

May 2010

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The New Outsourcing Axis

Examining IT Service Innovation Inspired and Built in Latin America

By the Editors at Nearshore Americas

Near the turn of the century, the management of the Oakland Athletics baseball team, a small-budget organization, realized the only way they could compete with big-market teams like the New York Yankees was by completely rethinking traditional strategy. As detailed in the best-selling book *Moneyball*, the A's brain trust developed a new, almost scientific approach to acquiring players and building a team. The result: Oakland consistently spent less money but won more games in a season than its financially advantaged competitors. The A's succeeded by innovating.

In some ways, Nearshore providers of IT services are in a similar situation as the Oakland A's of that era. They have to compete for clients not only among themselves but with India, the Yankees of outsourcing, as well as rivals like China, the Philippines and Russia.

And it's not just strong competitors from other regions, as well as multinational giants — it's that they're all competing for a slice of a pie that is growing more slowly than it did two years ago and is still suffering the effects of a global recession. The good news is that most observers forecast growth. "The market in coming quarters should continue to recover slowly but unevenly over the course of 2010," say TPI Momentum analysts in the latest TPI Index (April 2010). The better news for IT providers is that growth is being driven by IT outsourcing, rather than BPO or other functions. A Harvey Nash survey found recently that software applications development and maintenance are the biggest part of outsourced functions.

In the face of daunting competition and trying economic times, the savviest Nearshore providers must, like the Oakland A's, adopt innovative approaches. "Innovation should be a clear differentiator when selecting suppliers as it is a distinct area where organizations can maximize the value of the IT outsourcing investment and improve the business' bottom line," advise the authors of PA Consulting's International IT Outsourcing Survey (2009).

The most successful Nearshore providers have recognized the need to distinguish themselves. As Blanca Trevino, CEO of Softek, the largest IT outsourcer based in Latin America, told *BusinessWeek*: "The U.S. was right next door, but we had to offer a differentiated product in order to get their business. We were the biggest in Mexico, but we were very small in comparison to India. If we hadn't come up with something to set us apart, we wouldn't have gone anywhere."

Innovation through Adaptive Techniques

What is meant by innovation? Webster's defines it thus: **1:** the introduction of something new **2:** a new idea, method, or device. Sounds almost easy. A more demanding and useful definition can be found in a more specific reference, such as businessdictionary.com: Process by which an idea or invention is translated into a good or service for which people will pay. To be called an innovation, an idea must be replicable at an economical cost and must satisfy a specific need. Innovation involves deliberate application of information, imagination, and initiative in deriving greater or different value from resources, and encompasses all processes by which new ideas are generated.

We typically think of innovation in terms of groundbreaking developments, like packing a million more circuits on a sliver of silicon, a new software interface, or an incredibly shrunken form factor. But innovation also comes in the form of less dramatic changes: improved processes, flexible methods, and smarter use of the talent at hand. Henry Ford's introduction of the assembly line in 1913 is a prime example—although it was not the assembly line itself that proved most significant. As historian Douglas Brinkley explains: "Rather, it was the creation of an atmosphere in which improvement was the real product: a better, cheaper, Model T followed naturally. Every man on the payroll was invited to contribute ideas, and the good ones were implemented without delay." (*Wheels for the World: Henry Ford, His Company, and A Century of Progress*)

Nearshore providers of IT services, particularly in the field of application development, are innovating not by inventing new programming languages or methods but by adopting and adapting techniques that enable them to respond most quickly to customer needs.

Dave West, senior analyst with Forrester Research (Forrester.com), cites the example of Ci&T's (ClandT.com), a custom application developer based in Brazil. "Ci&T's use of lean and Agile development methodologies has broken the mold that outsourcing organizations follow when building software," West says. "Historically, software development has followed the waterfall model, which often led to very poor software, even when it's what the customer wants. The opportunity for innovation is usually destroyed in traditional [programming] models. Ci&T's Agile approach to working with customers has proven successful. They went through a transformation from waterfall system administration to an iterative approach, and now they've moved to an Agile model. It's exciting to see organizations like that trying to take the industry toward a better way of building software."

Lean and Agile programming are nothing new; success comes with how developers employ these techniques. "From a technical point of view, what Ci&T is doing is nothing particularly special. But they're using these methods to create a new approach to engaging their clients, and that's resulting in better products," West says. It's also enabling them to maximize the one advantage Nearshore providers hold over India and other far-shore developers: time zone. "Being in the same time zone enables them to really get the most out of these types of development models. That allows the system

integrator to employ Agile/Lean development practices that require close collaboration and frequent interaction without anyone having to stay up late or get up early in the morning," he says. "By adopting these best practices, Nearshore providers not only improve the quality of the products they deliver, but it encourages a stronger 'partnership' relationship with the customer. Partnership allows for more innovative working relationships and a clearer focus on value." It also, he adds, "makes everything easier."

Leonardo Mattiazzi, Ci&T's vice president of international business, says the company uses an Agile methodology called "*scrum*," and has added its own concepts to the process. "With this approach, we focus on development blocks of four weeks," he says. "This lets us provide deliverables more quickly but also be more flexible when a client's requirements change. We've also been able to eliminate all kinds of waste in applications development. Productivity has jumped." Mattiazzi says customer satisfaction has risen "from 75 to 98 percent" as a result of the development framework. "We think our approach has a huge impact on the value that customers see," he says. Ci&T has used Agile techniques in building applications for clients including Coca-Cola, Citibank, Credit Suisse, and Johnson & Johnson.

A Passion for Technology

The innovative practices of Latin American providers have resulted in deals with some of the most successful technology companies in the world. The best example might be Google's outsourcing of projects to Globant, a software product development company headquartered in Buenos Aires. Globant has a broad services portfolio, ranging from engineering to creative services and infrastructure, but is particularly focused on some of the most active, cutting-edge segments in technology today: social networks, multiplayer gaming, and mobile applications.

After working together in 2006 on Google's AdWords online-advertising system, Google enlisted Globant in 2007 to test the application programming interface (API) for Google's Checkout e-commerce/transaction system. Their main mission was to find security holes. "The Globant team really impressed us with their capacity to innovate," says Patrick Chanezon, developer advocate at Google. "Testing APIs is not a very exciting job but it's very demanding, and requires innovative solutions to test this kind of workflow."

When Chanezon's team took on what was then a secret project, called OpenSocial, to develop an API standard for creating interoperable social network applications, he thought of Globant again. "I used to work at Accenture," he says. "I know there are different classes of consultants. Some have good professional skills and present well, but they don't foster great technical skills. With Globant, the team reminded me of Google engineers. These guys are close to the code. Many of their engineers are top-notch, very expert in Java and PHP. They are very passionate about technology. When you launch a new API, you want people who are technical and passionate, who will find new ideas and uses."

Chanezon says he has been particularly impressed by Globant staff's willingness to take risks. "Usually a consulting company starts working when you start paying them. But with the OpenSocial project, Globant started to invest their own time several months before they even got their first actual assignment. This willingness to risk is at the heart of companies that are innovating."

As Chanezon's experience suggests, Globant also innovates in the way that it works with clients, the way it develops solutions. "Usually our customers do not know everything they want the project to

provide," says Guibert Englebienne, Globant Co-founder and Chief Technology Officer. "We split each project into smaller parts, so the customer is focused on what he feels are the priorities for the business in a short period of time. We split a long project into iterations of three weeks. At the beginning the group sits with the customer and the customer lists requirements, like buying tickets online, selecting a seat, and other 'user stories.' Then our team assigns complexity to each requirement. We then say, 'Okay, for this iteration, and considering we are a group of five people, we can accomplish x and y... Then we give the customer the chance to choose the things they want us to accomplish in the next 21 days. Every day the project manager calls the team together, gets updates on the challenges... and every day we recalculate what has to be done. This way we get an early warning regarding anything that might not make it on time. The customer can see what we are building by sharing our screens at any point. It makes for an easier process. It requires more involvement by the customer but it brings a lot of value."

Globant has seven "studios" built around different practices, specializations or verticals, Englebienne says. The company also values open innovation. "We send a customer problem to everyone at the company to get new ideas. Anyone can come in with mockups and other ways to showcase their solutions." Globant has "moved from only building products to engaging earlier in product development," Englebienne says. "Our customers pay us to dream for them."

Globant's other prominent clients include Electronic Arts, Nike, Citi, Travelocity, Friendster, EMC and LinkedIn. "Sixty percent of our revenue comes from Silicon Valley," says Englebienne. He attributes the company's success with neighbors to the north partially to cultural affinities. "American culture is very adolescent in that everything is very young, and people value dynamism, the ability to keep running and changing. I found that Argentinians can be very similar to Americans in that respect...very flexible."

Beyond the Status Quo and into the Cloud

Idera (idera.com), a software development house specializing in tools for Microsoft's SQL Server and SharePoint, had a similar collaborative experience with Stefanini IT Solutions (stefanini.com.br), the largest native IT provider in Brazil. "Our products are technically complex and are developed by small teams using a rapid, iterative approach to delivery," says Rick Pieczko, founder and CEO. "We embedded software engineering and QA resources from Stefanini into our product teams. Even though the Stefanini staffers were remote, they worked in the same time zone as our team members in Houston and melded into our teams and development approach. We have not found another firm that could integrate so seamlessly." Perhaps most important, they provided resources that were "creative and helped define and improve our products and our approach, versus just 'following orders,'" Pieczko says. "Stefanini doesn't just accept the status quo. They like the challenge to improve and innovate, whether it's a product feature, a programming technique, or a QA process."

Stefanini is also one of the few Nearshore providers forging ahead with cloud computing. Renato Mendonca, service delivery manager, told Nearshore Americas (Nearshoreamericas.com) that the company has a long-term strategy to offer cloud-based solutions and has invested half a million dollars to prepare development teams, build strategic alliances with SaaS providers, and develop the technical infrastructure to meet demand. "Today we have an excellence center for R&D in cloud computing, dedicated to specialized technologies like Salesforce, Microsoft Azure, and Google," he says. "Currently we have 30 professionals working in this center, where 40 percent are specialists in some cloud computing platform." Besides developing SaaS projects, the company is also exploring

platform as a service (PaaS) solutions, which can provide customers with a software development system without them having to buy and manage the necessary hardware and software.

Innovate or Die?

As Forrester's Dave West notes, Nearshore providers have moved beyond "labor arbitrage" or simply throwing bodies at a problem. While the region is "not like Silicon Valley" in terms of technology innovations, IT services companies are innovating in the way they deal with clients. Much of that innovation focuses on relationships and communication—probably more significant than increasing the density of a microprocessor.

"Innovation is critically important for Latin America because the region cannot compete on price," says Chris Nuttall, analyst with PA Consulting (paconsulting.com) and a specialist in sourcing. "There's only one low-cost provider in any market, and Latin America is certainly not it. The cost structure is such that they have to compete on something else. Quality and innovation are two areas where they can compete. Innovation is a crucial element, and if they can't provide that, they will lose out to North American competitors closer to the customer."

Their biggest opportunity for innovation, Nuttall says, is around requirements management. "It's still the case that 80 to 90 percent of IT projects are late or over budget, and the main reason is requirements. This is where Latin American providers have a chance to innovate in terms of software. One advantage LATAM has is the labor pool is very skilled, and quite good at the communication perspective. They're quite good at figuring out what the requirements are, how they're defined. This ability to communicate with clients gives them an edge over India."

Sourcing by the Numbers: A snapshot of outsourcing and technology in Latin America in the near future.

- The market for IT outsourcing is expected to rebound in 2010, according to industry observers. "More than 75 percent of the service providers polled by EquaTerra in the third quarter of this year reported continued growth in their deal pipeline, which was up 10 percent from the previous quarter and 34 percent from the same period last year. But don't expect too robust a revival."
- Growth rates are unlikely to return to pre-2008 levels, say researchers at Everest.
- Contract awards, though, are getting bigger. A recent TPI Index reports says that, industrywide, contract values were up by 25% year over year. In terms of IT outsourcing, \$16 billion in contracts were awarded in the first quarter of 2010. Although that's down from \$19B in Q4 2009, it represents a 46% year-over-year increase.
- Gartner says 2010's leading locations for Nearshore and offshore destinations in the Americas include Argentina, Brazil, Canada, Chile, Costa Rica, Mexico, and Uruguay. "According to reports from local associations, six of the seven locations have exceeded \$400 million in exported services. Mexico has reported levels that exceed \$3 billion; and Brazil reports \$2 billion," the analysts say.
- Brazil's IT spending is expected to be about \$114 billion in 2012, Gartner predicts, while the nation's GDP will be nearly \$1.2 trillion. By that year, Brazil will be spending nearly 10 percent of its GDP on technology.
- Broadband adoption is accelerating in Latin America. IDC says broadband subscriptions will rise 20% this year. That represents 49% year-over-year growth. Mobile apps will also be huge, according to IDC's Latin American team of predictors. Sales of laptops will exceed desktops for the first time.

Creating that dialog "is very tough and a thankless task," says Jamie McLellan, CIO of global advertising giant JWT (jwt.com). He has worked with a South American developer and applauds "the

way they engage." Says McLellan: "They get in tune very quickly. They 'get it' and are willing to be part of the solution. They embed themselves in the project. It's partially a cultural thing, being creative. It makes them more vibrant, even in technical situations, instead of just typing verbatim the code you need."

Surveys of outsourcing customers support that communication is seen as vital. In PA Consulting's 2009 international survey, "Miscommunication on requirements and expectations were identified as the top causes of failure among customer and service provider relationships." And while the ability to innovate can seem like a nebulous quality, customers expect it—and expect it to come from the IT department, whether it's local or a thousand miles away. In the latest Harvey Nash survey, more than 90% of respondents say "their organizations depend on IT to improve competitive advantage through innovation."

With their software development skills, and especially their proven ability to engage with clients, flexible and forward-looking Nearshore providers are in a good position to command more attention as viable partners in driving value to clients in the world's biggest economies.

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