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SPECIAL REPORT -- OUTSOURCING

Angling To Be The Next Bangalore

A standing ovation greeted Mikhail Gorbachev when he took the stage last April in a packed Boston hotel ballroom. But the former Soviet President wasn't there to discuss *perestroika* or Vladimir Putin. Rather, in his speech to the Massachusetts Software Council, Gorbachev talked up Russia's world-class programming skills, urging the audience of 700 executives to send engineering projects to fledgling Russian software shops. World statesman turned pitchman: It's a sign of the growing stakes in global outsourcing, where developing countries from Argentina to Vietnam are scrambling to lure services work from the U.S., Europe, and Japan.

Their inspiration is India. The South Asian giant booked $22 billion in business last year answering customer phone calls, managing far-flung computer networks, processing invoices, and writing custom software for multinationals from all over the world. Other developing countries see what outsourcing has done for India's economy -- including creating more than 1.3 million jobs during the past decade -- and want a piece of the action. "National and even regional governments are making increasingly sophisticated efforts to attract offshore services," says Paul Laudicina, head of the Global Business Policy Council at A.T. Kearney Inc.

It's no wonder so many countries covet a Bangalore of their own. Compared with capital-intensive manufacturing, service businesses are cheap to set up -- and can generate a hundred times as many jobs per dollar invested. Plus, the sector is exploding. Researcher Gartner Inc. (**IT**) estimates offshore info tech and business-process outsourcing amounted to $34 billion in 2005 and could double by 2007. India's 60% share of the pie is set to decline, in part because success there is driving up wages and job turnover steeply. That leaves room for other nations to stake their claims. By 2007, Gartner figures, they'll pull in a combined $30 billion from outsourced services work.

Some contenders in the global outsourcing race are big developing countries looking to parlay low wages and plentiful labor into export service jobs. China leads the pack, thanks to its huge human resources and success attracting manufacturing work. Already a force in writing software built into other products, China is now chasing India's lucrative IT and business services work. Russia, Brazil, and Mexico are likewise piling in, offering costs and skills often on par with India's, plus advantages such as closer proximity to U.S. and European markets.

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Even tiny countries such as Nicaragua, Botswana, and Sri Lanka are trying to grab the brass ring. To lure clients, they're sending trade missions to outsourcing expos, subsidizing training and office parks, and offering tax breaks. "From the President on down, this is a top priority for us," says Juan Carlos Pereira, executive director of Nicaraguan trade promotion agency ProNicaragua. His country hosts three small telemarketing outfits and an employee support center for the Latin American operations of Spanish telecom giant Telefónica. (**TEF**) Hourly wages are about 75% higher than in India, but only half the cost in neighboring Panama and Costa Rica. Pereira hopes to announce a call-center deal with a big U.S. Internet company by March and to create 4,000 call-center positions by 2009.

The economic and social benefits extend far beyond immediate jobs. India's software industry association, Nasscom, figures that each new worker in the info tech sector creates seven indirect positions, from janitors to security guards. "Everybody wants to get into the game because it's a virtuous economic development model," says Nasscom Vice-President Sunil Mehta. To compete, countries often must improve their telecoms, airports, and even business laws -- moves that pay long-term dividends. Clean, well-paying service jobs boost demand for educated workers, an impetus to improving schools and training. And the high-level skills learned "spill out to the economy as a whole," says Diana Farrell, director of the McKinsey Global Institute.

Still, success isn't guaranteed. Because they lack India's scale and experience, emerging rivals have to differentiate themselves sharply to win contracts, says Kris Wadia, a London-based partner at Accenture Ltd. (**ACN**) who runs the consultancy's global delivery network. Egypt is selling itself as a low-cost specialist in European language call centers. Singapore and Dubai say their safety and legal systems give them an edge in handling high-security and business-continuity services. The Philippines, a former U.S. colony, draws on long-standing cultural ties and solid English skills to snare Anglophone call-center work. And Central and South American countries use their Spanish skills to grab call-center contracts for the Hispanic market in the U.S.

New players are also taking advantage of a growing desire by corporations to spread out their outsourcing. "Companies don't want to have all their eggs in one basket, as far as India is concerned," says Michael Henderson, Asia managing director for Tampa-based call-center operator Sykes Enterprises Inc. (**SYKE**), which has 37 facilities scattered from Costa Rica to the Philippines. Instead, clients are adding "near-shore" locations only a few hours away by air and usually in proximate time zones. For U.S. outsourcers, that's Latin America, where back-office operations are blossoming from Argentina to the Rio Grande. European companies turn to Central and Eastern Europe, the Middle East, and Africa.

Russia is also playing the near-shoring card, but it's aiming at high-end programming jobs. With its strong engineering culture dating to the Cold War, Russia is brimming with underemployed talent available at rates about one-fifth those in the U.S. A handful of local champions has emerged, including Moscow-based ITCI and a firm called DataArt Inc. that has engineers in St. Petersburg and a head office in New York. None has yet matched the success of Moscow's Luxoft, which snagged high-profile jobs developing a document management system for Boeing (**BA**) and a sophisticated customer management tool for Deutsche Bank (**DB**). "We offer quality, dedication, and most of all, stability, which is difficult to find in India," says Luxoft CEO Dmitry A. Loschinin.

Perhaps the biggest surprise these days is the emergence of Africa as an outsourcing hub. Led by South Africa, which already has more than 500 call centers serving companies such as Lufthansa and General Electric Co. (**GE**) in English, Dutch, and other languages, other countries on the continent are jumping on the bandwagon. Cairo-based Xceed Contact Center handles calls in Arabic and European languages for Microsoft, General Motors (**GM**), Oracle (**ORCL**), and Carrefour. The latest hopeful is Botswana, which is promoting English skills, a strong bond rating, tax breaks, and subsidies for training to attract call centers.

The rise of so many new locations for outsourcing is forcing existing providers to get even more global. U.S. companies such as IBM (**IBM**) and Accenture Ltd. (**ACN**) are beefing up their presence in Central Europe and Brazil. Indian giants such as Infosys Technologies Ltd. (**INFY**) and Tata Consulting Services Ltd. are buying or opening operations in China and Europe. And No. 2 Mexican outsourcer Neoris Inc., which runs centers in Monterrey and Rosario, Argentina, is opening a facility in Budapest to handle European clients. "The point is to serve customers wherever they are," says Carlos Castilla, vice-president for services outsourcing at Neoris. And to tap into the talent of countries hungry to join the outsourcing craze.

Outsourcing Goes Global

India still dominates services offshoring, with three-fifths of total industry revenues, but other countries around the world are trying to horn in on the lucrative work

REGION	CENTRAL AND EASTERN EUROPE	CHINA AND SOUTHEAST ASIA	LATIN AMERICA AND CARIBBEAN	MIDDLE EAST AND AFRICA
Market Size	$3.3 BILLION	$3.1 BILLION	$2.9 BILLION	$425 MILLION
Top-Ranked* Countries	Czech Republic, Bulgaria, Slovakia, Poland, Hungary	China, Malaysia, Philippines, Singapore, Thailand	Chile, Brazil, Mexico, Costa Rica, Argentina	Egypt, Jordan, United Arab Emirates, Ghana, Tunisia
Up-and-Comers	Romania, Russia, Ukraine, Belarus	Indonesia, Vietnam, Sri Lanka	Jamaica, Panama, Nicaragua, Colombia	South Africa, Israel, Turkey, Morocco
Emerging Local Providers	Luxoft (Russia), EPAM Systems (Belarus), Softline (Ukraine), DataArt (Russia)	NCS (Singapore), Bluem, Neusoft Group, BroadenGate Systems (China)	Softtek (Mexico), Neoris (Mexico), Politec (Brazil), DBAccess (Venezuela)	Xceed (Egypt), Ness Technologies (Israel), Jeraisy Group (Saudi Arabia)

Data: Gartner, A.T. Kearney, Nasscom, *BusinessWeek*

* Rankings by A.T. Kearney list countries in order of attractiveness for outsourcing, based on costs, people skills, and business environment. (Source: A.T. Kearney Global Services Location Index 2005)

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