Chile: A Top Destination for Global Services

Quality and stability of an OECD country at Latin American costs

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InvestChile CORFO

ATKEARNEY

Prepared on behalf of Invest Chile – CORFO
(Chilean Economic Development Agency) by A.T. Kearney

A.T. Kearney

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For additional information please contact christian.callieri@atkearney.com or johan.gott@atkearney.com

Invest Chile – CORFO

The Chilean Economic Development Agency (Corporación de Fomento de la Producción, CORFO), established in 1939, is the state organization in charge of promoting economic development. Throughout its long history, CORFO has supported entrepreneurs, businesspeople and innovators who need access to new technology and technical and financial assistance in order to succeed in world markets. Promoting joint public-private sector initiatives, 21st Century CORFO fosters improved management, partnership practices, innovation and the creation of new businesses—all of which contribute to the balanced economic development of Chile.

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1. Introduction

Although Chile has *All Ways Surprising* as its slogan, stability, competitiveness and prosperity capture the true attributes of Chile. Growing faster than any other country in Latin America over the past two decades, Chile's economy has expanded by an average of 4 percent per year since 2000. The country has balanced domestic reform with a global outlook, and is seeking trade and cultural relations with other countries around the world—all under the governance of a democratically elected, center-left coalition.

With its long-term view, the Chilean government has promoted reform and fiscal responsibility, and invested in education, infrastructure, and research and development. It has also enforced transparency, positioning the country as a leading destination for companies wishing to establish a global services platform in the region. Chile's success in creating an environment conducive to business is underscored by the fact that the country has initiated accession negotiations with the Organisation for Economic Cooperation and Development (OECD). Chile offers investors a business environment similar to that of other developed countries at Latin American costs, in addition to its "nearshore" advantages.

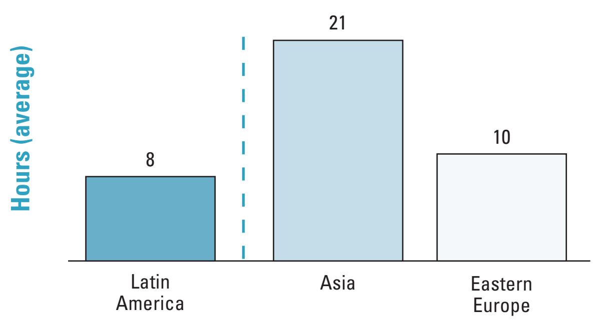
In the wake of the global economic crisis, as companies reassess their strategies for global service delivery, Latin America is solidifying its position as a prime export destination for multinational corporations (MNCs) and third-party service providers. Increasing economic stability, proximity to the United States, lower costs, similar time zones, language skills and cultural affinity all bode well for this emerging region. Compared to India and other Asian offshoring locations, Latin America offers a nearshore alternative with significant value and resources, particularly for companies in the United States. It has what many U.S. and some European companies want: a relatively low-cost and skilled bilingual (English-Spanish) workforce. In addition to the continued use of India and other Asian destinations for offshore solutions, more U.S. and European companies are eyeing Latin America as a viable nearshore or offshore alternative, primarily in response to client demands to diversify their global footprints. Within Latin America, Chile stands out as having the most stable political and business environment along with world-class infrastructure and a skilled workforce.

North American and European companies' interest in Latin America is primarily twofold—it offers an alternative destination for English-based services and a location from which to serve their large Spanish-speaking clientele. After Mexico, the United States has the largest population of Hispanics in the Americas at 45 million citizens and growing. As this group continues to gather economic strength, it is understandably drawing increased attention from corporate America.

In addition, Latin America's geographic proximity to the United States offers clear advantages over locations such as India and the Philippines to companies seeking lower-cost destinations closer to their main operations. Rather than a 20-hour plane ride to India or China, U.S. executives can enjoy a four-hour flight to Mexico or, at most, an 8- to 12-hour overnight flight to Santiago, Chile. Similar time zones make systems batching processes less complicated and agents can work the same business hours as their U.S. customers *(see figure 1.1)*.

Figure 1.1

Travel time from major U.S. hubs



Source: A.T. Kearney analysis

Moreover, Latin America is a large consumer market with a flourishing domestic services industry. Offering a healthy number of skilled resources and a sophisticated business process outsourcing (BPO) sector that has been serving a variety of industries, including financial services, retail and manufacturing, Latin America has the necessary elements to expand internationally and become a key competitor in the global services industry.

Latin America's cultural affinity with the United States and Europe further strengthens its position as a hub for global services. For instance, entertainment, dining and social customs are closely aligned with Western cultures, and immigrant communities in Latin America share characteristics with communities in the United States, especially those in Argentina, Brazil, Chile and Uruguay. These similarities provide an easier link to North American and European corporate culture for captives, and eases partnering relationships with outsourcers. Amenities in larger cities such as São Paulo, Buenos Aires, Mexico City and Santiago are comparable to those in New York, Chicago, Miami, Los Angeles and major cities in Europe, which is an advantage when attracting expatriates to the region.

Every year, with increased economic stability, the nearshore advantages of Latin America become more compelling. Many MNCs have expanded their presence and are now better positioned to expand their global footprint by settling in Latin America. This phenomenon is best exemplified by Chile as it successfully translates its sound business environment into tangible results, attracting new multinational companies each year. Yet, for many executives, there are still more questions than answers: What makes Latin America so appealing? Which Latin American countries provide the most attractive destinations? Is the region economically and politically stable enough to invest in? How does Latin America compare with Asia? Can both locations be leveraged simultaneously?

This paper answers many of these questions and discusses the advantages of offshoring and nearshoring to Latin America. Special attention is given to Chile, a top-ranked country in the region and the world. To understand its overall attractiveness as a global services exporter, Chile's strengths and challenges are analyzed and compared to other commonly considered locations in the Americas.

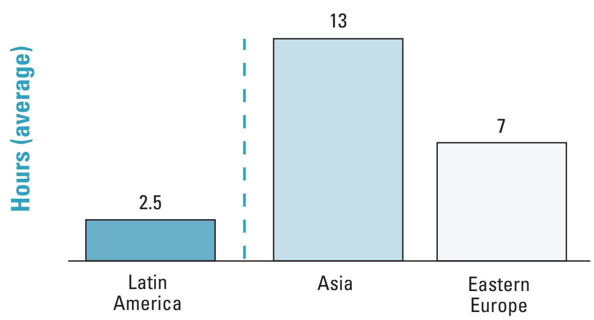
2. Latin America: A Key Offshore Destination

Latin America is at the center of the offshore discussion primarily due to its language capabilities and low costs. The region provides MNCs with both a competitive alternative and a complement to offshoring in Asia. Whether a company's objective is to expand, diversify its global footprint or move operations to an equivalent location closer to headquarters, Latin America is well positioned to steal market share from traditional Asian offshoring locations. The region has the scale and breadth of offerings to become a leading destination for those seeking to provide global services. As such, efforts to promote the region should benefit all countries: after all, what is good for Latin America is good for each country.

Furthermore, working in cooperation with Asian outsourcing providers, a Latin America-based global services team is a key component to a globally integrated team, with the ability to offer services 24 hours a day *(see figure 2.1).* Another

Figure 2.1

Time zone differences with the United States



Source: A.T. Kearney analysis

advantage, the similarity in cultures, is not to be underestimated. It allows North American and European companies to retain their corporate cultures in captive centers, eases business with outsourcers and makes it easier for expatriates to adapt to the new environment.

Comparing Latin America, Asia and Eastern Europe

A.T. Kearney research indicates that the most attractive Latin American countries for offshore and nearshore work are Chile, Mexico, Brazil, Costa Rica and Argentina. Costa Rica is a smaller but established player in the BPO and shared services market. Brazil is a top IT outsourcing (ITO) services player and has the largest call center market in the region, and is making efforts to promote its domestic market in the international arena. Meanwhile, operations in Mexico have been complementary to those in India. While each country has its particular advantages, as a region, Latin America is a top offshoring destination offering unique attributes that can compete with Asia and Eastern Europe.

A.T. Kearney's Global Services Location Index ranks 50 countries—including those listed above—in terms of their cost attractiveness, business environment and availability of skills and labor. In the Index, Chile is the only Latin American country that ranks among the world's top 10 offshore locations, while Brazil and Mexico are among the top 15.

Language Capabilities

Serving Spanish-speaking customers is merely the threshold to a larger window of opportunity—serving English-speaking customers at the same time. As India and the Philippines have shown, solid English language skills are a major advantage for the offshoring of service exports. Mexico, Costa Rica and Argentina are capitalizing on their large number of English speakers by offering bilingual services in BPO and contact centers. From operational and cost-efficiency perspectives, bilingual centers allow companies to deliver the same processes and service levels to their entire customer base from a single location.

Chile, with an already strong outsourcing platform and telecom infrastructure, is strengthening its English-speaking credentials. For example, as part of its effort to capture more investment, the Chilean Economic Development Agency (CORFO) launched a plan in 2004 to increase the number of English speakers. Although Chile's current estimated English-speaking population is comparatively small, in just five years Chile has almost tripled its number of registered English speakers from approximately 14,000 to nearly 40,000. The official roster of English speakers would seem to have some gaps as alternative sources estimate that about 2 percent of the population speak English, and as many as a quarter million Chileans speak English and hold professional degrees, which suggests that the pool of English speakers is even larger than the registry implies. Brazil is also making an effort to expand its English skills. While several shared service centers and regional headquarters of multinational corporations have full bilingual staff (especially in higher-skilled jobs), the largest contact centers have not yet ventured into English offerings, primarily because they serve the large domestic Portuguese-speaking market.

Talent and Resources

A primary reason for selecting one global services location over another is the availability and quality of its talent and resources. Companies typically send high-turnover functions offshore, such as data entry and call centers. Therefore they want to ensure that their desired location has a critical mass of available labor. A reliable indicator of labor resources is not only the city's population but also the number of colleges and universities, the number of graduates per year, and the presence of similar operations in the area. Latin America has at least 15 major cities with total populations of 1.5 million or above and a large number of universities. These cities include, but are not limited to, Guadalajara, Mexico City and Monterrey in Mexico; Buenos Aires in Argentina; São Paulo and Rio de Janeiro in Brazil; Bogotá in Colombia; and Santiago in Chile.

In Brazil, São Paulo and Rio de Janeiro are the largest metropolitan areas, however, in this country of 195 million strong, size is not an issue, and a number of other cities—especially in the south—also meet the criteria. Similarly, in Chile, Valparaíso and Concepción are "Tier II" cities that offer companies a significant labor pool in both quantity and quality at a 45 percent discount compared to Santiago. Furthermore, the service industries in Latin America are already large and well established domestically, which means there is a broad and sophisticated pool of technical and managerial talent that can be further leveraged to provide services offshore. In addition, because the market for exported services has not become as frenzied as in Asian locations, attrition remains manageable.

Chile offers a highly skilled workforce, with about 47 percent of the population enrolled in tertiary educational institutions, the second highest university enrollment in the region. In addition, Chile's educational institutions include some of the top universities in Latin America as well as a number of technical colleges that specialize in disciplines such as IT and life sciences.

Cost Attractiveness

Language and technical skills are important when making offshore decisions, but cost remains a critical factor for companies considering shared services center locations. Today, Latin America can claim a significant cost advantage over Europe and the United States. In particular, Chile provides a cost-competitive alternative to the United States and Europe, with an arbitrage of approximately 45 percent. With increasing wage inflation in India and the appreciation of the rupee causing Indian IT services to get approximately 20 percent more expensive, more eyes are turning to Latin America. This is evident in the arrival of several Indian-based BPO suppliers, such as Tata Consultancy Services and Wipro, in Latin America that are responding to key clients' demands to expand their global footprint.

3. Latin America and Corporate Global Strategy

Any company considering locations to serve its global needs has multiple viable alternatives. As offshore decisions are based on more than just costs, the decision rests on determining the location that best meets a company's strategy. Hence, many companies do not have to decide between Asia and Latin America; rather, they can opt for both. For example, Evalueserve, an investment, data and market research firm with operations in India, expanded its operations into Chile in 2006 to provide day-time research support to clients in the United States. Company officials explain that Chile presented an ideal platform for their 150-person operation: a predictable business environment with political stability, strong finance and business talent, the same time zone as the U.S. market, and competitive costs with São Paulo and Mexico City. The firm's Chile-based employees are part of an Evalueserve team that includes staff located at the client site in the United States and at a larger center in India. This integrated approach to global services delivery allows the Chilean team to have real-time interaction with the client, shortening response times and increasing productivity.

While Latin America has a promising future, it is still not as mature as India in terms of exporting IT/BPO services to the rest of the world. It has, however, had the capabilities locally for a number of years. The following outlines a few criteria companies use in deciding which functions to send where.

Attrition

While retaining personnel was among the major challenges that India, Philippines and other Asian locations faced prior to the economic crisis, especially on the night shifts, this continues to be less of a problem in Latin America. Some Asian call centers report attrition rates in those "hot" markets ranging from 20 percent to more than 100 percent, with well-established finance and accounting captive centers reporting a range of 10 percent to 30 percent. In Latin America, however, attrition is around 10 percent to 25 percent for outsourced call centers, and about 5 percent for captive shared services centers. These numbers are driven by the unique attractiveness of these jobs, higher unemployment, less competition for talent and predominantly daytime working hours.

Time Zones

One of the main advantages in Latin America is the ability to provide real-time services with the United States, with supervisory staff and executives at both locations able to resolve issues in real time. In Asia, however, time differences can sometimes force managers to wait until the next day to address an issue. In addition, IT systems batching is less an issue in Latin America, because both operations (onshore and nearshore) are closed at the same time—at night. This factor also eliminates the requirement to pay higher wages on night shifts. Moreover, being able to be on the nearshore site within the same business day (or early the next morning without missing work hours while airborne) allows executives to visit different company sites without losing much time.

Regional Stability

Despite recent political pendulum shifts in some countries, Latin America remains a stable region, without major ethnic or civil tensions or major cross-border conflicts. In Asia, many service locations still run a risk of internal disturbances and significant cross-border tensions. This has been particularly highlighted by the Mumbai terrorist attacks in 2008 and the increased geopolitical risk in India's neighbor Pakistan. In contrast, Chile is ranked as one of the safest countries in which to do business throughout the world, while Uruguay and Costa Rica also present favorable business environments.

4. Latin America and the Caribbean in the Global Services Location Index

A.T. Kearney first developed the Global Services Location Index in 2003. Now in its fifth iteration, the Index is a tool to help companies understand and compare the factors that make countries attractive as potential locations for IT/BPO and other business services. The Index measures the viability of 50 countries as offshore destinations based on their financial costs, people skills and availability, and business environment, using more than 40 metrics. The results of the 2009 Index are shown in figure 4.1.

Key Findings from A.T. Kearney's 2009 Global Services Location Index

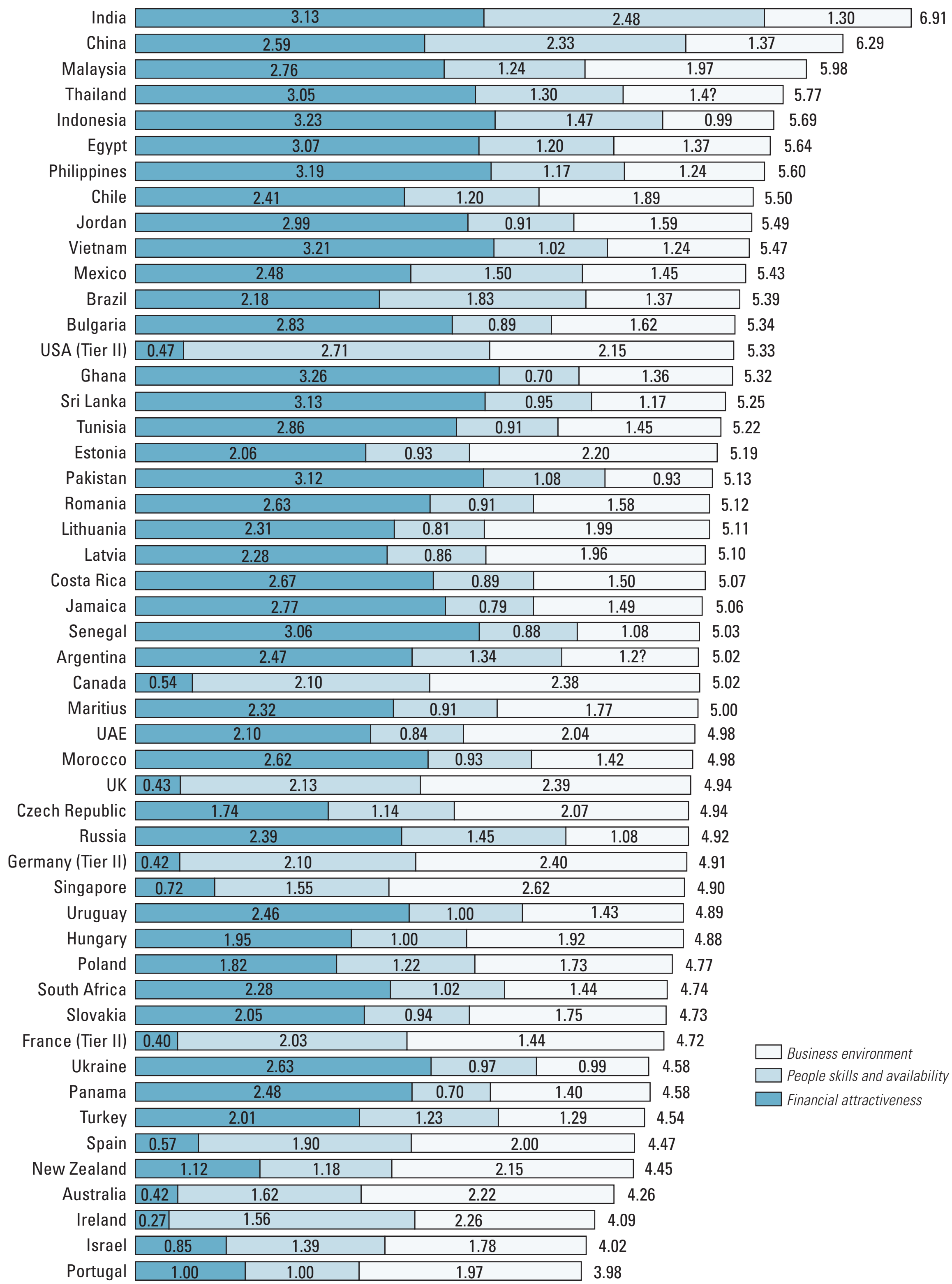
- Chile regained its top spot in the Americas, and ranks 8th overall
- India, China and Malaysia have stayed on top of the Index as they defy the tradeoff between financial attractiveness on one hand, and people skills and availability, and business environment on the other
- Newcomers to the top 10 include Egypt, Jordan and Vietnam
- Locations in Eastern Europe such as the Czech Republic and Poland have fallen sharply in the rankings due to rising costs

Latin America and the Caribbean: Staying Strong

As a region, Central and South America maintained a strong showing in this year's Index. While some countries fell one or two spots due to the rise of other countries in the Index, the Caribbean seems to have made significant strides forward as evident in Costa Rica's rise from 34th to 23rd

Figure 4.1

Rankings in A.T. Kearney Global Services Location Index™, 2009



Note: Values below 0.2 not shown

Source: A.T. Kearney Global Services Location Index, 2009 place and by Jamaica's rise from 32nd to 24th place. Meanwhile, Chile, Brazil and Mexico have remained among the top 15 offshoring locations in the world. As companies rethink their offshoring strategies in the wake of the crisis, efforts to improve the overall business environment and to increase the number of English speakers and internationally recognized certifications has drawn much attention, in spite of rising costs. Nevertheless, there is still much room for improvement, which is evident in Argentina's ranking—113th out of 181 countries—in the World Bank's "ease of doing business" report.

Chile, which took the top spot in the Americas on the 2009 Global Services Location Index, has consistently ranked between 7th and 9th place from 2004 to 2009, solidifying its standing as a contender in the global top 10. The key to Chile's success is its political and economic stability, which fosters a business-friendly environment. In addition, Chile has increased its talent pool through training and promotion of the IT/BPO market, making it all the more attractive. While other countries in the region have suffered from inflationary pressures, Chile's targeted inflation policy and stable currency offer multinational firms an economic environment equivalent to OECD countries.

Mexico and Brazil also perform well in the 2009 Index, coming in at 11th and 12th places, while Costa Rica, Jamaica and Argentina are in the middle of the rankings at 23rd, 24th and 27th place, respectively. Due to the rise of other countries, Uruguay fell to 36th place. With a small talent pool and domestic IT/BPO market and high infrastructure costs, Panama ranks toward the bottom in 43rd place.

5. Chile's Case

Long heralded as an example of development in Latin America, Chile presents a predictable business environment, political and economic stability, a talented labor pool and an outstanding telecom infrastructure. Although it has a relatively smaller population, Chile still ranks as the most attractive global services location in Latin America and 8th in the world, according to A.T. Kearney's Global Services Location Index. This is thanks to the Chilean government's commitment to establishing clear investment rules, investing in the development of its labor pool and maintaining Santiago's reputation as one of the safest cities in the region. Furthermore, MNCs invest in Chile in part due to the support they receive from CORFO. One of the most active economic development agencies in Latin America, CORFO maintains ongoing relationships with investors, offers continuous support and works with industry, government and universities to further improve Chile's business climate.

Chile's main focus, as outlined in its industry growth strategy, is attracting higher value-added services, an effort led by CORFO. Specifically, the government is interested in attracting knowledge process outsourcing (KPO), biotechnology research and development (R&D), and IT-related services, and establishing captive operations, which require significant investments. To date, nearly 40 multinational firms have opened global services operations in Chile, spanning a range of industries from airlines and mining to financial institutions and software development. Recent success stories include companies such as JPMorgan Chase and Oracle, which support their global operations from Santiago, and companies such as Yahoo! and Pioneer that have R&D centers in Chile. In an effort to further expand Chile's offshoring exports market, CORFO continues to promote Chile in the international services arena and to work with industry and other government agencies to improve Chile's business environment.

Chile's small population is reflected in the limited size of its labor pool. The Chilean government, mindful of this limitation, is dedicating more resources to growing the size of an already talented workforce and to honing the skills of those in the workforce. Two areas of particular focus are the improvement of English skills and the development of expertise in science and technology. The government has formed a working group—comprising government officials, private sector executives and university representatives—focused solely on the development of human resources. The objectives of this group include growing the pool of qualified talent and ensuring that universities and technical schools provide students with the necessary tools required by companies in the global services industry. Chile recognizes and is working on improving many of its other limitations as well, such as accelerating compliance of its foreign trade agreement commitments on intellectual property protection, and simplifying value-added tax reimbursement procedures for service exports.

Chile has a range of characteristics that position it as an attractive location for offshore services, including:

Cost Position

- One of the simplest tax structures in the region
- Stable currency and low exchange rate risk
- Compensation costs are competitive with OECD countries
- Competitive telecommunications and real estate costs
- Low corruption-related costs

People and Skills

- High literacy rates and tertiary school enrollment
- Availability of scientists and engineers
- Initiatives underway to build up its limited pool of labor and English-speaking workers
- Strong work ethic
- Enterprise-friendly labor laws
- Western cultural affinity
- Second-highest R&D investment per capita in the region after Brazil, and reaching for OECD levels

Business Environment

- Political and economic stability
- Developed infrastructure that is among the best in region
- Similar time zone as the United States, for instance, Eastern Standard Time for six months of the year
- Sound institutions and transparency
- Strong macroeconomic indicators: low interest rates, healthy and sustainable GDP growth, healthy reserves and low inflation
- Strong support for investment development

Quality of Life

- Santiago is the safest major capital city in Latin America
- Wide variety of amenities and entertainment options
- Flights to main hubs worldwide
- Ski and seashore less than two hours from Santiago
- Growing expatriate community

Current Activities and Early Successes

Chile successfully attracted investments in the early part of this decade. Now, with further improvements to its business environment and more focused promotional efforts, Chile has attracted investors at an increasing rate across a range of remote services segments. Several multinationals have chosen to locate service centers in Chile, and a number of local vendors are delivering a wide variety of services to international clients. Some of the most recent success stories include the following:

Biotechnology

- ***Pioneer Dupont:*** The leading developer and supplier of advanced plant genetics, Pioneer Dupont, opened a research center in the northern region of Arica y Parinacota. The company has also signed an agreement with the Universidad de Tarapacá and the Instituto Santo Tomás, which will be responsible for training the agronomists, biologists and biotechnologists that will work at the center. Pioneer chose Chile because of its qualified talent pool, phytosanitary standards and the region's favorable climatic conditions.

- ***Synthon Holdings:*** Synthon, a specialty pharmaceutical company, opened its Chilean operations in 2008 in an effort to expand its presence in Latin America. It plans to use its lab in Chile to develop and manufacture products for both regional and international markets. The company chose Chile for its economic and social stability, government support, favorable tax system and qualified labor pool.

Knowledge Process Outsourcing (KPO)

- ***Evalueserve:*** This global KPO provider, focusing on investment, data and market research with a presence in India and China, established its first Latin American center in Chile in late 2006. The operation provides day-time and geographical-expertise research support to investment banks in the United States. Evalueserve uses its Chilean team in conjunction with its operations in India and China to provide its clients a fully integrated global delivery platform. Chile was selected due to the combination of country stability, proactive support of the government, and availability of highly educated human resources.
- ***Yahoo!:*** Yahoo! opened its only research lab in Latin America in Santiago, hosted by the Engineering School at the University of Chile. The lab focuses on Web search and mining analysis which is used as inputs to future software developments. Chile was selected primarily because of its talent pool in the computer science field.
- ***Experian:*** Experian, an Irish provider of financial analysis services, opened its first operations in Latin America last year. In addition to financial analysis, the Chilean center's bilingual staff focuses on risk management services, software development, IT applications and technical support. Chile was chosen because of its superior telecommunications infrastructure, shared time zone with U.S. clients and attractive business environment, among other reasons.

Contact and Technical Support Centers

- ***Teleperformance:*** Global contact center solutions provider Teleperformance started its operations in Chile in 2006. The company offers both English and Spanish customer service and technical support to its clients in the United States. Executives have highlighted work ethic and the level of professionalism as reasons why they selected Chile.
- ***Delta Air Lines:*** Delta established its call center operations in 2001 in Santiago. It consolidates bilingual reservations and customer service calls from 19 countries in Latin America and Spanish services in the United States. The center has bilingual (English and Spanish) capabilities and manages a volume of 70,000 calls per month. Delta chose Chile due to its political, economic and labor stability, and wide access to telecommunications.

Business Process Outsourcing (BPO)

- ***Konecta:*** Konecta, a Spanish BPO vendor, set up a service center for its European clients in Chile in late 2006. After a comprehensive selection process, Chile was chosen for its political and economic stability, attractive business environment and government support. After the success of its first Latin American center in Chile, Konecta decided to expand its operations to Argentina, Mexico, Colombia and Peru.
- ***Oracle:*** In 2007, Oracle set up a shared services center in Santiago. With a fully bilingual staff, the center does back-office work for its Latin and North American operations. The company decided to open its Latin American center in Chile because of low attrition rates,

competitive costs, a talented labor pool, economic and political stability, and a business-friendly environment.

- ***Capgemini:*** According to a seven-year agreement, French services provider Capgemini has taken over the management of all of Unilever's financial and accounting processes for the region. In 2001, Unilever established a captive service center in Santiago for its accounting operations, providing services to 18 countries in Latin America, except Brazil due to language and Brazilian service import tax barriers. Chile was selected because of a combination of depth in accounting expertise, political, economic and labor stability, and strong telecom and other infrastructure requirements.

Information and Communications Technology (ICT) Services

- ***JPMorgan Chase:*** Multinational bank JPMorgan Chase opened a captive center in Santiago, providing services in database management, system and Web administration, and risk and project management. The company had a captive technology hub in India, but decided to open this center to diversify its back-office global footprint. The center serves internal clients primarily in the United States and the United Kingdom, and has a fully bilingual staff. JPMorgan Chase chose Chile for its political and economic stability and government support.
- ***Everis:*** The Spanish outsourcing and consulting firm has been in Chile since 1998 and is now the largest consulting firm in the country. In 2006, Everis opened its offshoring center in Temuco, the capital of the southern region La Araucanía. The center works with local universities and offers an internship program in which students are sent to Europe for training and then return to Chile. The center offers engineering and IT services. As the first center outside of Spain, Everis chose Chile for its high-quality professionals, competitive costs, strong rule of law and because it is the gateway to the rest of Latin America.
- ***Synopsys:*** Synopsys is a global leader in engineering design automation, specializing in software for applications in integrated circuits. The company gained a Latin American presence in 2006 with the opening of its operation in Santiago. Clients include Intel, AMD, Toshiba, Fujitsu and Cisco. The company chose Chile due to its regional stability, qualified engineering graduates, salary stablility and quality of life.

6. Quantitative Benchmarking of Chile

To better understand Chile's offshore attractiveness, an assessment of its relative strengths and weaknesses was developed by benchmarking Chile against key competitors on each major factor that companies consider when choosing offshore locations.

A.T. Kearney's Global Services Location Index evaluates 50 countries as potential locations for the most common remote services, including IT services and support, contact centers and back-office support. Each country's score comprises a weighted combination of relative scores on 41 individual metrics, which are grouped into three categories: financial attractiveness, people skills and availability, and business environment. The Index is widely regarded as the most robust and accurate indicator of the relative attractiveness of locations for offshore services. Figure 6.1 highlights the metrics used for this benchmarking.

A comprehensive set of data was analyzed to understand the relative position of Chile when compared to other regional offshore services locations in Latin America. Using these metrics, Chile's performance was compared to 10 other countries in the region—those that are typically considered alongside Chile by companies seeking offshore or nearshore alternatives *(see figure 6.2).*

Figure 6.1

Key metrics in Global Services Location Index

Category (% of total)	Dimension	Description of metrics
Financial Attractiveness (40%)	• Compensation costs	• Average wages • Average compensation costs for relevant positions (BPO analyst, IT programmer, contact center representative)
	• Infrastructure costs	• Average cost of infrastructure (occupancy, electricity, telecommunications) • Blended travel cost to major customer destinations (New York, London and Tokyo)
	• Tax and regulatory costs	• Relative tax burden, costs of corruption and exchange rate movements
People Skills & Availability (30%)	• Cumulative IT and BPO experience and skills	• Estimated IT and BPO sector size • Quality/skill ratings for relevant positions (quality of management school and college education, relevant industry certifications for IT, BPO and contact centers)
	• Labor force availability	• Population age 15 to 39 • Total tertiary enrollment
	• Language and cultural adaptability	• Scores on standardized education and language tests • A.T. Kearney Globalization Index® "personal contact" index scores (a combined score showing relative international exposure of people through travel, telephone and remittances)
	• Attrition rates	• Relative industry growth and unemployment rates
Business Environment (30%)	• Country risk (economic and political)	• Economic risk (overall business environment; foreign direct investment confidence levels from A.T. Kearney's FDI Confidence Index™; survey of global investment outlook of executives from the world's largest corporations) • Political risk (political stability, terrorism risk, regulatory burden, government promotion of sector)
	• Infrastructure quality	• Blended metric of country infrastructure quality (telecom, internet, air transport) • Overall quality of local infrastructure
	• Regulatory compliance	• Ratings of intellectual property protection • ISO information security certifications • Software piracy rates

Source: A.T. Kearney analysis

Figure 6.2

Benchmarking countries

Source: A.T. Kearney analysis

Financial Attractiveness

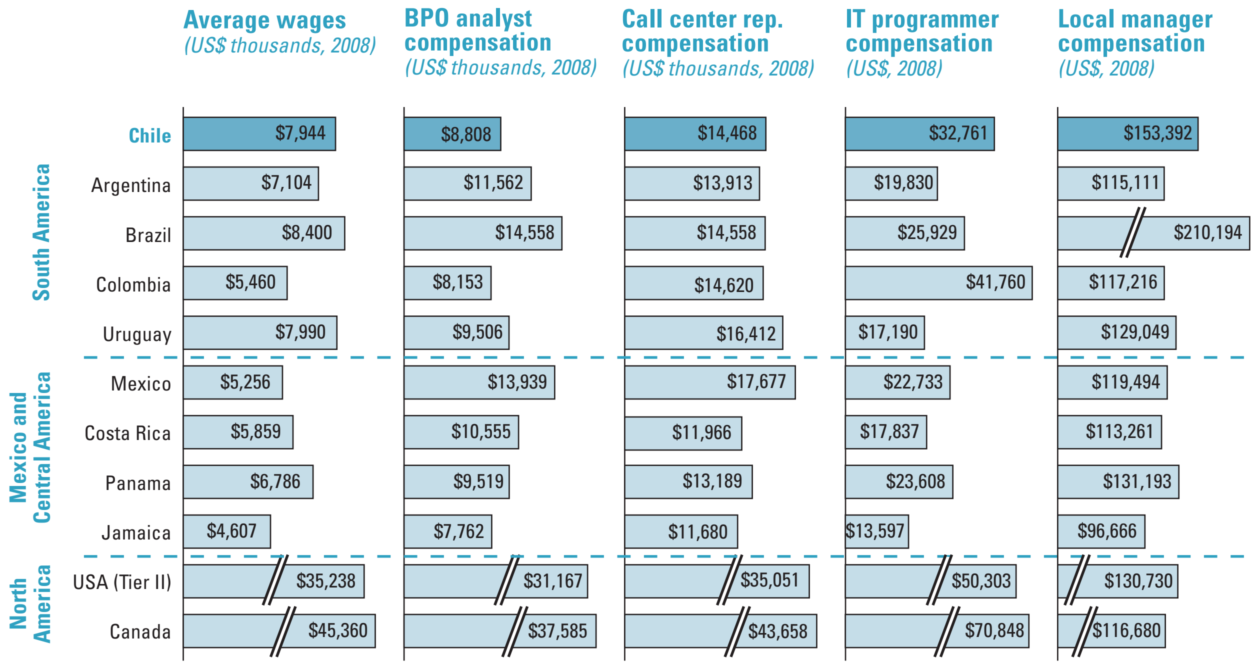
In terms of financial attractiveness, Chile offers a competitive alternative. Average compensation costs, while significantly lower than the United States and Canada, are high in the Latin American context. Relatively speaking, Chile is more competitive in lower end jobs such as BPO analyst and contact center representative *(see figure 6.3 on page 12)*.

Chile's infrastructure costs tend to be better in comparison to its regional neighbors. Office rents in Argentina, Brazil, Colombia and Mexico are higher than they are in Chile. When looking at other infrastructure costs as well, Chile finds itself in the middle of the group for this key category *(see figure 6.4 on page 12)*.

Chile has the lowest total tax rate in the region. Overall tax rates have stayed flat, with a slight decrease from 26.3 percent of commercial

Figure 6.3

Average labor cost indicators

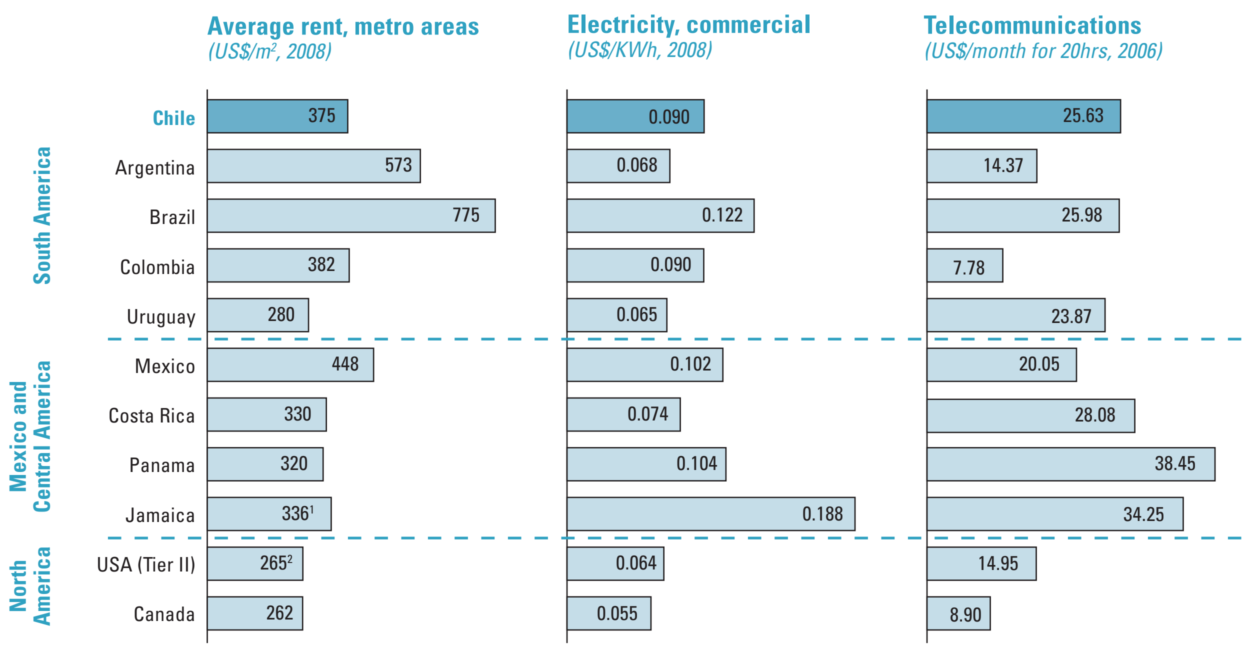


Notes: All wages are annual. Compensation includes fully loaded base wages with fringe benefits, taxes and bonus. Estimates used when data not available

Source: Economic Intelligence Unit; Mercer; Watson Wyatt; World Bank's Doing Business; A.T. Kearney analysis

Figure 6.4

Infrastructure costs

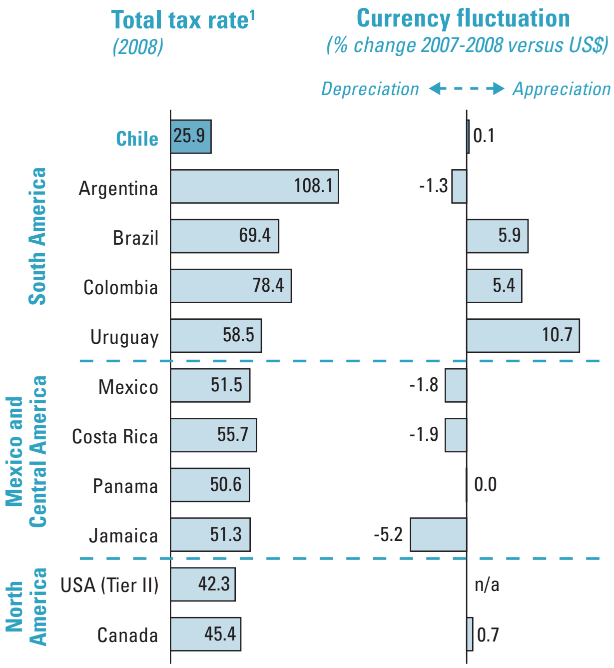


[1] Santo Domingo, Dominican Republic
[2] Average for Dallas, Indianapolis, Kansas City

Source: CB Richard Ellis; International Energy Agency; International Telecommunication Union; A.T. Kearney analysis

Figure 6.5

Tax burden and currency fluctuation indicators



[1] *The total tax rate measures the amount of taxes payable by the business in the second year of operation, expressed as share of commercial profits*

Source: World Bank Doing Business; Economist Intelligence Unit; A.T. Kearney analysis

profits in 2006 to 25.9 percent today. Moreover, the exchange rate of the Chilean peso to the U.S. dollar has been fairly stable in the past year *(see figure 6.5).*

When all financial factors are taken into account, Chile ranks significantly higher than the North American alternatives, therefore emphasizing the existence of a favorable cost arbitrage. However, Chile is at a disadvantage compared to other offshore locations in Central and South America, due to its higher compensation costs *(see figure 6.6).* Still, Chile ranks higher than Brazil, the largest economy in the region; while Argentina, Costa Rica, Mexico and Uruguay, the main alternative countries that can offer Spanish-speaking services, all present more favorable cost competitiveness.

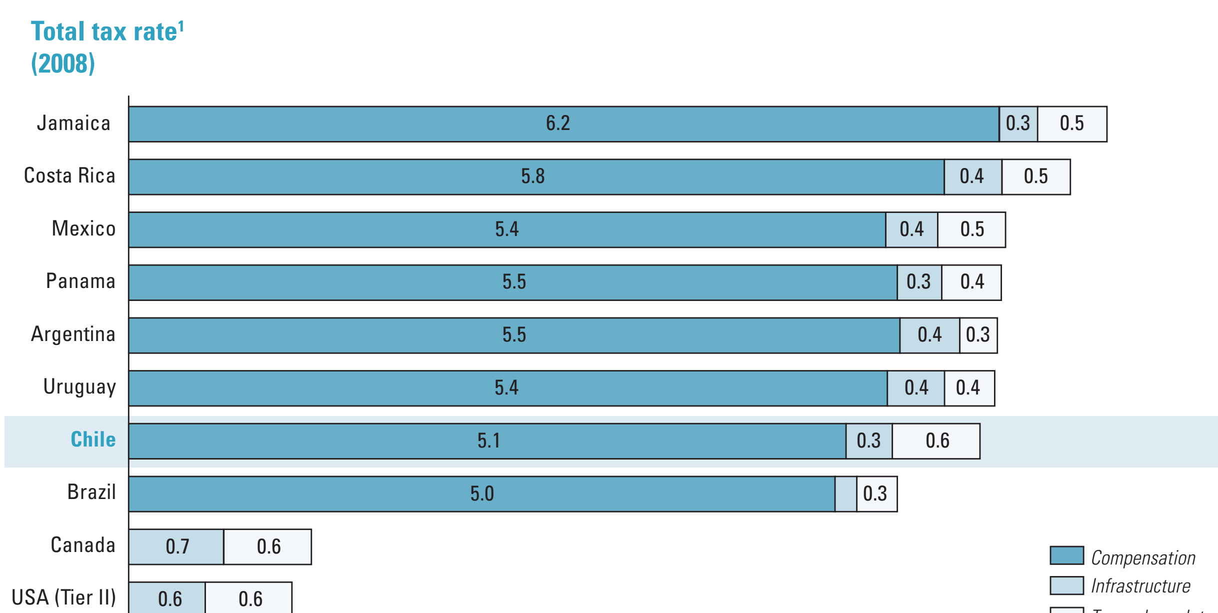
People Skills and Availability

Population

Although Chile is relatively small when compared to Argentina or Mexico, its young workforce—ages 15 to 39, which is a proxy for those typically employed by IT/BPO global service centers—is larger than

Figure 6.6

Financial costs relative to other countries



Note: Values below 0.3 not shown

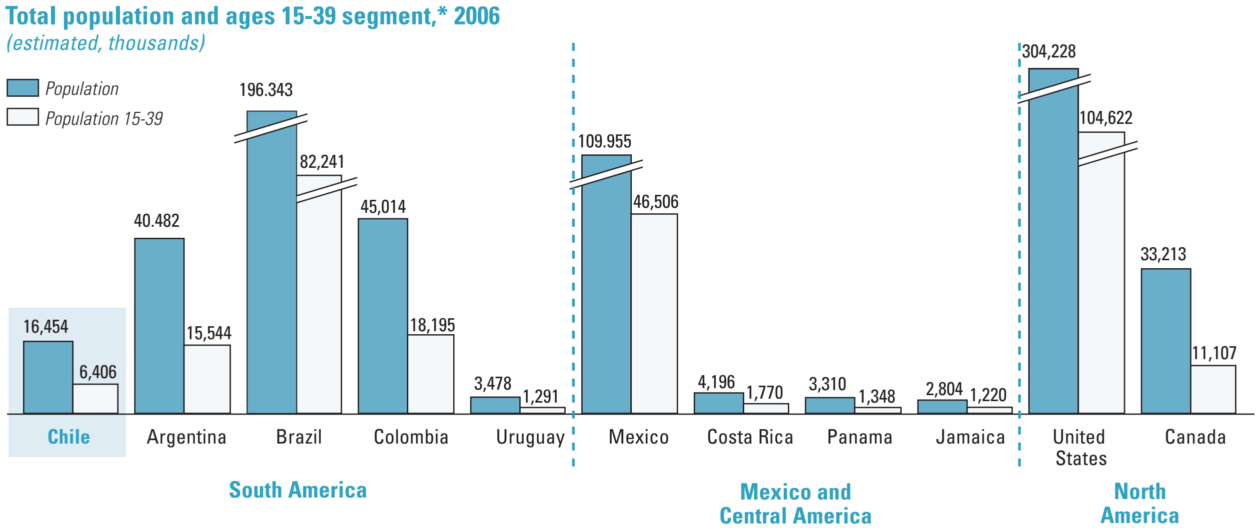
Source: A.T. Kearney 2009 Global Services Location Index, A.T. Kearney analysis peers in Central America and Uruguay, and can cater to several offshore sectors *(see figure 6.7).*

Literacy and Education

Independent of its size, Chile enjoys a higher rate of literacy compared to other key Latin American countries with larger populations, namely Brazil and Mexico *(see figure 6.8).*

Furthermore, Chile has a high percentage of secondary school enrollment and the second best tertiary school enrollment in the region, behind only Argentina *(see figure 6.9)*. This is a

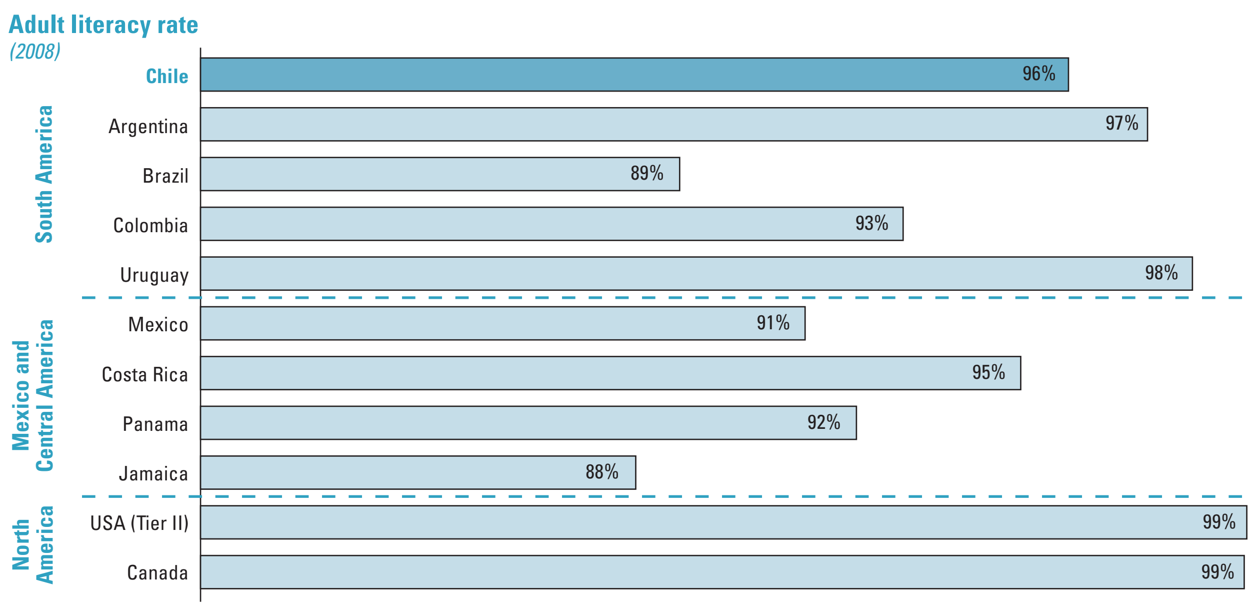
Figure 6.7
Population indicators



Note: Population ages 15-39 used as a proxy of the workforce targeted by IT/BPO employers in a country

Sources: U.S. Census Bureau; A.T. Kearney analysis

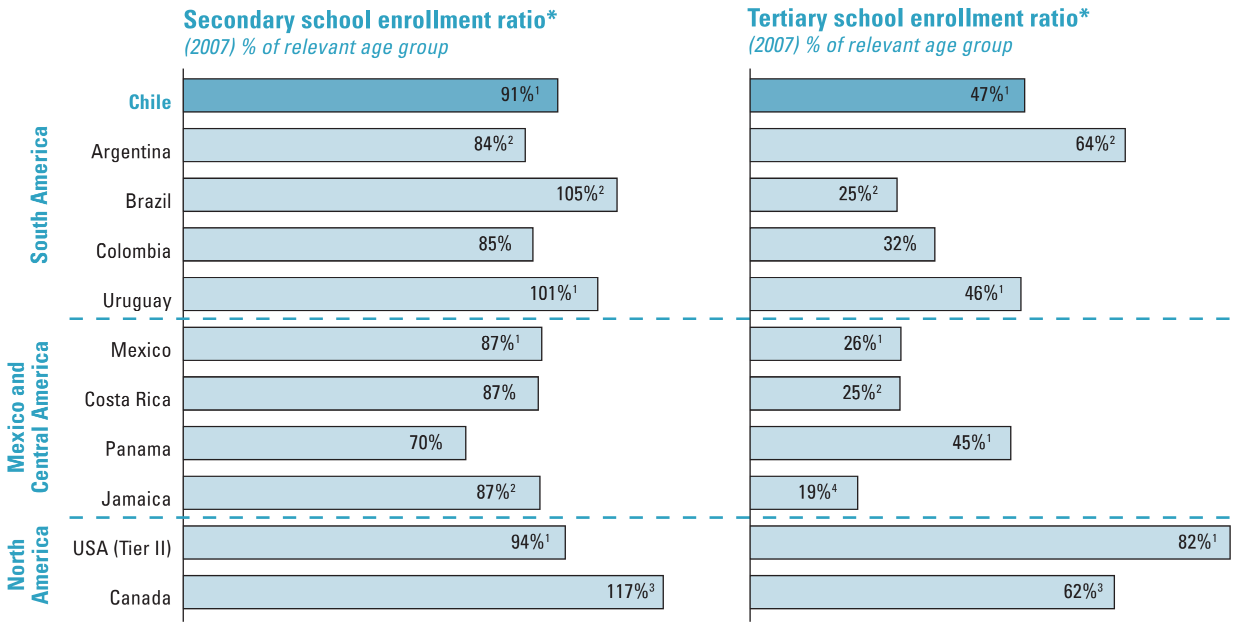
Figure 6.8
Literacy indicators



Source: CIA World Factbook

Figure 6.9

School enrollment indicators



*Note: *Gross enrollment ratios measure total enrollment in a specific level of education as a percentage of the total population corresponding to the relevant age group. These ratios indicate a country's capacity to accommodate its school-age population for given levels of education. A ratio of 100% or more suggests that pupils are over- or under-aged due to early or late entry, grade repetition, etc.*

[1] Data from 2006
[2] Data from 2005
[3] Data from 2004
[4] Data from 2003
Sources: UNESCO; U.S. Census Bureau

considerable asset to the country, as high enrollment is an early indicator of a larger, well-educated workforce.

The perception of the key components of Chile's education system is average to strong. While math and science programs are perceived close to average, Chile's management schools are perceived to be the best in Latin America and continuing to close the gap with the United States and Canada. Furthermore, Chile's scores on internationally recognized tests of English comprehension are comparable to those of peer countries.

While CORFO maintains a national registry of English speakers, most other countries do not, making it difficult to assess both the quantity and quality of English speakers in a given country. However, U.S.-based educational testing company ETS annually tests the English skills of hundreds of thousands of people in countries throughout the world, providing a rough estimate on the level of English capabilities in each country. Based on TOEFL test takers in 2007, English capabilities appear to be fairly even across Latin America. However, Argentina, Uruguay and Costa Rica lead the pack, followed closely by Chile and Brazil *(see figure 6.10 on page 16).*

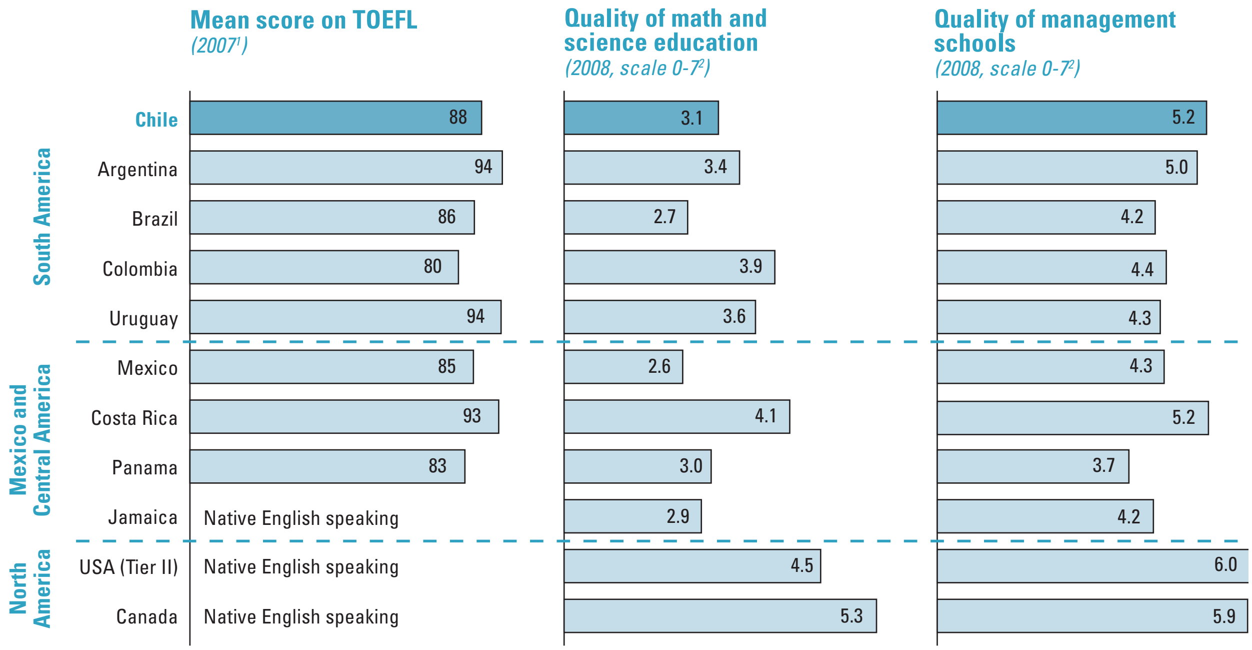
IT/BPO Market Size and Certifications

The 2007 IT/BPO market in Chile is estimated at over US$4 billion, up from nearly US$2.3 billion in 2005 *(see figure 6.11 on page 16).* This represents a compound annual growth rate (CAGR) of 32 percent. In addition, technical certification levels are higher in absolute numbers than Colombia, and close to other larger peers such as Argentina.

Research and Development

In 2005, the Chilean government pledged to reach R&D investment levels of 1.5 percent of GDP by 2010, half of which should come from the private sector. Since then, increasing R&D

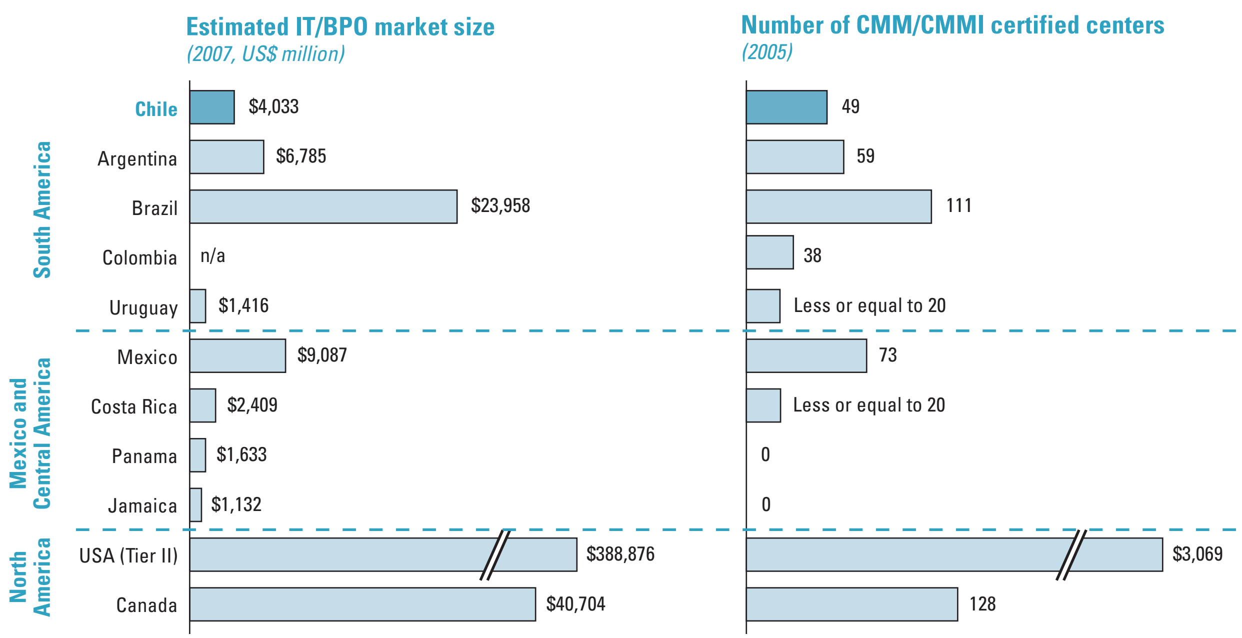
Figure 6.10
Education quality indicators



[1] Maximum score is 120
[2] Scale legend: 1=schools lag far behind most other countries, 7=schools are among the best in the world.

Source: Education Testing Service "Test of English as a Foreign Language"; World Economic Forum Global Competitiveness Report

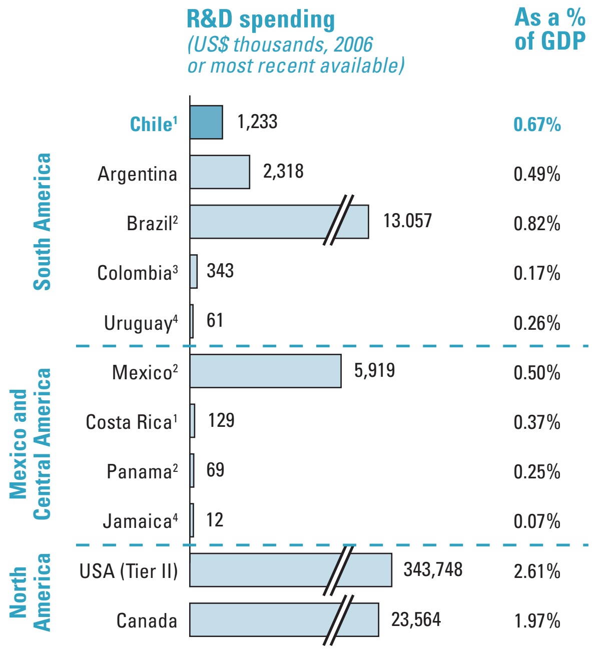
Figure 6.11
Estimated size of IT/BPO experience and skills



Sources: Gartner; IMF Balance of Payment Statistics; Carnegie Mellon Software Engineering Institute; A.T. Kearney analysis spending has been a national priority. Currently, 34 percent of R&D spending comes from the private sector in Chile, compared to about 70 percent in developed countries. To increase private-sector R&D spending, the Chilean government passed a law in January 2008 providing tax incentives to companies that hire universities or research centers to conduct R&D. R&D funding from the public sector has also been on the rise, partly due to revenue generated by a new tax on profits of the mining industry. Chile received a US$100 million grant from the World Bank to set up the Science and Technology Bicentennial Program to create research teams and promote collaborative research between universities and the private sector, and between Chilean and non-Chilean researchers. Additionally, in 2008 the government invested a record $100 million in innovative projects.

Chile ranks second in R&D in the region in terms of R&D spending as a percent of the country's GDP *(see figure 6.12)*.

Figure 6.12
R&D spending as a percentage of GDP



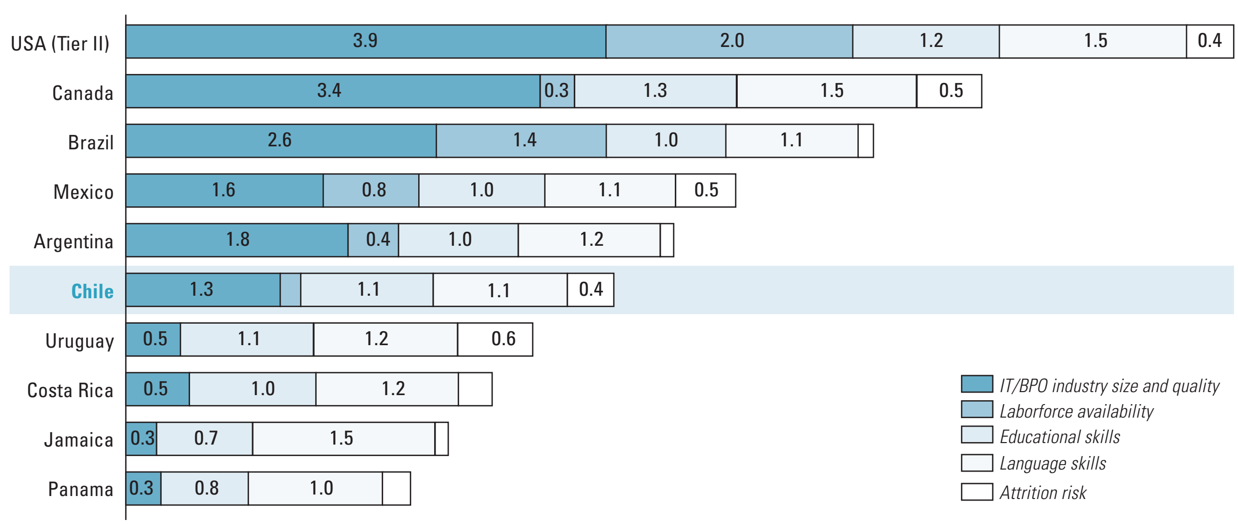
[1] Data from 2004
[2] Data from 2005
[3] Data from 2001
[4] Data 2002

Sources: UNESCO; Science and Development Network; A.T. Kearney analysis

Chile's Overall Ranking: People Skills and Availability

When all factors are combined, Chile outperforms several regional competitors, although it trails Brazil, Mexico and Argentina in terms of people skills and availability. This placement is mainly due to the size and availability of Chile's workforce *(see figure 6.13)*.

Figure 6.13
Chile's overall ranking in people skills and availability



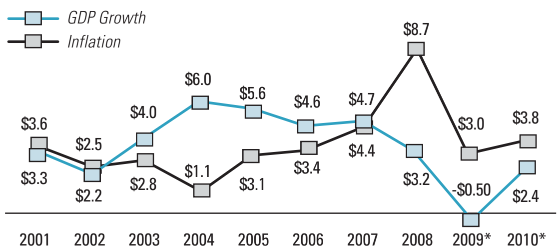
Note: Values below 0.3 not shown

Source: Analysis of A.T. Kearney Global Services Location Index, 2009

Figure 6.14

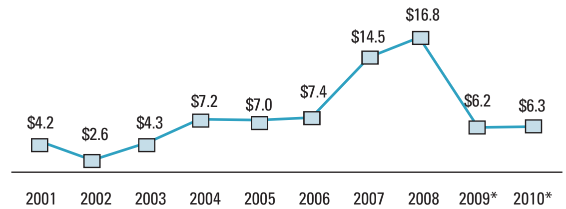
Macroeconomic indicators

Chile GDP and inflation



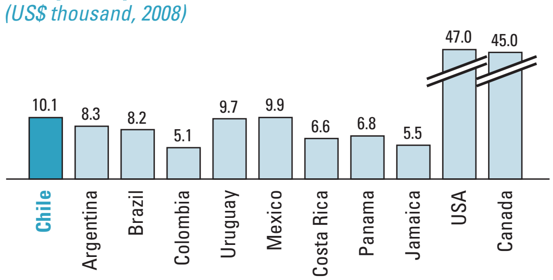
FDI flows

US$ billion



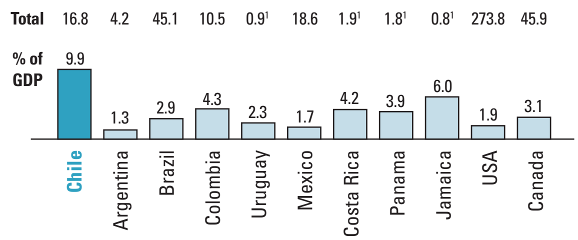
GDP per capita

(US$ thousand, 2008)



FDI flows as percentage of GDP

Total FDI, (US$ billion, 2008)

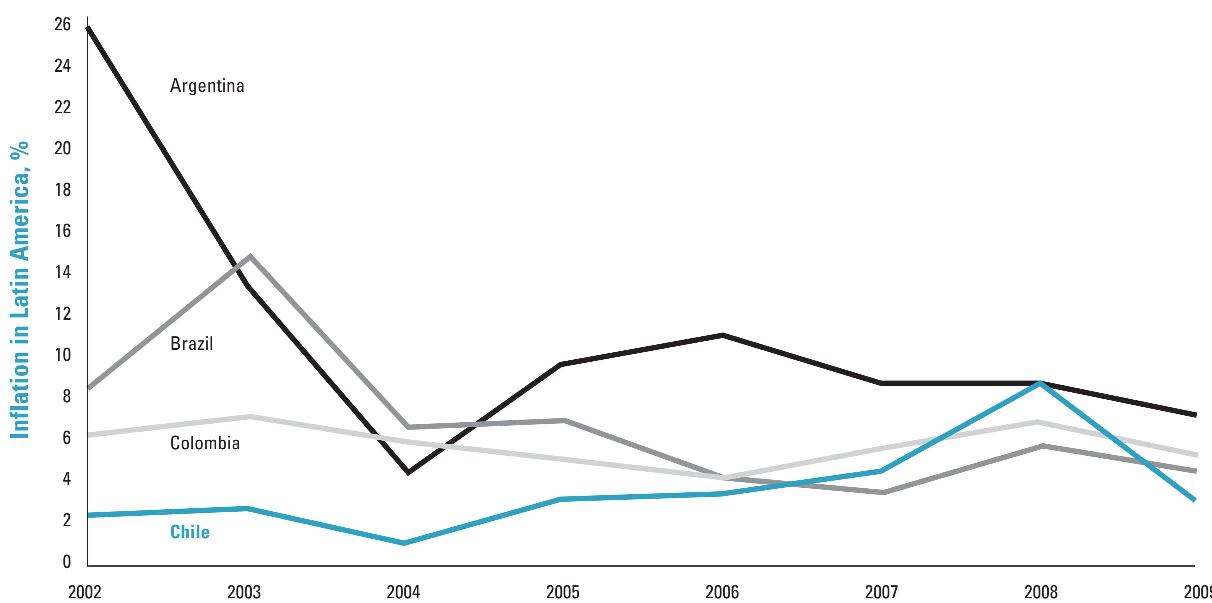


*Note: * Projected*
[1]Data from 2007

Sources: Economist Intelligence Unit; UNCTAD; A.T. Kearney analysis

Figure 6.15

Inflation rates in Latin America



Source: Economist Intelligence Unit

Business Environment

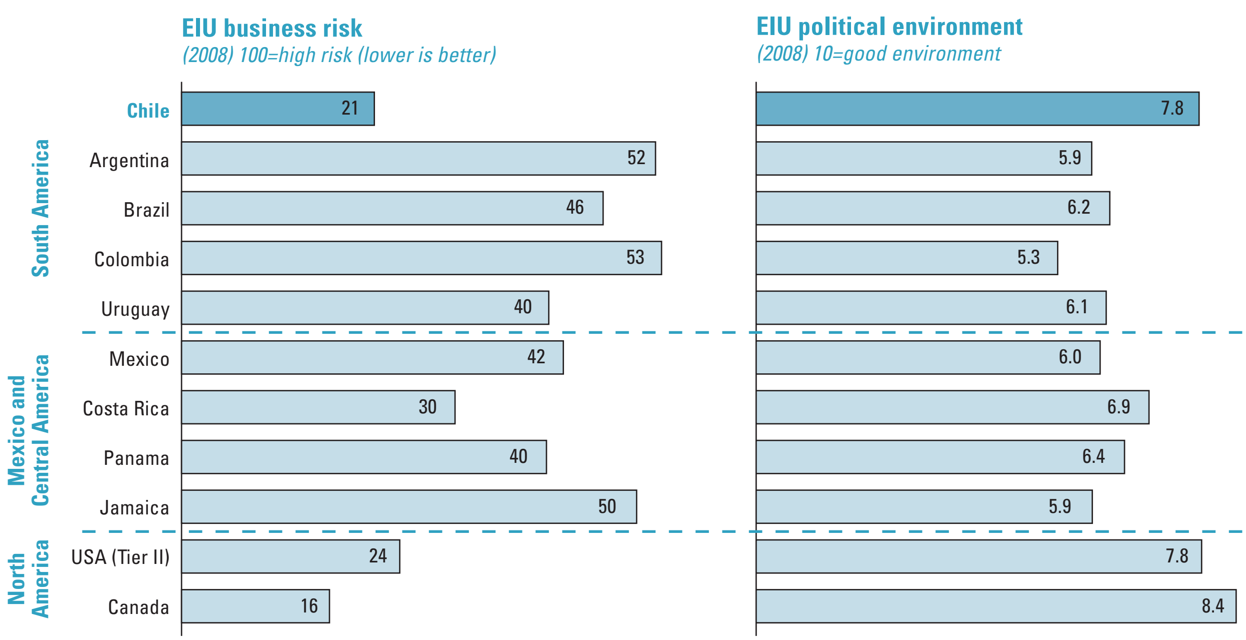
Macroeconomic Indicators

As noted previously, Chile's economic stability is key to its presence on the global stage as an off-shoring location. The country's consistent GDP growth between 2004 and 2008 averaged nearly 5 percent per year over the five year period. Despite the blip of the economic crisis in 2008, Chile is projected to rebound in 2009 and grow at a rate of approximately 2.5 percent. Foreign direct investment (FDI) had been steadily rising in the last decade, peaking at nearly US$17 billion in 2008. When compared to its neighbors, Chile has the highest FDI-to-GDP ratio at nearly 10 percent *(see figure 6.14).* The crisis will have a significant impact on FDI flows to Chile, however, given Chile's inviting business environment, investments in the country should pick up again in the coming years. Meanwhile, Chile has among the lowest and most stable levels of inflation in Latin America. Prior to the economic crisis inflation rates held constant at an average of around 3 percent. Although inflation spiked in 2008, current forecasts expect the 2009 inflation rate to return to its pre-crisis levels. Finally, comparing Chile's economy with its Latin American peers shows Chile's GDP per capita is the highest in the region, followed closely by Mexico and Uruguay *(see figure 6.15).*

Country Risk

As a result of its high economic stability, Chile is rated to have the lowest country and political risk in Latin America, where country risk includes a country's security risk, political stability risk, political efficacy risk, legal and regulatory risk, macroeconomic risk, foreign trade and payments risk, financial risk, tax policy risk, labor market risk and infrastructure risk. It should be noted that both of these metrics are significantly better than other Latin American peers and are on par with the scores of OECD countries, including the United States and Canada *(see figure 6.16).*

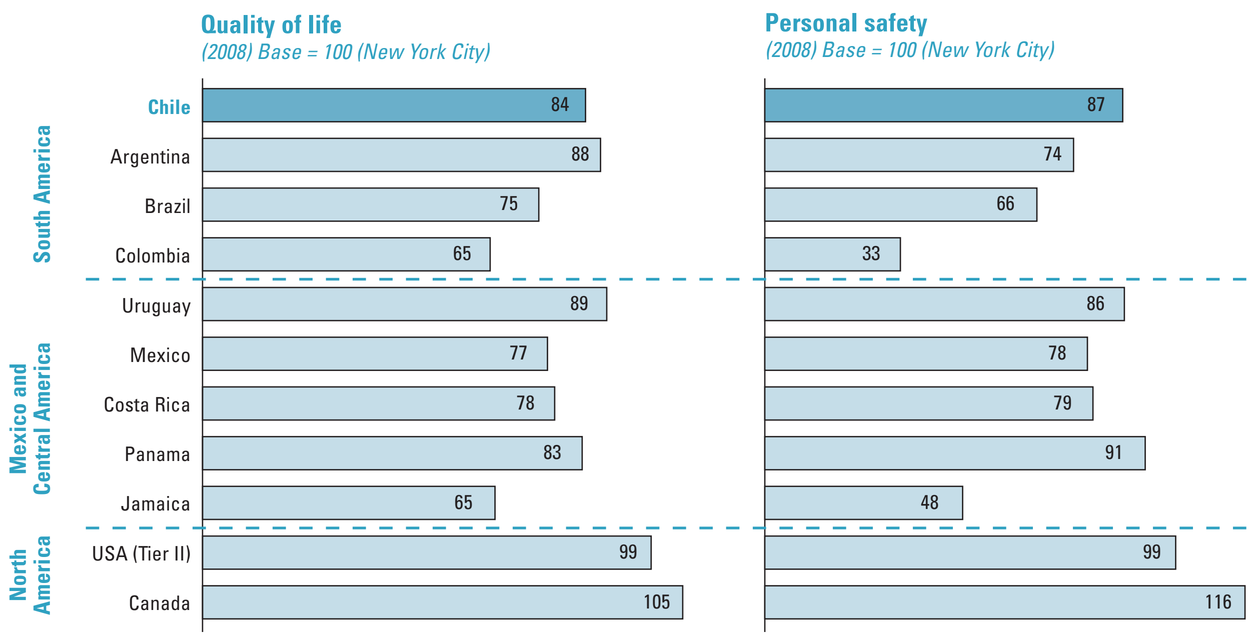
Figure 6.16
Country and political risk indicators



Sources: Economist Intelligence Unit; AON; A.T. Kearney analysis

Figure 6.17

Quality of life and safety indicators

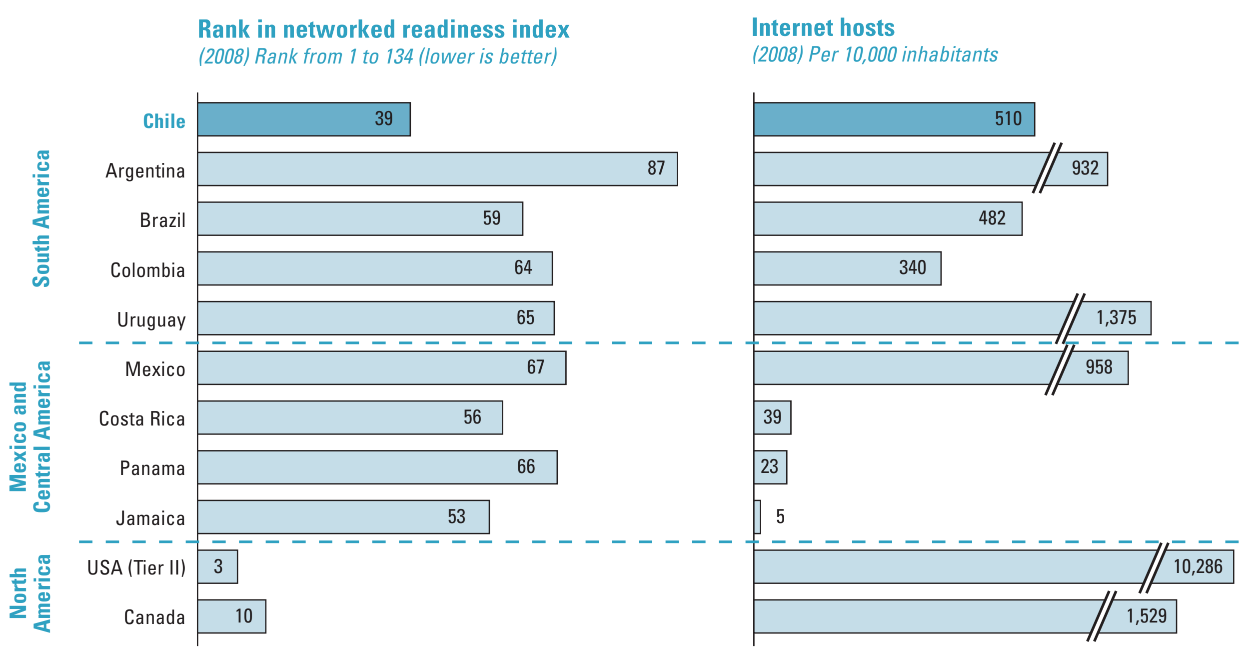


Note: Data represents average of top cities in each country

Sources: Mercer; A.T. Kearney analysis

Figure 6.18

Telecommunications infrastructure availability



Sources: World Economic Forum Global Competitiveness Report; CIA World Factbook; A.T. Kearney analysis

Quality of Life

Beyond its economic and political attributes, Chile is considered to have a high quality of life and an outstanding safety index for the region *(see figure 6.17)*. This is an especially important factor for MNCs and international vendors who want to send expatriates to a desirable offshore location.

Infrastructure

In terms of "network readiness" Chile ranks highest in Latin America and 39th globally (out of 134 countries). The next closest contender is Jamaica, which ranked 53rd globally. This is a key attribute that both highlights Chile's investment in building world-class infrastructure, and entices global service providers seeking a location. While the number of Internet hosts per 10,000 inhabitants trails some large Latin American competitors such as Argentina and Mexico, it is ahead of others such as Brazil *(see figure 6.18)*.

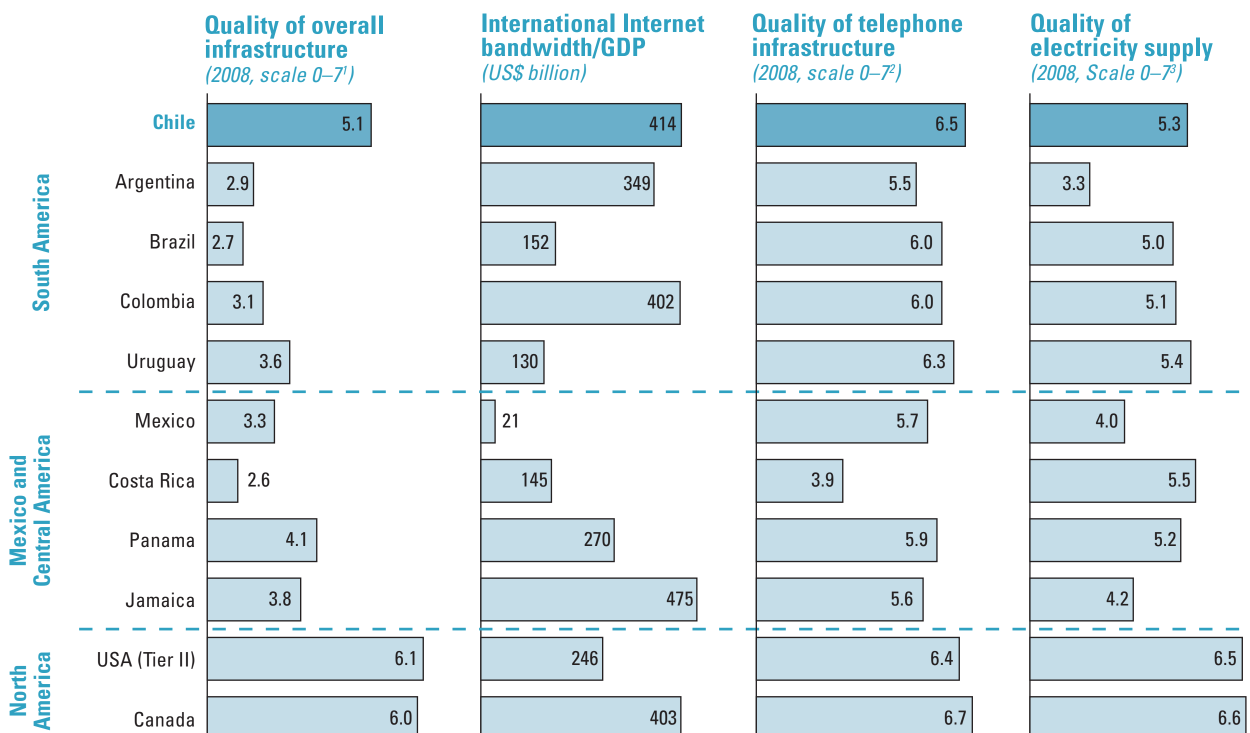
In other specific metrics—including international Internet bandwidth per unit of GDP, quality of the telephone infrastructure, quality of the electricity supply, and, most important, quality of overall infrastructure—Chile is the leader in Latin America. In fact, Chile's scores in key infrastructure categories are on par with those of the United States and Canada *(see figure 6.19)*.

Ease of Doing Business

Chile's business environment is a differentiating factor when evaluating its regulatory burden, corruption perception, and time and cost to start a business. In all metrics, Chile is superior to its Latin American peers and comparable to OECD

Figure 6.19

Quality of overall infrastructure

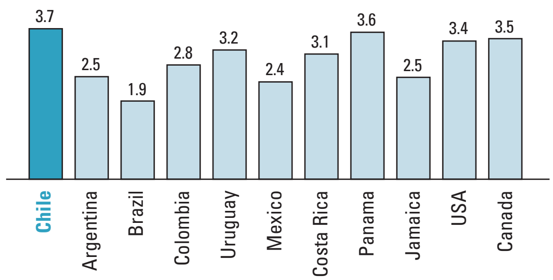


[1] Perception of general infrastructure in the country is 1= underdeveloped, 7= extensive and efficient by international standards
[2] Perception that new telephone lines for a business are: 1= scarce and difficult to obtain, 7= widely available and highly reliable
[3] Perception that the quality of electricity supply in the country in terms of lack of interruptions and voltage fluctuations is: 1 = worse than in most other countries, 7 = meets the highest standards in the world.

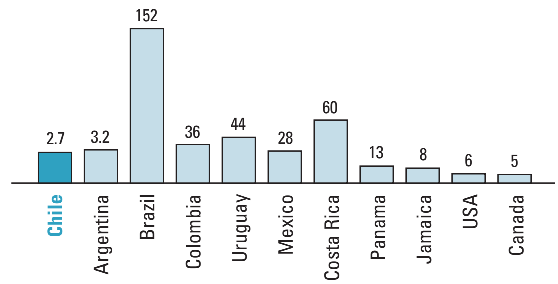
Sources: World Economic Forum Global Competitiveness Report; A.T. Kearney analysis

Figure 6.20
Business environment indicators

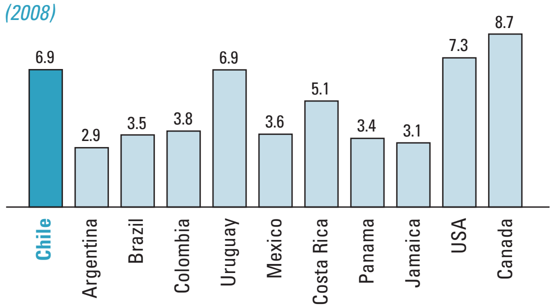
Regulatory burden
(2008) Scale 1-7[1]



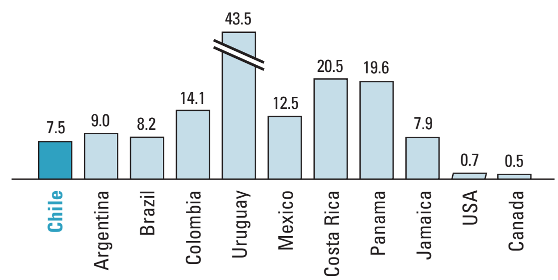
Time to start a business
(2008) Number of days



Corruption perception index (1-10)
(2008)



Cost to start a business
(2008) Percent of income per capita

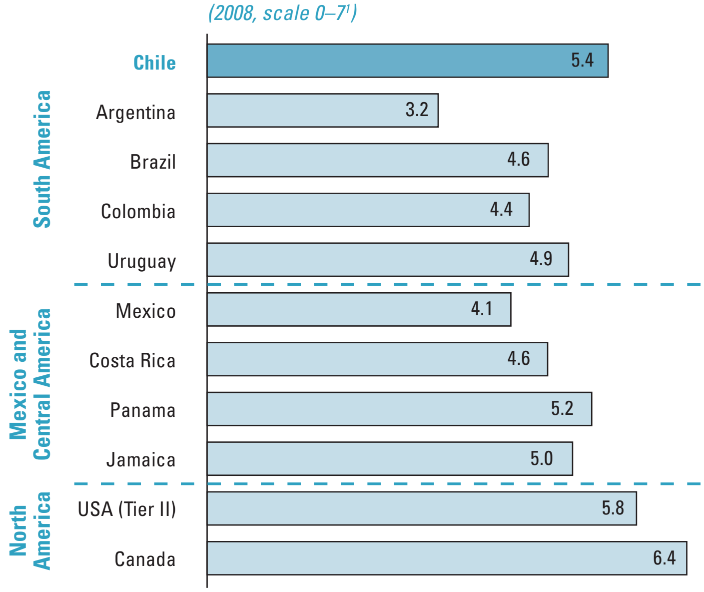


[1] Complying with administrative requirements (permits, regulations, reporting) issued by the government in the country; on a scale of 1 to 7 where 1 = burdensome, 7 = not burdensome

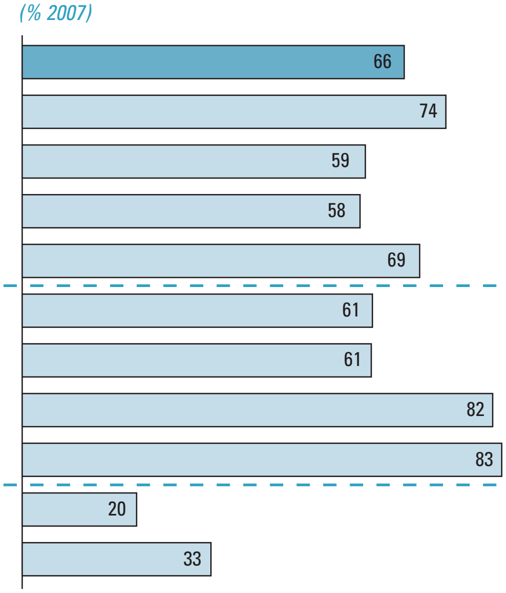
Sources: World Bank Doing Business; World Economic Forum Global Competitiveness Report; Transparency International

Figure 6.21
Intellectual property protection indicators

Property rights
(2008, scale 0–7[1])



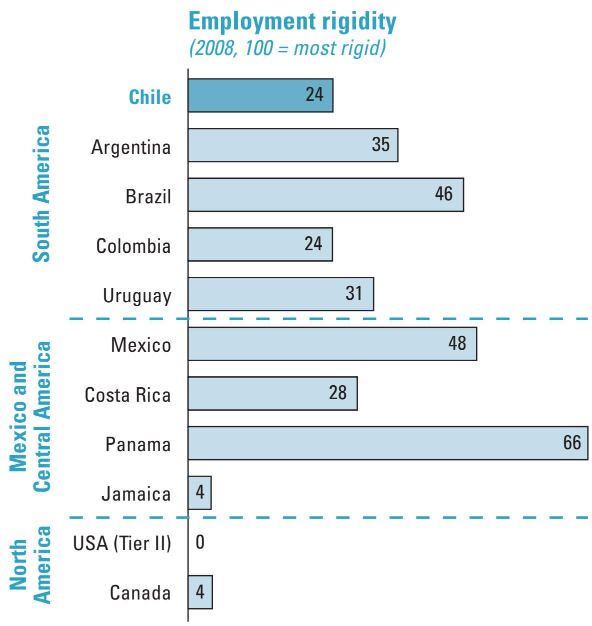
Software piracy rates
(% 2007)



[1] Property rights are 1 = poorly defined and not protected by law, 7 = clearly defined and well protected by law

Sources: World Economic Forum Global Competitiveness Report; Business Software Alliance; A.T. Kearney analysis

Figure 6.22
Labor market rigidity indicators



The Rigidity of Employment Index includes difficulty in hiring and timing, rigidity of hours
Sources: World Bank Doing Business; A.T. Kearney analysis

countries in terms of regulatory burden and corruption perception *(see figure 6.20).*

Still, one lingering issue within Latin America is the mediocre performance in dealing with software piracy and information security issues when compared to OECD countries *(see figure 6.21).*

Lastly, flexibility in working conditions in Chile is a clear asset, as labor market rigidity is the lowest in the region (tied with Colombia) aside from Jamaica *(see figure 6.22).*

Chile's Overall Ranking: Business Environment

Combining all of the above metrics, it is not surprising that Chile scores high on business environment *(see figure 6.23 on page 24).* Chile is the highest-ranked country in Latin America in this category.

Chile's Overall Regional Ranking

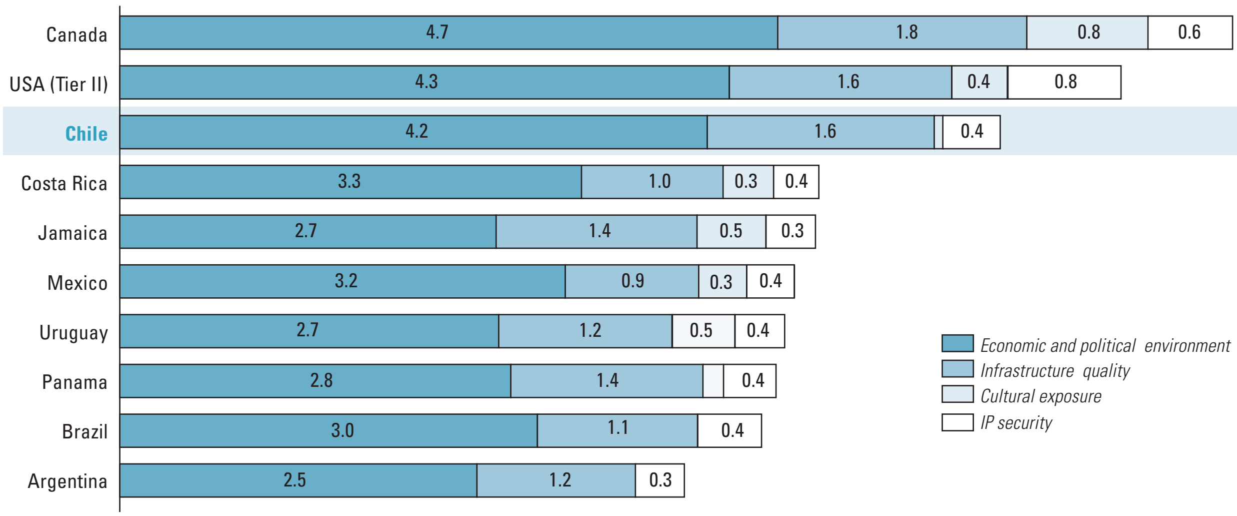
Combining all three Index categories: financial, people skills and availability, and business environment, Chile ranks 8th overall in the Index, 1st in the Americas, and ranks 1st among Spanish-speaking countries globally *(see figure 6.24 on page 24).* Only Egypt and six Asian countries rank higher than Chile in the 2009 Global Services Location Index. In 2007, Brazil edged out Chile overall due to its high people score—due largely to Brazil's larger population—and improved metrics on its business environment. However this year, Chile regained the top spot thanks to its improved business environment and relatively slower increases in cost.

7. Conclusion

In the past decade, there has been significant growth in the services offshoring sector. As multinational companies seek to combine operations worldwide and expand their global footprints, countries compete for market share in this growing industry. Although Asia has traditionally been dominant, particularly India, Latin America has always been on the radar as a nearshore alternative. Now, as countries and corporations face the challenge of regrouping after the global economic crisis, we are seeing important shifts in the offshoring landscape.

Chile, always a top choice in Latin America, is uniquely positioned to offer companies just what they are looking for—stability. Achieving what no major economy in the region has yet accomplished—longstanding economic and political stability—Chile stands out as a leader in Latin America. In addition to presenting an attractive cost arbitrage picture against the United States and Europe, Chile offers a world-class infrastructure that allows any technology-enabled service provider to setup operations there. Perhaps even more important, Chile has gained the confidence of international governing boards and academics as a country with the stability and environment comparable to its more economically developed peers. While countries such as Brazil and Mexico face current political and economic challenges, Chile has weathered the crisis, further boosting

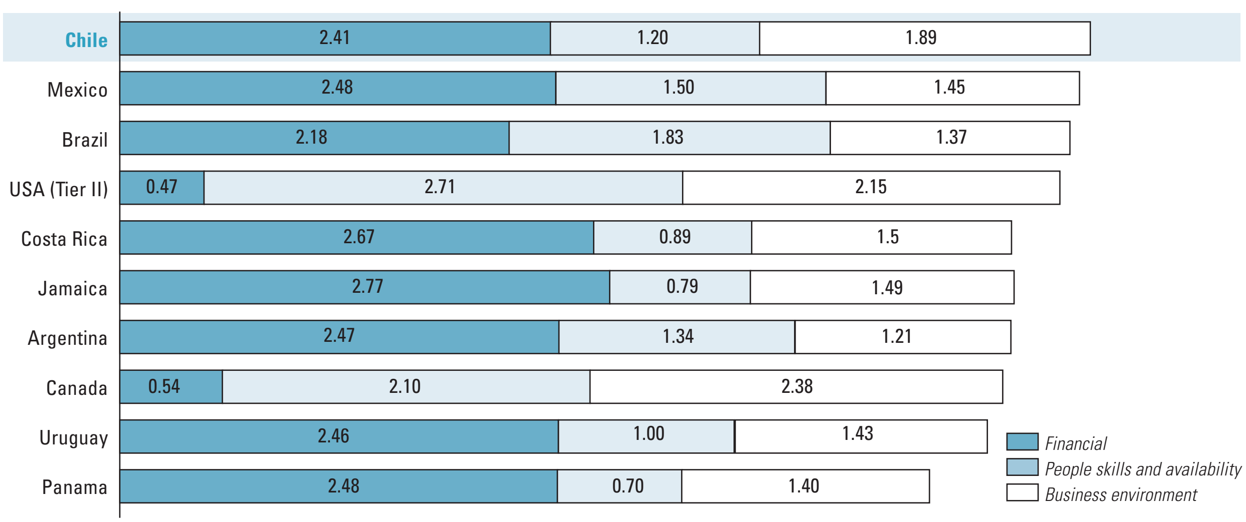
Figure 6.23
Chile's overall business environment ranking



Note: Scores less than 0.3 not displayed

Source: Analysis of A.T. Kearney Global Services Location Index, 2009

Figure 6.24
Chile's rank Global Services Location Index, Americas



Source: Analysis of A.T. Kearney Global Services Location Index, 2009

confidence in its offerings to multinational corporations. Moreover, Chile could leverage the trade agreements it has secured with the world's largest economies to flourish as far on service exports as it has on goods.

In addition to Chile's macroeconomic environment, the creation of an offshoring cluster has put this industry in the spotlight. The government is actively focusing on attracting multinational companies seeking to offshore their global services operations as part of its national strategy. In particular, five sectors of interest have been highlighted: biotechnology, ICT services, KPO, BPO and call and technical support centers. The offshoring cluster provides the necessary forum to address the industry-specific issues that will further improve Chile's status as a top offshoring destination.

Thanks to the cluster, the offshoring industry is part of the Chilean government's national strategy. Among the government's numerous ongoing efforts, it is continually investing in expanding its English-skilled labor pool to enable the country to offer scalable operations that can serve regions beyond Latin America. Second, Chile is tailoring its intellectual property laws and enforcement mechanisms to further attract R&D activities of key players in "hot" industries such as pharmaceuticals, biotechnology and information technology. Third, government agencies such as CORFO are fostering communication and cooperation among the private sector, government and universities so as to implement reforms and curriculum changes that will help the industry thrive.

Looking to the future, Chile offers large multinationals a particularly unique global services platform. On the one hand, it offers all the advantages of the Latin American region: time zone similarities, geographic proximity, shared cultures and bilingual capabilities. Chile also offers longstanding political and economic stability and a growing and talented workforce. As companies rethink their global strategy for services delivery, Chile is sure to be a top choice.