

Nearshoring Demystified:

An Emerging Business Model to Increase
Your Competitive Advantage

June 20, 2013

AUXIS

CONSULTING • OUTSOURCING

Auxis Overview

Raul Vega, Auxis Co-Founder and Chief Executive Officer

Raul is an executive consultant with 24 years of professional experience.

He co-founded Auxis in 1997 after having successfully led the establishment of the first international shared services center for PepsiCo. He has extensive experience in Latin America having worked throughout the region on a broad range of projects since 1993.

Prior to founding Auxis, Raul worked with PepsiCo International and Price Waterhouse.

Strategic Solutions

Business Advisory Services

- Business Strategy
- Performance Improvement
- Mergers & Acquisitions
- Transformational Change

Managed Services

- Information Technology
- Finance & Accounting
- Procurement

Broad Client Base



Discussion Items

- Overview of Nearshore
- Leading Countries
- Nearshore vs Offshore comparison
- Real World Success Stories

Nearshoring provides a new perspective on how you should view your Shared Services Operating Model



Shared Services Location Model Evolution



- Service is generally performed in same country that service is received

- Service is generally performed in another country
- Labor rates are typically significantly lower than those where service is received
- Significant difference in time zones
- Geographically distant

- ✓
- ✓
- Usually within or close to the same time zone
- Geographically close

Latin America is an inherently complex Region to do Business

Overview



Population: approx 599M
(including Caribbean) ⁽¹⁾

Countries: 43+ including
Caribbean, 21 w/o Carib.

Brazil & Mexico comprise
approx. 53% of population

Language: Spanish, Portuguese,
French, English, Creole

Business Environment

- Ranked as the third most difficult region in the world to do business (World Bank)
- # of countries and differences in economic and political environments drive complexity (e.g. 32+ trade agreements)
- Strict labor laws that reduce employer flexibility
- Pro business, with a few exceptions

Workforce

- High Literacy Rates (4th highest in the world)
- Young population with affinity to USA culture
- Strong language skills
- Extensive USA corp. experience

Common Misperceptions

- One size fits all
 - Various cultures, political environments, rivalries, etc.
- Safety and Security
- Productivity
- Only Spanish speaking
- Poor infrastructure

Nearshoring: The Emergence of Latin America



Key Highlights

- Tholon's 2013 Top 100 Global Outsourcing Destinations Report has 23 Latin America cities in its top 100
 - Top 5: Costa Rica, Brazil, Chile, Argentina, and Uruguay
- AT Kearney's 2011 Global Services location index has 13 Latin America countries in its top 50
 - Top 5: Mexico, Brazil, Chile, Costa Rica and Argentina
- The top Nearshore destinations are Costa Rica (San Jose), Mexico (Mexico City, Monterrey, Guadalajara) Colombia (Bogota/Medellin) ⁽¹⁾
- Guatemala and Nicaragua are two emerging locations that were added to the Top 100 in 2013 ⁽¹⁾

Nearshore

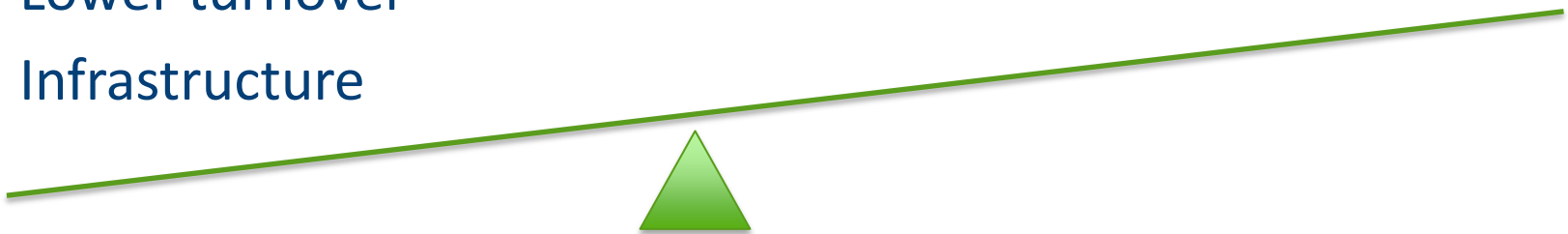
Pros/Cons versus Offshore

Pros

- Geographic Proximity
- Time Zone₍₁₎
- Cultural Affinity
- Language Skills
- Lower turnover
- Infrastructure

Cons

- Labor rates are 20% to 30% lower in Asia (i.e. India/Philippines)
- Smaller pool of potential employees (except Mexico)



Nearshoring provides a more viable alternative for a broader range of organizations

(1) - For example, India has a 9.5 to 12.5 hours time difference with the USA. Nearshore locations have zero to 2 hours difference.

Nearshore versus Offshore

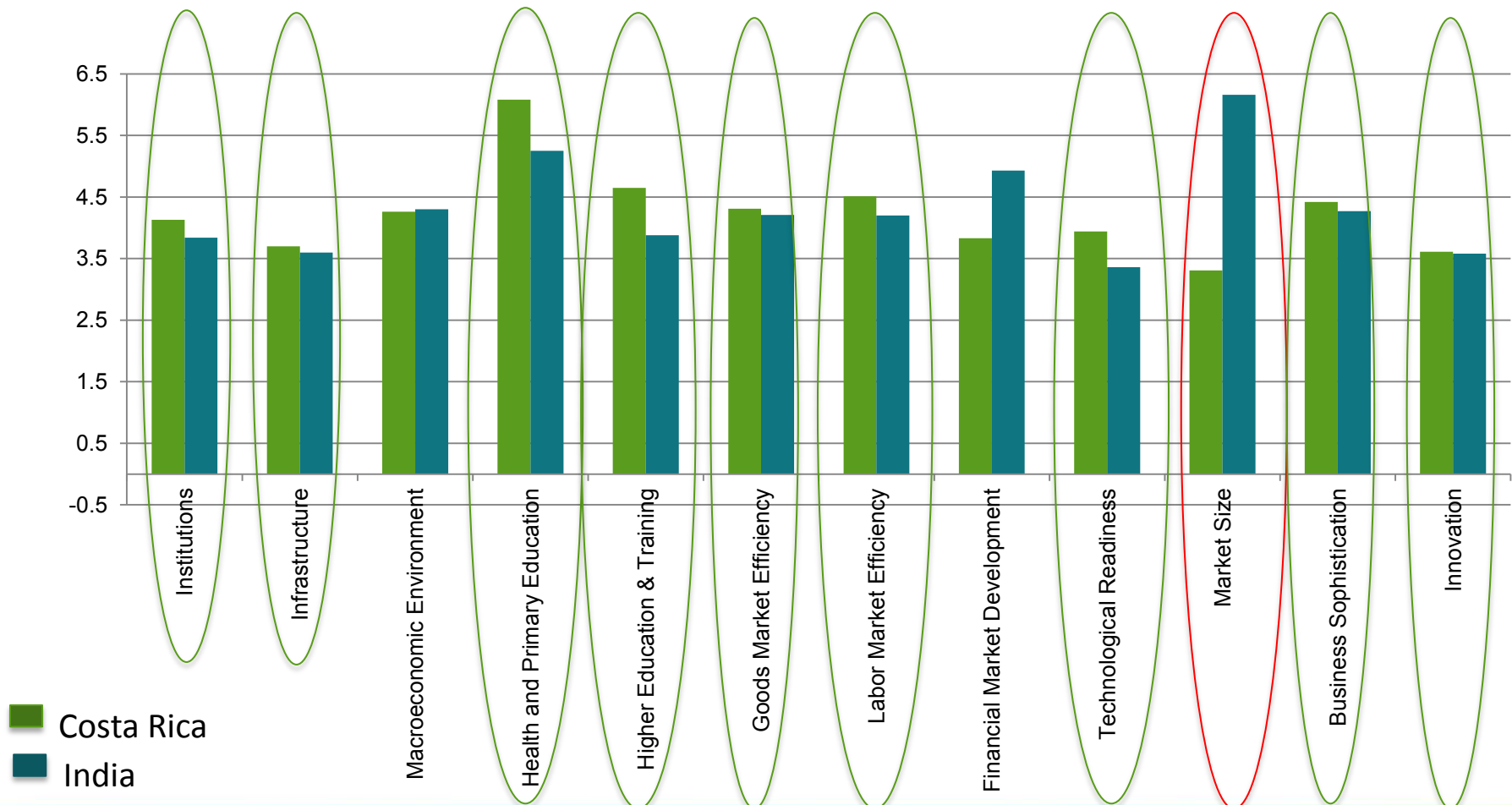
Key Country Comparison

		Adult Literacy Rate ⁽¹⁾ (2007 to 2011)	Life Expectancy ⁽¹⁾	2012 Doing Business Rank ⁽²⁾	Global Competitiveness Rank ⁽³⁾
Offshore	India	63%	65	132	56
	Philippines	95%	69	136	75
Nearshore	Colombia	93%	74	45	68
	Costa Rica	96%	79	110	61
	Mexico	93%	77	48	58

India versus Costa Rica

2011/2012 Global Competitiveness Report

If you remove Market Size, Costa Rica ranks higher than India



Nearshore

Country Attractiveness Assessment



COST ATTRACTIVENESS

Labor Cost



Operating Cost



AVAILABILITY OF SKILLED LABOR



ENGLISH LANGUAGE CAPABILITIES



GOVERNMENT SUPPORT / INCENTIVES



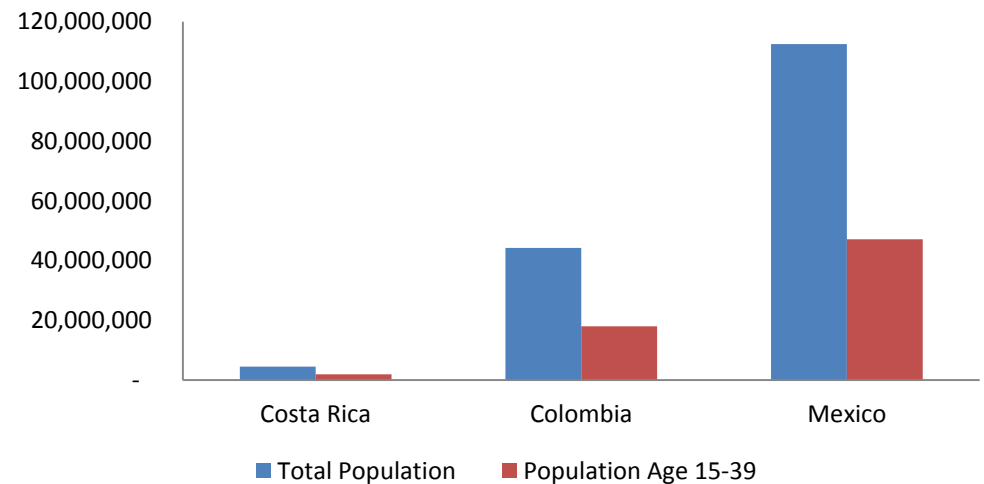
POLITICAL STABILITY



ECONOMIC OUTLOOK



Population by Country Age Group 15-39 (1)



	Costa Rica	Colombia	Mexico
Total Population	4,516,220	44,205,293	112,468,855
Population Age 15-39	1,933,714	18,022,019	47,185,225
	42.8%	40.8%	42.0%

(1) – Population data from 2010 US Census Bureau International data..



Costa Rica



Country snapshot



Capital: San Jose

Time Zone: GMT -6

Local Currency: Costa Rican colon

Official language: Spanish

Secondary language: English

Business environment

Incentives

- ▶ Government offers free technical training in several key areas
- ▶ Processing /service companies in free zones are entitled to a 100% exemption from income tax in the first 8 years of operation and a 50% exemption in the next 4 years.

Unemployment

- ▶ 7.3% (Greater metro area)

Workforce

Education System

- ▶ Highest Literacy rate in Latin America
- ▶ #1 Ranked Education System in LATAM

Labor wage increase

- ▶ Approximately 4 - 5% annually

SSC/Outsourcing - Key highlights

General overview

General Strengths

- ▶ Political and social stability
- ▶ Established and reliable infrastructure
- ▶ English speaking skills

General Weaknesses

- ▶ Small Population
- ▶ Transpiration Infrastructure
- ▶ Strong Demand is increasing attrition

SSC highlights

- ▶ Significant growth over the past 10 years in the number of shared service centers in Costa Rica

Colombia



Country snapshot



Capital: Bogota

Time Zone: GMT -5

Local Currency: Colombian peso

Official Language: Spanish

Secondary Language: Indigenous languages

Workforce

Education performance

- ▶ 4 universities ranked within the top 30 universities in Latin America and 12 in the Top 100
- ▶ 10 top universities in Bogota area, graduating 4,000 per annum in the areas of accounting, finance, business administration and economy

Business environment

Incentives

- ▶ Free Trade Zone specifically designed for IT Services Companies: 50% off corporate tax & sales to the local market
- ▶ 10-year income tax exemption to companies that invest in software development with high Colombian content

Unemployment

- ▶ 12%

Labor wage increase

- ▶ 10%

Key highlights

General overview

Strengths

- ▶ Availability of skilled resources
- ▶ Columbian Spanish is a neutral accent

Weaknesses

- ▶ Historical violence and perception of instability
- ▶ English among professionals is a hurdle

SSC highlights

- ▶ Sector rapidly growing (76% growth in BPO and IT Services from 2005 to 2008), growing market of US \$1 Billion
- ▶ Strong government support (initiated in 2008)

Mexico



Country snapshot



Capital: Mexico City

Time Zone: GMT -6

Local Currency: Mexican peso

Official language: Spanish

Secondary language:

Indigenous languages

Business environment

Incentives

- ▶ Incentives include accelerated depreciation for most investments in fixed assets (some regions may be restricted, such as the metropolitan area of Mexico City).

Unemployment

- ▶ 5.5%

Labor wage increase

- ▶ Approx. 4 to 4.5%

Workforce

Education performance

- ▶ Mexico City and it's surrounding metro region boasts 72 universities with IT programs.
- ▶ 6 universities ranked within the top 30 universities in Latin America and 15 in the Top 100

Key highlights

General overview

Strengths

- ▶ Three attractive locations: Mexico City, Monterrey and Guadalajara
- ▶ Availability of skilled labor
- ▶ Language capabilities (English and Spanish)

Weaknesses

- ▶ Low government support
- ▶ High violent crime statistics
- ▶ High Severance Costs

SSC highlights

- ▶ Largest call center industry in LA after Brazil
- ▶ Mature services industry compared to other LA locations

Real World Perspectives

TigerDirect.com

- Outsourced Shared Services
- Costa Rica



- Captive Shared Services
- Mexico

Real World Perspective:



- \$3.5B publicly traded multi-channel retailer of computer equipment, consumer electronics and related technology products
- Experienced high growth from 2000 to 2010, revenue grew from \$1.7B to \$3.6B
- Multiple distribution channels including 15 catalogs, 25+ websites and 42 retail stores in the US, Puerto Rico and Canada
- Global customer base, including North America, South America, Europe and Asia
- Tight margins (<2%)

Business Challenges

- Intense industry competition, a changing customer dynamic and the economic downturn started putting significant downward pressures on operating margins
- Rapid growth in transaction volumes, and the complexity of its multi-channel, international sales model were causing major strains to the back office operations
- Failed in outsourcing back office processes to Inida. Had to migrate back after just three months.

TigerDirect needed to improve operating efficiencies in order to better compete and improve profitability

Real World Perspective:

Key Operational Challenges

- 30,000 monthly paper vendor invoices requiring manual intervention, with time sensitive processing requirements to ensure available payment discounts were taken and products continued to ship
- 12,000 monthly drop-ship vendor invoices that needed synchronization between sales, order processing and accounts payable to ensure timely customer delivery
- 60+ bank accounts that required daily and weekly reconciliations (1,200+ monthly reconciliations) to ensure timely cash application and resolution of outstanding transactions to facilitate monthly closing

Nearshore Solution Highlights

- Accounts Payable, Collections, Sales Order Management, Cash Applications, Bank Reconciliations
- Introduced automation to improve operating efficiencies,
- Restructured organizational model to have supervisors oversee departments that require extensive synchronization⁽¹⁾
- Created a flexible staffing model that allowed shifting of resources to different functions to address transaction volume increases, backlogs and seasonality
- Successfully migrated all processes within four months

Results

- Achieved 35-40% immediate cost savings from labor arbitrage
- Increased transactional performance across all areas, with accuracy rates topping 99%
- Reduced headcount in certain functions by 25-30% and eliminated the need for overtime, seasonal and temporary hires
- Established monthly SLA and Operational reporting to provide visibility over transactional activity and performance

Why was Nearshore Model Successful?

- Customized approach
- Enabled high collaboration between Tiger staff and SSC staff throughout transition and ongoing operations. Examples:
 - Onsite training
 - Frequent travel between sites
 - Rapid communication
- Capability and Flexibility of SSC Staff
 - USA Corp Experience,
 - Systems knowledge (e.g. SAP)
- Teams were able to bond quickly – “One Team Mindset”

Real Word Perspectives: PepsiCo

Incredible size, scale and reach

Operate over
100K routes



Over 1 billion
outlets served



Leading generator or
retail sales



19 \$1B+ brands



Other muscular brands



Latin America Beverages Snapshot – Highly Complex

- 46 Countries
- 18 Bottlers / 69 Distributors / 9 Co-packers
- 77 Bottling Plants, 6 concentrate plans
- 2.5K SKU's
- 63 legal entities, 381 reporting entities
- Multiple systems platforms

Drivers for Change



Significant business growth had strained operational efficiency and effectiveness

Key SSC Drivers

- Limited operating scalability
- High-cost transaction processing model
- Lack of process standardization across region
- Duplication of key activities
- Internal control complexity due to decentralized operating environment
- Lack of enterprise tools
- Insufficient, inaccurate, and/or unreliable reporting data

Shared Services Operating Model was ideal for LAB

- Established a F&A center of excellence
- Provided a more scalable & cost effective operating platform
- Enabler for improved business intelligence by standardizing data capture & master data management
- Catalyst for dramatic rationalization of internal controls

SSC - Service Catalog



The PepsiCo LAB SSC in Mexico City provides a wide range of Finance, Accounting and Logistics services to the Latin American region

- Demand Planning
- Product Supply Planning
- Sales Order Management
- Billing
- Logistics Services
- Credit & Collections
- Case Sales Reporting
- Bottler Support
- A&M Control
- Pricing Calculations



- Accounts Payable
- General Ledger
- Month End Close
- LAB Financial Consolidation
- Financial Reporting
- Mgmt Reporting
- Travel & Entertainment
- Fixed Assets
- Field Accounting Support
- Master File Maintenance
- Bank Reconciliations
- Intercompany Accounting

- Sarbanes-Oxley
- A&M Audits

Language Capabilities

- Spanish, English, Portuguese

Real World Perspective:



Financial Results

- 50%+ Labor arbitrage for USA and Brazil
- Expected additional savings of 5-10% from operational efficiencies once the processes and systems are standardized
- Operational savings (office space, infrastructure cost, T&E)

Other Key Benefits

- **Standardization** and rationalization of processes to facilitate ERP implementation (SAP)
- **Controls Rationalization.** Consolidation of duplicated key controls resulting in a more efficient and robust control environment
- **Scalability:** Due to the consolidation of activities in one single location now is feasible to assign dedicated resources (e.g. HR, IT, etc.)

Nearshore

Key Takeaways

- The emergence of Latin America provides a compelling SSC alternative to traditional offshore destinations
- Nearshoring can significantly reduce the complexity, risk and strain of implementing and operating an offshore back office operation
- Latin America is a complex region with various country alternatives – each has their positives and negatives
- Your Company strategy and core competencies will determine the best way to move forward
 - Captive, Outsourced, Hybrid
 - Location strategy

Q&A

Thank You

Raul Vega, Auxis
Chief Executive Officer
Raul.vega@auxis.com
954.236.4002



www.auxis.com

AUXIS

FT LAUDERDALE, FL • WASHINGTON, DC • DENVER, CO • SAN JOSE, COSTA RICA