



The Puffin's Voice

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In This Edition

The focus of this edition of The Puffin's Voice is I.T. nearshoring and why it is becoming increasingly popular with customers.

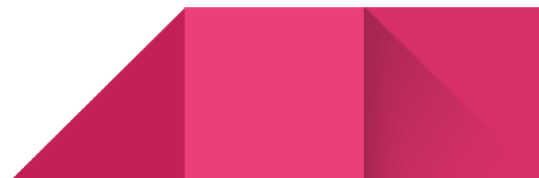
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Nearshoring Defined

In the I.T. context, nearshoring is the practice of outsourcing support for certain activities, such as system support and development, to companies in nearby countries. Most preferably, the 'near-shore' country would share a border with the outsourcing country.

In an increasingly competitive business environment, nearshoring allows organizations to benefit from the cost savings and efficiencies of outsourcing, while shielding them from some of the pitfalls of a traditional offshore model (i.e. communication barriers, major time-zone differences, and higher turnover rates). In a nearshore model, companies can benefit from partners in close proximity, with similar time zones and strong communication.



Atlantic Canada: A New Player in ERP Nearshoring

Perhaps you haven't noticed, but over the last few years, the model for outsourced support for ERP systems has been changing, as ERP customers realize there may be an alternative which addresses many of the problems long-associated with the offshore model: nearshoring. Countries such as Poland, the Czech Republic and Romania have evolved as centres of nearshore support for Eastern Europe (see the article below "Why Nearshoring is Gaining Popularity") and Mexico has recently made similar strides in providing nearshore support for North America.

So, what is driving this change? Simply put, as costs in traditional offshore markets have continued to rise, the business case for contracting with these markets has become less attractive. More specifically, the dollar-savings associated with outsourcing to the usual offshore geographies no longer sufficiently offset the time-zone, communication and skill gaps which have always been sources of concern for customers of offshore services.

And as these ERP customers - especially North American customers - see the dwindling business case, they are asking themselves "What are the realistic alternatives?". As previously mentioned, Mexico is blossoming as one such alternative. However, there is another option, and one which may be even more attractive for ERP customers located on the eastern part of the North American continent: Atlantic Canada.

Why Atlantic Canada? The list of potential benefits is significant:

1. **Educated Workforce:** Save money without compromising on quality. Choosing an Atlantic Canadian provider with well-trained, highly competent resources can help your business exceed its goals. (And these resources are often locally sourced, as Atlantic



Canada has some of the [top-rated undergraduate universities in Canada](#), as well as many technical colleges with first-class I.T. programs.)

2. **Business-friendly Time Zone:** The work-day in Atlantic Canada starts earlier than the rest of North America. (Nova Scotia, New Brunswick and Prince Edward Island are one hour ahead of Toronto and New York; Newfoundland & Labrador is 1.5 hours ahead). This translates to more flexible support hours and the possibility that yesterday's issues will be resolved before customer employees arrive at their offices in Montreal and Boston. This also means that work can more easily be done on the customer's schedule. With similar working hours, it is much easier to arrange meetings and last minute calls, in the event of a significant issue.
3. **Stable Workforce:** Resources based in Atlantic Canada traditionally like to stay there. This means companies supporting ERP systems do not generally experience the high employee turnover rates that can plague the traditional offshore markets.
4. **Common Legal System:** Customers do not have to be concerned with needing to understand the vagaries of the legal systems in traditional offshore markets. This would certainly be a comfort for Canadian customers, but the long-standing trade relationship which exists between Canada and the U.S.A. can make for a much smoother negotiation between suppliers of ERP support in Atlantic Canada and US-based customers.
5. **Cultural Familiarity:** Atlantic Canadian consultants providing support to North American customers share a common cultural environment, which helps build strong, supportive working relationships.
6. **More Effective Communication:** Support consultants based in Atlantic Canada have English (or French) as a first-language, or have acquired excellent English as a result of studying and/or working there. Therefore, many of the communication issues that may convolute the relationship with a traditional offshore supplier are less likely to occur.
7. **Geographical Proximity:** Need to meet face-to-face? It's only a matter of booking a 2-3 hour plane ride, and at a much lower cost than crossing an ocean. Furthermore, visas and travel permits would not typically be an issue.
8. **Competitive Costs:** The lower cost-of-living and reduced competition for resources means that the costs for providing ERP support from Atlantic Canada are very similar to the rates typically being charged by offshore firms. (Rates in Atlantic Canada average just 5 - 10% higher than offshore rates, for similar resources.)

For all these reasons, and more, when considering where to turn for ERP support, customers should take a serious look at Atlantic Canada.

If you're interested in learning more about nearshoring generally or Oldsam's nearshoring model specifically, contact us via our website (oldsam.ca) or by e-mailing stephen@oldsam.ca.

Why Nearshoring is Gaining Popularity

(Euvic, 10 April 2019)


Lower costs, high level of competence and quality of work. Nearshoring is becoming more and more popular and countries such as Poland, Czech Republic or Romania are becoming European IT outsourcing centres. Why is the trend moving from far-away outsourcing in India and Africa, to nearshoring in eastern Europe?

According to Deloitte Global outsourcing survey, 74 percent of companies from the IT sector are already outsourcing and 87 percent of responders are planning to outsource. What's more, IT is the most commonly outsourced function in 2018.

In 2017, according to KPMG analysis, 727 IT outsourcing contracts worth \$137.2 billion were signed worldwide. In terms of value, approximately 84.2 percent of deals (both IT and business processing) originated from the United States, followed by the United Kingdom (5.2 percent). Spain and Australia were two other important outsourcing markets.

India, China, Malaysia, Indonesia and Brazil open the A.T. Kearney Global Services Location Index. Vietnam, Philippines, Thailand, Chile and Colombia are also on the top 10 outsourcing locations list. As for European countries we can find Poland (12th place), Bulgaria (15.), Czech Republic (16.), Germany (17.), Romania (18.), and the United Kingdom (19.). Belarus, Czech Republic, Poland, Hungary, Romania and Ukraine are also the best outsourcing destinations in Eastern Europe according to Ignite.

Outsourcing to distant, often exotic countries became popular with the growth of new technologies, driven by the low cost of services. Outsourcing enables companies to handle more work without having to hire more people, for instance, during periods of peak demand for



their services. However, many companies are no longer satisfied with the results of outsourcing and that's why nearshoring is growing in popularity.

Nearshoring is a term which describes outsourcing to the countries located near the country where the outsourcing company operates, often sharing a border with it. It combines the advantages of outsourcing and onshoring (hiring company from the same country). For instance for companies from the United States, a popular nearshoring destination is Mexico whereas Eastern European countries have become a service base for European countries.

Let's take a closer look at four areas that are strategic to outsourcing and find out, which outsourcing model is most efficient.

1. Costs of service: If the lowest price is the priority, offshoring will probably be the best option. However, before deciding to locate part of your business in Asia or Africa, you need to consider other expenses you may have to bear. It is worth choosing a country which is well connected with yours and which, if necessary, can be reached quickly and at a relatively low cost. Otherwise you may have to pay for a last minute flight to the other continent. Placing your business in a nearby country will enable you to establish a relationship with your supplier. Face to face meetings are the best option not only when it comes to solving problems, but also in terms of building mutual trust. Short distance also gives you a chance to better identify the market and service provider before signing a contract. A mistake in this area may mean financial losses higher than the cost of hiring a more expensive company from your own country. Market intelligence will also make it possible to find out what conditions people providing services to you work in. It is a matter of costs – after all, the image of our company has a high value.

2. Quality of work: Employees' education and knowledge is not too crucial when you outsource simple, automatic activities. However, if the tasks to be outsourced require expert knowledge, the level of education and quality of work in the country of destination are crucial. This is the case with outsourcing IT services, which is why countries such as Poland with many renowned engineering universities are becoming more and more popular. And again – Eastern European specialists may be more expensive than Indian ones, but it is compensated by fewer mistakes and misunderstandings at work.

3. Communication with the service provider: Don't think of it as a soft skill. In terms of remote work, communication is the key to success. You have to be sure that the tasks you have

commissioned have been understood properly. Also when it comes to language. It is very hard to cooperate with people with poor English or a strong accent. In case of misunderstanding, you may lose many hours of work – both yours and those of your employees. Secondly, while working with employees from distant countries, you need to take cultural differences into consideration. They may affect, for example, the tools used at work or the schedule of days off. And an unexpected break in work may make it impossible to meet deadlines and, hinder progress and innovation. In addition, think about time zones. Even if your provider is willing to talk in the middle of the night, is it the best way of doing business? And are you able to react any time of the day when something urgent and unexpected happens? If not, the decision-making process will be longer and efficiency will decrease. Such a problem does not exist when you decide to choose nearshoring.

4. Legal formalities: Be sure to check the law of the country you want to outsource to. Even when you pay taxes and wages elsewhere it may affect your business. Find out where disputes over vendor errors get resolved and check what your liability insurance covers in case something goes wrong. Make sure that your data and business secrets are safe (cooperation with the EU countries will be a great comfort for European entrepreneurs). Think about the political situation in the country you want to be associated with. Does the law change frequently? How is foreign capital perceived? Go for stable, growing economies. And last, but not least – think also about employees' rights. If you have a feeling that you cannot gain such information, maybe this particular country shouldn't be taken into consideration.

As Sweden lacks 70 000 IT professionals according to IT-företagen, more and more Swedish companies are researching how they can use nearshoring to help them solve the talent shortage. In the next article we will compare the Eastern European countries in terms of nearshoring capabilities to help you decide which country is best for you.

Why Nearshoring Is So Important In A Time Of Digital Disruption And Transformation

(By Alex Robbio, Forbes On-Line Version, May 13 2019)


Regardless of which business newspapers or websites you have read in the last month, chances are you will have seen at least one article that showcases the importance of digital transformation – and with good reason. Traditional business models and industries are changing at a fast pace. Uber, Airbnb and SpaceX are just three examples of an ever-growing list of disruptors that are quickly transforming business landscapes. And even they now face disruption.

For example, blockchain-based businesses may well soon threaten the centralized model of platform companies such as Airbnb. But increasingly, traditional businesses are embracing digital transformations and becoming change leaders themselves instead of waiting for a disruptor to enter the market. Nearshoring, transferring your various company operations to a nearby country instead of a faraway one, is playing a crucial role in this process because it's the most effective way, when working with partners, to ensure you have the skills, resources and capabilities to enable this transformation.

Businesses need to respond rapidly to a constantly changing environment

A core driver of enterprises' need to transform is that their customers have vastly different experiences than they did just a few years ago. Forrester Research calls this the "Age of the Customer." Meanwhile, authors Nick Worth and Dave Frankland refer to the "entitled consumer" and argue that we're all becoming more entitled every day.

No longer is it enough to get free delivery when making a purchase. We want it to be delivered immediately. We want banks to understand our financial needs and offer just the services that are appropriate for our situation, rather than continuing to push a credit card offer that we've already declined five times. In their book, the authors cite the example of Apple Pay. If it fails, and a consumer has to use their credit card instead, the consumer now actually feels let down by the company.



Nearshoring and agile development form a strong basis for a digital transformation

Developing the kinds of products and services that entitled customers want requires organizations to be flexible and able to quickly respond to changing requirements, all while staying on top of a rapidly changing technological environment. To achieve this, we see companies investing in digital transformations – revising and improving their organizational processes, taking advantage of the latest technologies, such as machine learning and augmented reality, and improving their capabilities in developing powerful applications.

It's much easier to do this when you can work side by side with your partner, having conversations every day – to experiment and work closely together. This is where nearshoring, when combined with agile development, plays a key role.

This is because agile development provides the framework for rapid iterations and constant adaptation, depending on what customers want. Nearshoring and agile development are joined at the hip. This is because having a partner located in a nearshore location, rather than offshore, means you can practice real agile – with real-time communication, rather than a modified version of it. Meanwhile, cultural alignment has become a lot more important as processes have become more agile and teams have become more integrated. When two teams are constantly working closely together on a multitude of tasks, the degree of team integration plays a key role.

It's worth highlighting the perspective of the agile development founders, who, as highlighted in an InfoQ article, while stating there was no conscious ordering to the Agile Manifesto, are glad that it is "individuals and interactions" that are stated first. This is because one of the biggest success factors in agile depends on how people interact with each other and how they communicate. If you can't be sitting in the same room looking face to face, then you have to use technology to replicate this, such as having cameras and big screens.

But this can only happen if you are in the same time zone and can work in real time. It's also important to have frequent visits to get to know the people on your team – and this is so much easier when traveling to a nearshore location, as the travel time is shorter and there's no jet lag. Cultural similarity here is also key.



How can you achieve success with nearshoring?

There is a lot of material that you can read about achieving success with agile development, but in the context of nearshore, I recommend three simple tactics:

- Try to visit the nearshore provider on a regular basis. Even with the best technology, in-person interactions and meetings still play a key role. This is becoming even more important as the complexity of software product development increases.
- Make sure the provider has experience with distributed agile development. Make sure that they have the technological equipment to facilitate these real-time conversations – for example, high-quality microphones, cameras and messaging tools.
- Avoid falling into the “dark side” of agile. The dark side is what agile coaches refer to when organizations fall into the trap of “absolutes” and follow dogmatically agile processes they have put in place. Ultimately what matters is creating great software that customers will love. Make sure your processes help you achieve that goal.

Agile and nearshore are a potent combination in the digital world

Organizations that are embarking on their digital transformation journey are driven by the need to change. They understand that digital technologies are changing the nature of businesses and how these businesses engage with their customers. New competitors are emerging rapidly from unexpected quarters. Thus, as enterprises undertake these transformations, they realize they need to not just invest in new technologies but also reevaluate core processes and their organizational structure.

Organizations must understand that partners can provide experience and knowledge in new areas – and being able to communicate in real-time with them has never been more important.

Alex Robbio is the President and Co-Founder of Belatrix Software. He was awarded the EY Entrepreneur of the Year Award in Argentina last year.

Considerations: Is Nearshoring Right for Your Business

Is nearshoring right for your I.T. support needs? Some important things to keep in mind are:

- **Core Competencies** - Nearshoring gives managers more time to focus on the core competencies of their business. Outsourcing decreases the time spent on non-core areas, giving managers more time to devote to core business functions.
- **Internal Company Resources** - Using the focused skillset of an I.T. nearshoring provider, your organization can extend its current systems with new capabilities that help you better run your business. It's important to consider how a provider can supplement your internal I.T. resources and key stakeholders as a team.
- **Scalability** - For a short or medium term project, you may require additional resources for a limited period of time. Nearshoring can provide you these resources without going through the hurdles and costs of hiring and managing your own staff.



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43 Roche's Road, Logy Bay, NL
CANADA