico and Canada, but would qualify by the third. And the second definition could allow European countries to claim that they are nearshore to the U.S., especially when the upcoming Aerion jet will start once again flying passengers from New York to London in three hours.

Nearshoring is a Customer Experience

Customers look at outsourcing services as something that will solve their problems or satisfy their customers’ needs. Companies will not choose a global service provider based on the providers’ claim to a service attribute, but will instead care about the total experience of dealing with that provider organization.

According to Thomas Meyer of Deutsche Bank Research, nearshoring locations score high marks when they lower costs for communication between the purchaser and the provider of the nearshoring service, for the following reasons:

❑ Personal contact: Complex problems are best solved face to face. Nearshoring locations are closer to the customer, which makes visiting each other easier and less expensive

❑ Common language: Nearshoring locations, often, have personnel that are proficient in the language of their customer — even though their official languages may differ
❑ Cultural understanding: In most cases, nearshore personnel have a better knowledge and understanding of buyers' cultural background than their counterparts do in offshore locations. It allows for easier communication as misinterpretations of implicit messages occur less frequently.

The four main dimensions of nearshoring are therefore geographical proximity, shared time zone, familiar culture, and common language. Each of these dimensions plays a role that is varyingly important according to the customer's needs.

Cost reduction is the main underlying driver for most outsourcing deals. In addition to lower wages, geographical proximity is probably the most obvious nearshoring dimension that affects cost. In an outsourcing engagement, the need for a larger retained organization for project management, in addition to trips abroad for analysis, status reporting, auditing and risk analysis can add up to a material percentage of the total deal value, and these costs increase with distance to the outsourcing location, according to Gartner.

Control and Trust

Cost savings are the most important benefit that companies expect to achieve from BPO projects, an IDC report indicates. The same report indicates that loss of control is the greatest challenge these companies face. This is also true for ITO projects. Nearshoring facilitates the establishment of effective control with much less overhead cost. In particular, geographical proximity enables resource verification; this ensures, for instance, that the senior programmers that were part of the original team were not diverted by the provider to more lucrative projects and replaced with juniors with the excuse of having "a high professional rotation."

Control is a natural enabler of trust, which is the most important element in a relationship. Trust is built through congruency between perception and reality, and also through interactions: A few face-to-face meetings and field trips foster trust far better than a hundred phone calls. A transparent relationship allows for a true understanding of the service provider's competency, dependability, financial strength, track record of successes, management structure and team composition. Transparency also allows trust to be balanced by appropriate controls and verification.

"IF THE FIRST STEP IN BUSINESS PROCESS EXCELLENCE IS UNDERSTANDING THE PROCESS, THEN THE FINAL STEP BEFORE SUCCEEDING MUST BE DEVELOPING A NEW LEVEL OF TRUST AND INTIMACY BETWEEN ORGANIZATIONS AND THEIR OUTSOURCING PARTNERS. INNOVATION REQUIRES INTIMACY; IT IS INHERENTLY A TRUST-BASED PROCESS."

Tom Koulopuolos, Smartsourcing

Cultural Understanding

Many companies perceive language and cultural differences as a hindrance to offshoring activities. For instance, over 56 percent of U.K. companies see this as a problem despite the close language and cultural ties with their preferred offshoring location, India. If cultural peculiarities are not taken into account, they can quickly result in misunderstandings that give rise to additional costs.

In North America, shared history and common interests facilitate mutual understanding. Mexican and Canadian developers often have a better understanding of the American customer's objectives than teams in far away countries.

The Closer the Better, but the World is Flat!

Distance matters. Geographical proximity is indeed the key dimension to reap the benefits of nearshoring. The other dimensions — shared time zone, familiar culture, and common language — are all important and many providers argue that being on a similar time zone — give or take two hours — is what matters most, as it enables the distant groups to work as virtual teams. While it is harder and costlier to establish a trustful working relationship if it takes eight hours or more to travel to the remote location.

The real nearshore is, therefore, the one that enables competitive advantages in all the four dimensions. And if a provider operates in a country that is strong in some dimensions and weaker in others, the best strategy is to partner with companies from a country that exhibits complementary traits. For instance, a Brazilian company could partner with Mexican providers that benefit from Mexico's geographical proximity to the U.S. and the NAFTA treaty advantages, while the Mexican provider could benefit from Brazilian industry-related skills and access to a wider labor pool with arbitrage advantages in certain areas. It's a flat, flat, flat world, after all! GS

Daniel TKach is CEO of PartnersMarket and a consultant to MexicoIT.