

## Nearshore Study. What defines the nearshore zone?

*The aim of this paper is to analyze the changes occurred in IT outsourcing industry, point out to the current and future trends and clarify belonging criteria of the co-called nearshore zone.*

### Contents

<i>Shift in Delivery Preferences</i> .....	1
<i>Popular Trend</i> .....	2
<i>What defines the nearshore zone</i> .....	2

### *Shift in Delivery Preferences*

Nearshoring, often referred as Nearshore Outsourcing took a wild ride during last years. The global political, economical, social and security changes during last years have a substantial impact on outsourcing industry at the international level. Spiraling turnover and salaries rates, corruption and financial scandals in the leading offshoring destinations have changed delivery preferences and risk/reward calculations.

The last straw for many executives to have a second thought about offshoring and begin to consider nearshore alternatives were terrorist attacks in offshore industry main destinations. The realities of an unsafe world have fully overrun into outsourcing decisions. Escalating uncertainties and regional threats in offshore locations resulted in increased focus on vulnerability management and demand to keep data, business process and resources closer to where business is actually based. As the savings gap between India and other world locations sunk to less than ten percent, the value proposition is tempered more by potential threats. The challenging component of

outsourcing governance has shifted to mitigating downstream risk by determining the best location choice for their organizational processes.

Increased focus on vulnerability management as well as geographical proximity has made for shift in delivery preferences towards nearshore and sameshore options. The survey made by Black Book Research indicates that Central and Eastern Europe along with Latin America are viewed as significantly less dangerous outsourcing locations for US and EU respectively that all major hubs of India and being marked as the top destinations for operating with lowest downstream risks in 2009-2010. According to research having centers nearshore and sameshore will be a major client priority during next years.

### ***Growing Trend***

This shift in delivery preferences allowed many destinations under the so-called Nearshoring umbrella to profit from their geographical advantages in their specific clusters based in North America, Europe and Asia. However, not only has the number of known nearshore sites have grown significantly over the last years, but the amount of advertising and promotion on behalf of country developers has skyrocketed. From exotic to socially downtrodden areas, business dealmakers from around the globe compete for a slice of the billions dollar nearshore pie.

While there are some proven nearshoring destinations such as Canada, Central and Eastern Europe and Latin America that according to analysts represent a viable alternative to offshore options for US and West European countries there are many other locations that seems to follow the trend and claim to be nearshore locations as well. So, what criteria can be used to define location as a nearshore?

### ***What defines the nearshore zone?***

Definitions vary as to what qualifies as a nearshore location. Duncan Aitchison international managing director of TPI, does not get hung up on semantics, but claims that moving across a close country border without crossing an ocean is a good way to define a nearshore contract. But how close?

Tony Viridi, partner at outsourcing advisory firm Atos Consulting puts it at anywhere within three and a half hours' flying time, meaning Canada, most European and Latin

America destinations qualify. However, flight from New York to Mexico takes more than 5 hours, should it still be considered as a Nearshore?

In truth, nearshoring locations should sit along a spectrum of potential outsourcing sites. At one end sit the far offshore locations such as India and China, separated by both cultural and geographic distances while from other side will be onshore locations such as Ireland and some US cities.

Geographical factor however is not only one determining "nearshority" as there are many other important aspects such as linguistic and cultural ties, common history, similarity of education, directness of communication and visa relations.

All this factors should be carefully considered in order to determine the best location fit for an organization prior to start a comprehensive assessment of locations infrastructure, intellectual property and business protection, laws, regulations and labor potential.