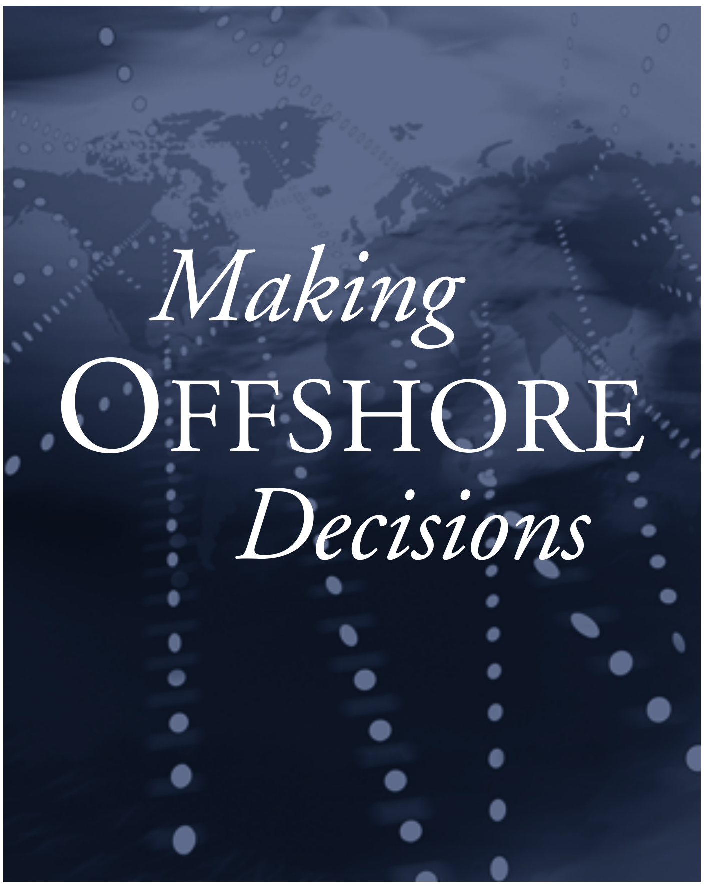
*A.T. Kearney's 2004 Offshore Location Attractiveness Index*




ATKEARNEY

# Introduction

The scene is a familiar one. A new offshore venture hosts its grand opening celebration as the mayor lights a ceremonial lamp and a client makes a traditional food offering. An Indian businessman steps to the podium, commenting on what the new company means in terms of improved service and growth. Events like this take place all over India, all the time. But this one is different. The company exporting jobs is Indian and the office is opening in Canada.

This is just one of the interesting developments revealed in A.T. Kearney's 2004 Offshore Location Attractiveness Index. The annual index is a tool to help companies understand and compare the factors that make countries attractive as potential locations for offshore services. It measures the viability of countries as offshore destinations based on their financial structure, people skills and availability, and business environment *(see sidebar: The Methodology)*.

The index also highlights the complexities involved in the decision to move operations offshore. As the vignette above suggests, labor arbitrage is far from the only factor in the decision. Companies cite greater productivity, improved service and superior technical skills as other reasons to move operations offshore. Indeed, a major factor contributing to the attractiveness of India and China—and to a lesser extent Russia, Brazil and the Philippines—is the sheer breadth and depth of the skill base in terms of education levels. At the other end of the scale, Singapore, New Zealand, Canada and Ireland boast excellent infrastructures and education systems, high degrees of global integration and business-friendly, low-risk environments. These countries continue to drive offshore interest despite their relatively high costs.

In this paper, we outline the key findings in the Offshore Location Attractiveness Index. We also highlight the array of issues that CEOs must balance in making their offshore decisions. For example, in the search for offshore destinations, many companies consider compensation costs, the quality of human resources, as well as geopolitical risks. For some companies, the offshore decision is an exercise in matching precisely defined skills—such as fluency in American English or other languages and dialects—to the tasks that should be outsourced. For others, the decision is based on which countries support technology education, protect intellectual property (IP) and institute business-friendly regulations.

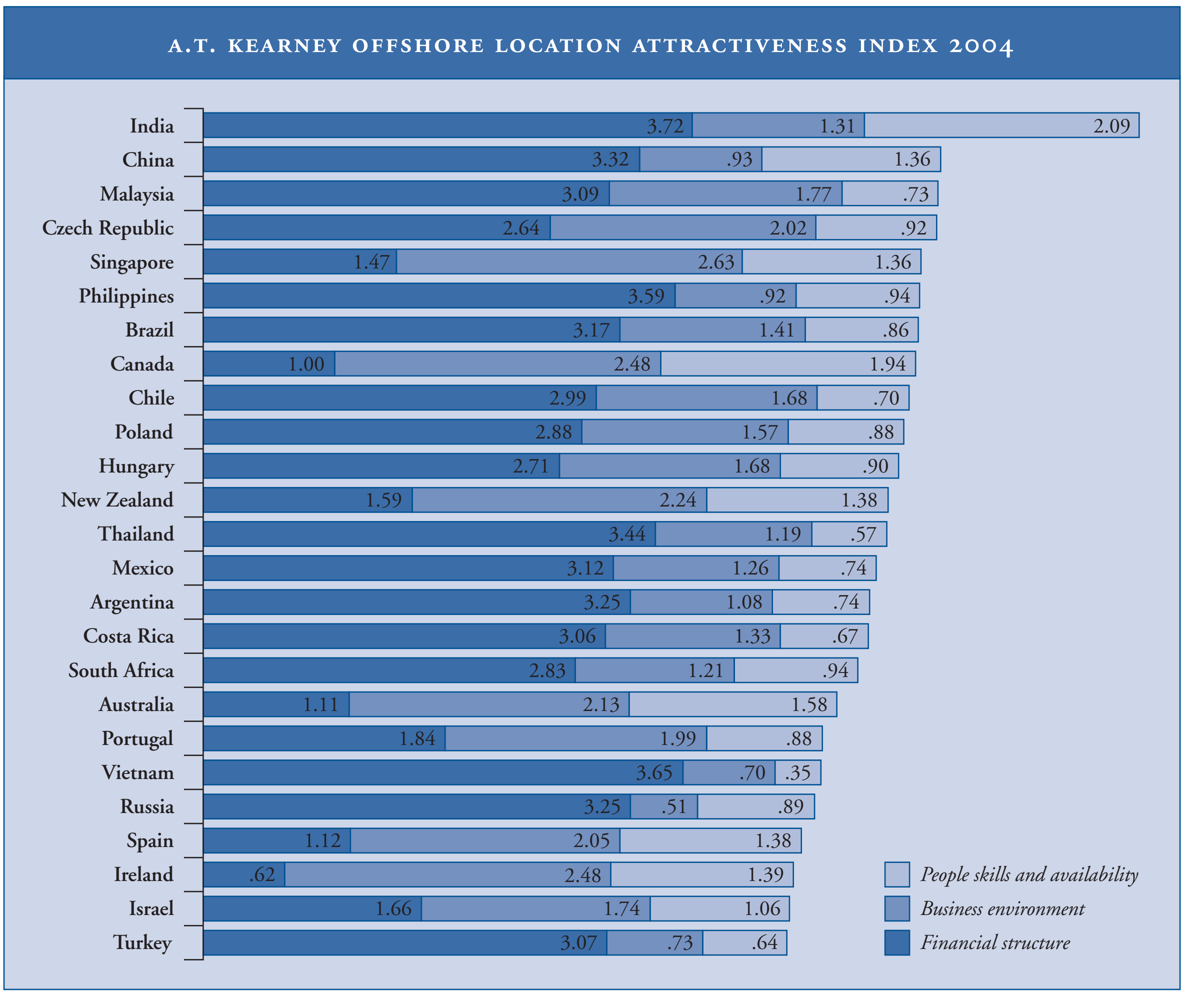
At the end of the day, the best lessons may be those learned from watching the offshore leaders—companies that adopt multi-country strategies, moving operations to multiple locations as a way to diversify risks and tap into the broadest possible pool of global talent.

### THE 2004 INDEX: KEY FINDINGS

India remains the star performer in the 2004 offshore index. It once again captured the top spot by a comfortable margin, due to its strong mix of low costs and significant depth in human resources *(see figure 1)*. China's vast labor pool and low costs secured it second place in the index, although it lags behind India in terms of experience and other key factors such as IT and management education, language skills, concerns about intellectual property and overall country risk.

Malaysia and the Czech Republic, third and fourth in the index, had almost identical scores. While offering costs competitive with other Asian locations, Malaysia is a rising alternative

Figure 1: India is the top offshore location




*Note: The numbers in the bars are index numbers. The weight distribution for the three categories is 40:30:30, meaning that the financial structure is rated on a scale of 1 to 4, and that business environment, and people skills and availability are on a scale of 1 to 3.*
*Source: A.T. Kearney*

to India and China, benefiting from a well-developed, low-cost infrastructure and strong government support. The Czech Republic offers European clients low costs, good language skills and cultural similarities, competitive infrastructure, and a stable political and economic environment. It is well-positioned for companies that have a growing interest in regional or near-shore outsourcing in Europe.

Fifth place in the index went to Singapore. Although not typically considered a low-cost location, Singapore remains a favored destination for regional service functions due to its excellent education and language skills, superior infrastructure and pro-business tax and regulatory environment.

Next on the top 10 offshore location list is the Philippines, reflecting the continuing attractiveness of emerging Asia as an offshore destination. The country provides experienced and talented low-cost labor.

Brazil ranks highest among Latin American countries in terms of people skills and availability. One of the world's largest and most populous countries, it offers a huge labor force and low costs.

Canada ranks eighth in the index. Compared to the United States, Canada is a lower cost, low-risk environment, with similar or even superior education and infrastructure levels. And the success of specific regions within wealthy countries, such as British Columbia and the Atlantic provinces in Canada, shows that competition exists not only among, but also within, countries—developed and developing alike.

Chile has Latin America's best business environment score and is focusing on improving its workers' English language skills.

Rounding out the top 10 is Poland (with Hungary in close contention at number 11), demonstrating the increasing attractiveness of Eastern Europe as an offshore location, thanks to its highly educated, scientifically oriented and relatively low-cost workforce.

## TOP 10 COUNTRY SNAPSHOTS

With so many choices, how is a company to fit its business strategy with its location strategy? The matrix in figure 2 on page 4 provides a first look at the prospects. The following profiles of the offshore leaders offer additional insights:

### India: Still Ahead of the Pack

In addition to its much-discussed cost leadership, India also takes a commanding lead in the people category, thanks to two strengths: It offers the deepest experience in business process outsourcing (BPO) and a large labor force second only to that of China *(see figure 3 on page 6)*.

The strength of India's people is no accident. Every year, the educational system graduates two million proficient English speakers with strong technical and quantitative skills. India's top engineering schools, led by the Indian Institute of Technology, are renowned worldwide. But India also benefits from its experience—it has been a large-scale offshore destination for more than a decade. Indian service providers have evolved from software coding to business process management and high-level analytics and consulting. The labor force is familiar not only with the job content, but also with the work ethic and quality and productivity expectations of major global clients.

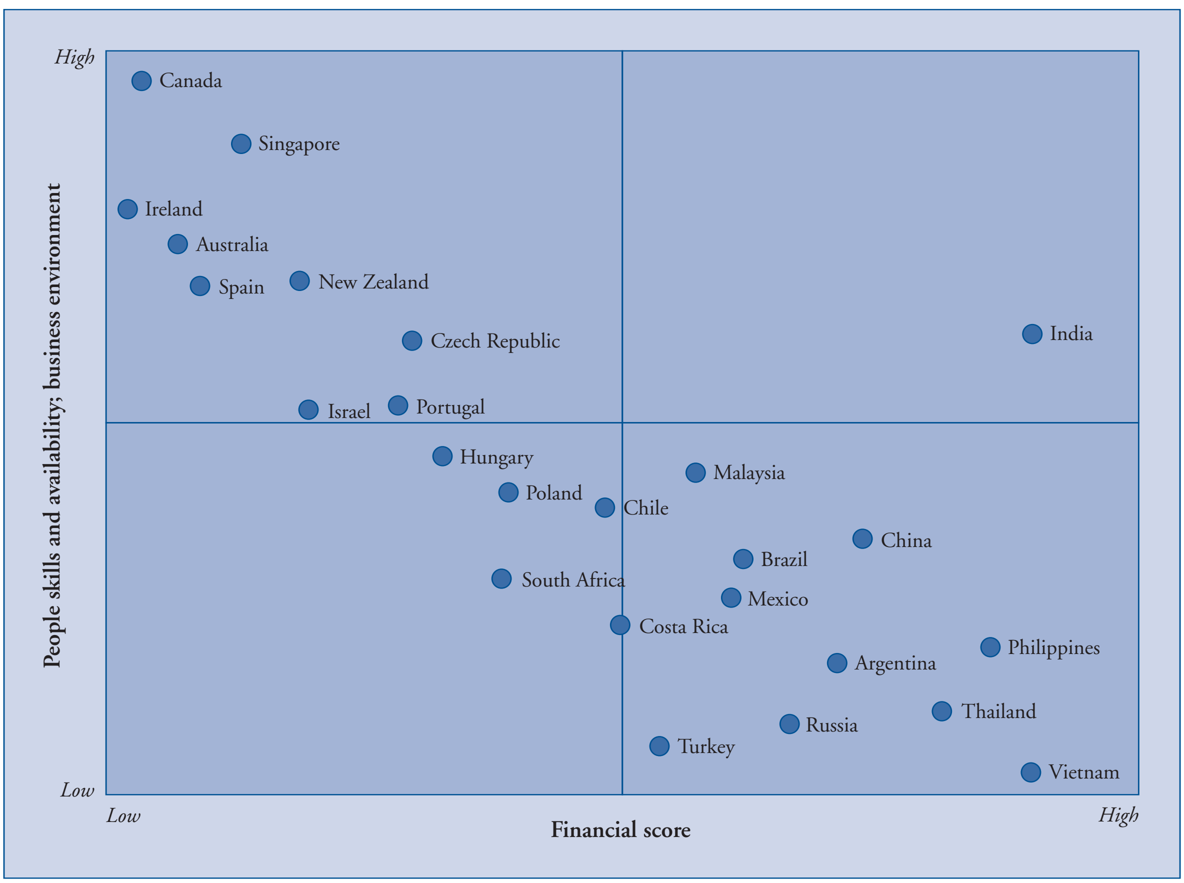
The offshore juggernaut represents one of India's fastest growing markets. NASSCOM, the National Association of Software and Services Companies of India, has predicted that India's IT software and services export market will reach

US$60 billion by 2008. Although we expect India to remain the largest offshore market, other countries are mounting a challenge to Indian supremacy *(see sidebar: 2003 Six-Industry Survey)*.

Where is India vulnerable? Although its human assets have made India the offshore leader, it ranks below the top 10 in terms of business environment. Infrastructure weaknesses and concerns over economic stability pull India down. In addition, while India has become increasingly integrated into the global economy in recent years, the general population is not widely exposed to other cultures, sometimes making cultural adaptation a challenge. Yet India's environment score still outranks that of most other low-cost Asian locations. Government efforts to improve infrastructure and maintain economic and political stability seem likely to reinforce India's emergence as a global player.

Another area of vulnerability for India is in meeting expectations. At the end of 2003, there were widespread media reports that both Dell and Lehman Brothers brought offshore call-center jobs back to the United States, citing

Figure 2: The 25 most attractive offshore destinations




*Source: A.T. Kearney*

# The Methodology

*For the 2004 index, all countries were evaluated based on corporate surveys, current offshore IT and BPO activities, local and national government initiatives to promote offshoring, and the availability of skilled labor. The 25 countries that emerged as finalists were then evaluated against 39 measurements across three major categories: financial structure, people skills and availability, and business environment* (see figure).

*The various drivers of offshore decisions were determined from survey findings and client engagements. Drivers were assigned weights based on their importance to the offshore decision. Because cost advantage is the primary driver behind offshore decisions, financial factors constitute 40 percent of the total weight. The two remaining categories—people skills and availability, and business environment—each constitute 30 percent of the total weight. The weight distribution of the three categories is 40:30:30, meaning categories are either rated on a scale of 1 to 4 or 1 to 3.*

**COUNTRY EVALUATIONS BY CATEGORY**

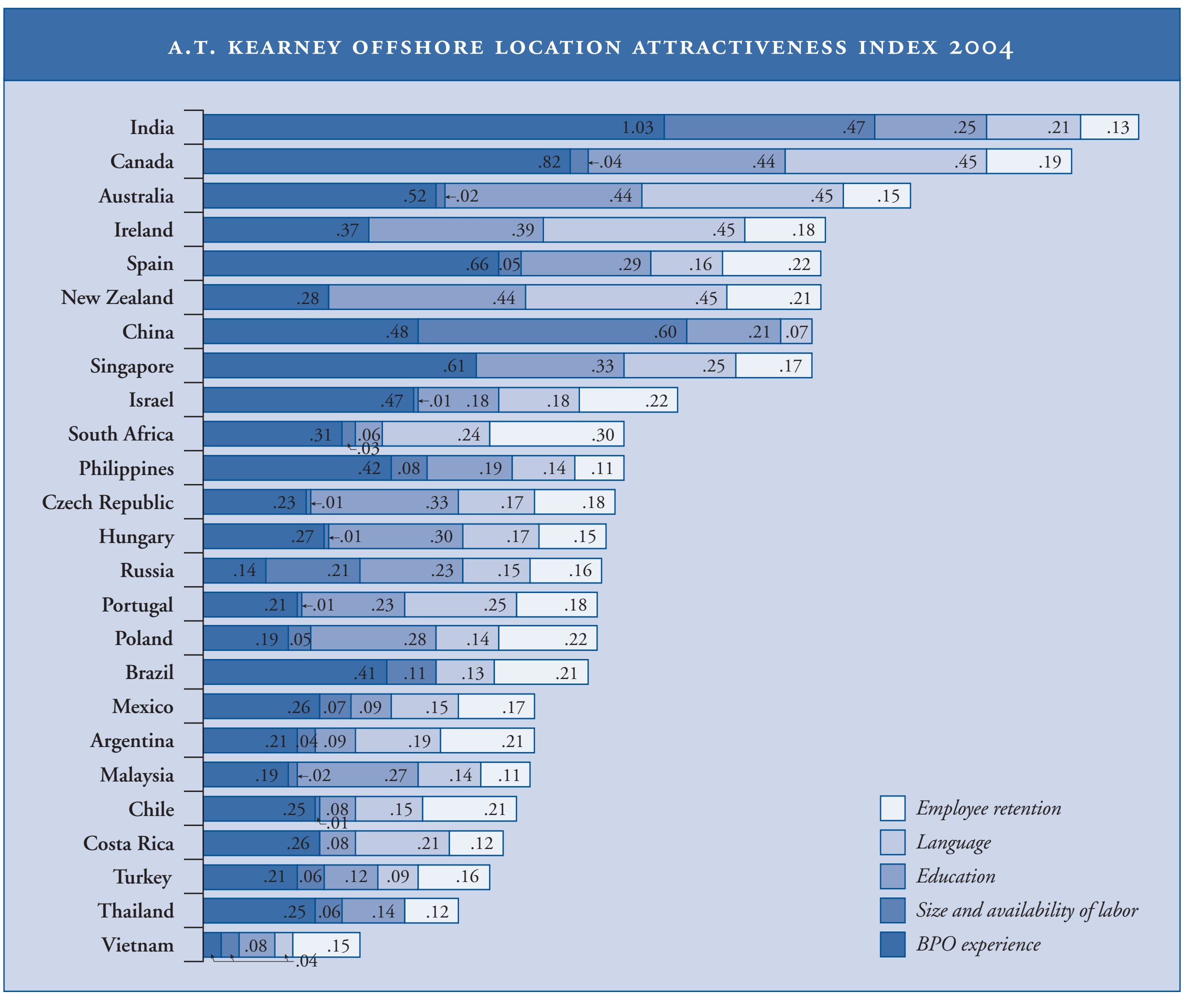
| CATEGORY | SUB-CATEGORIES | METRICS |
|---|---|---|
| FINANCIAL STRUCTURE (40%) | Compensation costs | • Average wages<br>• Median compensation costs for relevant positions (such as call center representatives, IT programmers and local operations managers) |
| | Infrastructure costs | • Includes occupancy, electricity and telecommunications systems<br>• Travel to major customer destinations |
| | Tax and regulatory costs | • Relative tax burden, costs of corruption and fluctuating exchange rates |
| PEOPLE SKILLS AND AVAILABILITY (30%) | Cumulative business process experience and skills | • Existing IT and BPO market size<br>• Contact center and IT-quality rankings<br>• Quality rankings of management and IT training |
| | Labor force availability | • Total workforce<br>• University-educated workforce |
| | Education and language | • Scores on standardized education and language tests |
| | Attrition rates | • Relative BPO growth and unemployment rates |
| BUSINESS ENVIRONMENT (30%) | Country environment (includes economic and political aspects) | • Investor and analyst rating of overall business and political environment<br>• A.T. Kearney's Foreign Direct Investment Confidence Index™<br>• Extent of bureaucracy<br>• Government support for the information and communications technology (ICT) sector |
| | Country infrastructure | • Blended metric of infrastructure quality (telecommunications, IT services) |
| | Cultural adaptability | • Personal interaction score from A.T. Kearney's Globalization Index™ |
| | Security of intellectual property (IP) | • Investor ratings of IP protection and ICT Laws<br>• Software piracy rates |

*Source: A.T. Kearney*

difficult-to-understand accents, long waits for calls to be answered and sub-par service. Although both companies continue to outsource in India, the moves generated quick reactions. NASSCOM called for management to increase training for U.S.-facing employees and improve quality. These setbacks underscore the need for companies to think twice about the types of jobs they send offshore: Sales and other positions with critical interactions might be better handled at home.

India's service providers were also quick to react. Like their clients, the leaders are diversifying their locations. For example, three major Indian outsourcing firms are expanding in Canada. Tata Consultancy Services (TCS) plans to add 100 more jobs to its Ontario development

Figure 3: India ranks highest in people skills and availability




*Note: Calculated on a scale of 1 to 3.*
*Sources: A.T. Kearney, Organisation for Economic Cooperation and Development (OECD), World Bank, U.S. Census Bureau, World Economic Forum Global Competitiveness Report, Carnegie Mellon Software Engineering Institute, Customer Operations Performance Center, Educational Testing Service, local government agencies*

center in the first half of 2004. Infosys, India's second largest outsourcer, has operations in 17 countries, including a 100-person development center in Toronto. Satyam Computer Services opened its first Canadian development center in Ontario in February 2004, one of 18 such facilities globally. Why Canada? A Canadian presence facilitates near-shore services for U.S. clients through closer proximity, cultural similarities and skilled workers paid in Canadian rather than U.S. dollars.

Singapore and China are other prime destinations for Indian outsourcers. TCS' Singapore subsidiary will be the headquarters for regional offices in China, Korea, Japan, Taiwan, Malaysia, Australia and New Zealand. Its multi-location strategy combines India's low-cost skilled labor and process expertise with Singapore's data security, regulatory compliance and highly skilled workers. TCS operations in China are expected to focus on disaster recovery, risk mitigation and offshore services for Japan.

### China: Giant Yet to Achieve Potential

Although China ranks second in the index, enjoying cost advantages and a large educated labor pool, its direct BPO experience is still behind that of India. China is perceived to rank behind India in terms of IT and management training and international certification of its IT and contact-center operations. Both China and India score poorly for political and economic risk and weak infrastructures, but China scores particularly low in areas of IP piracy and bureaucratic red tape. More important, China clearly needs to improve its workforce's English language skills if it wants to challenge India. The 2008 Olympics are expected to provide useful experience with the English language.

Nevertheless, leading global companies are tapping Chinese talent. IBM, for example, opened three new IT/BPO data centers in the summer of 2003, two in Hong Kong and one in Shenzhen. The Shenzhen center represents the expansion of IBM's manufacturing partnership with Great Wall Computer, a precedent that may be followed by many other companies with manufacturing operations in China. India's service firms are in China as well, including Satyam, TCS, Infosys, as well as smaller players such as iGATE Global Solutions and MphasiS Group.

China's entry into the World Trade Organization is spurring further investment. Western companies have established more than 130 R&D facilities in China, and the government has established five special economic zones (SEZs) and 15 national software industrial parks to facilitate more investment in the country. Shanghai, home of Pudong Software Park, is becoming a service hub. More than half of the roughly 1,000 foreign start-ups in Shanghai in 2002 were in service industries, challenging Hong Kong's long track record in attracting service-sector investment.

China is also becoming a destination for companies targeting the Japanese and Korean markets. In the northeastern city of Dalian, Dell Computer and CSK Corp. are opening Japanese-language call centers. South Korea's Kookmin Bank is moving its customer service center to China, where it will employ ethnic Koreans as well as local Chinese staffers. Japan's top IT companies plan to double their software development staffs in China, but the numbers are small. However, not all activity in Dalian is generated by Asian companies: Accenture opened a 1,000-person software development unit there, also attracted by the mix of languages.

The Chinese government is serious about creating a first-class high-tech labor force. Beijing's IT promotion center provides coding training, and cities are helping local firms cover the costs of acquiring Carnegie Mellon Capability Maturity Model (CMM) certification. Both multinational and Indian firms are also providing training in partnership with the government. At undergraduate, post-graduate and adult education levels, universities and training institutes are increasingly emphasizing training in software development and applications and other technical skills. English language proficiency is another skill gap receiving attention. For example, some Shanghai elementary school students receive math and science instruction in English. As the supply of bilingual, IT-skilled labor grows, China's low wages will make it an increasingly formidable competitor to India.

## Malaysia: An Emerging Contender

Malaysia is an often overlooked, but natural, choice for offshore services. The country's successful performance is a result of its low costs, particularly for infrastructure, as well as its strong score in business environment for an emerging market. In fact, Malaysia ranked eighth in this category. Government support for the information and communications technology (ICT) sector and the strong global exposure of the workforce also helped Malaysia reach the number three spot in this year's index.

A new report by Datamonitor confirms the index findings. The report states that Malaysia is among the countries that will challenge India's dominant position in business process outsourcing in the next five years. However, as a small country with only 22 million people, Malaysia will not be able to match India's scale advantages, and piracy will continue to be a major drawback.

Other significant initiatives include government investments in infrastructure and developing the intelligent cities of Cyberjaya and Putrajaya as part of the Multimedia Super Corridor project. These efforts have encouraged numerous companies—Motorola, Ericsson, IBM, Shell, DHL, HSBC and BMW—to locate their regional offshore service centers in Cyberjaya.

Perhaps another sign of progress is when local firms go offshore. Malaysian business process outsourcer, Scicom, opened a Bangalore contact center in 2004 and also operates in South Korea. Scicom specializes in customer-contact management in the Asia-Pacific region for such firms as Nokia, HP, Hilton and Petronas.

## The Czech Republic, Poland and Hungary: The Emerging Europeans

The Czech Republic and Poland both made it into the top 10, with Hungary in close pursuit at number 11. The countries' high scores reflect increasing interest in Eastern Europe as a nearshore location for European, particularly German, companies. Eastern Europe as a whole offers cultural similarities, attractive costs, good language skills, solid technical capabilities and minimal regulatory problems for European firms. Others from this region may well reach the top 10 within a few years.

The Czech Republic is a rising star in the region due to its competitive infrastructure costs, stable business environment and particularly strong education system. These attractions are not lost on multinational corporations. Accenture recently opened IT and BPO operations in the country, and IBM, Sun Microsystems and Symbol Technologies have established IT and business support centers. DHL, the world's largest logistics company, recently announced its decision to build its European IT service center in Prague. Dell set up multilingual centers in the Czech Republic and Ireland to serve its European customers and plans to open more. The rise in offshore investment in the Czech Republic should continue in the next few years, along with other key countries in the region.

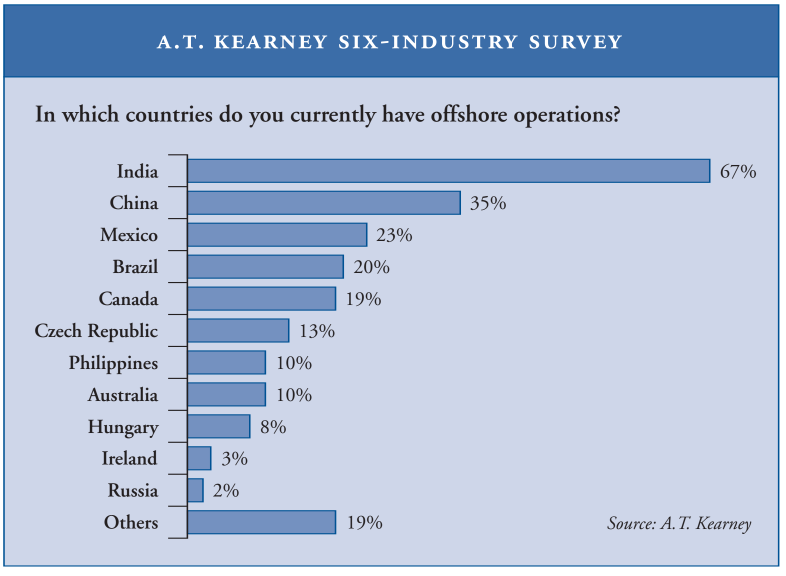
Poland's presence among the top 10 offshore locations is a further sign of Eastern Europe's appeal. Both Poland and Hungary offer cost advantages and education levels similar to the Czech Republic, but are perceived to have slightly inferior business environments, infrastructure and IP security. Governments in both countries are committed to improving their foreign investment climates. For example, the Polish Agency for Information and Foreign Investment (PAIZ) is focusing on high-tech and export-oriented industries. Andrzej Zdebski, who heads PAIZ, says advanced technologies should constitute up to 25 percent of total foreign direct investment flows into the country. Business process offshoring has been identified as one of four critical export industries; already the country boasts roughly 20 large offshore centers. IBM, General Electric and Motorola are among the high-profile players.

### Singapore Offers Top Environment

With one of the highest per capita income levels in the world, Singapore hardly leaps to mind as a low-cost offshore location. However, excellent education and infrastructure, high ratings for

## 2003 Six-Industry Survey

*In mid-2003, A.T Kearney surveyed executives from 115 companies representing six global industries: communications, high-tech, automotive, chemicals, consumer goods and financial services. The main question: In which countries do you currently have offshore operations? The figure reveals that most countries mentioned by survey respondents also score well against the objective metrics used in the Offshore Location Attractiveness Index. India and China head the list. The Philippines, the Czech Republic, Canada, Brazil, Mexico and Hungary are also popular destinations. At the same time, several countries performed well in the index, most notably Malaysia and Singapore, but in 2003 had not yet been discovered as offshore locations by the companies in our survey.*

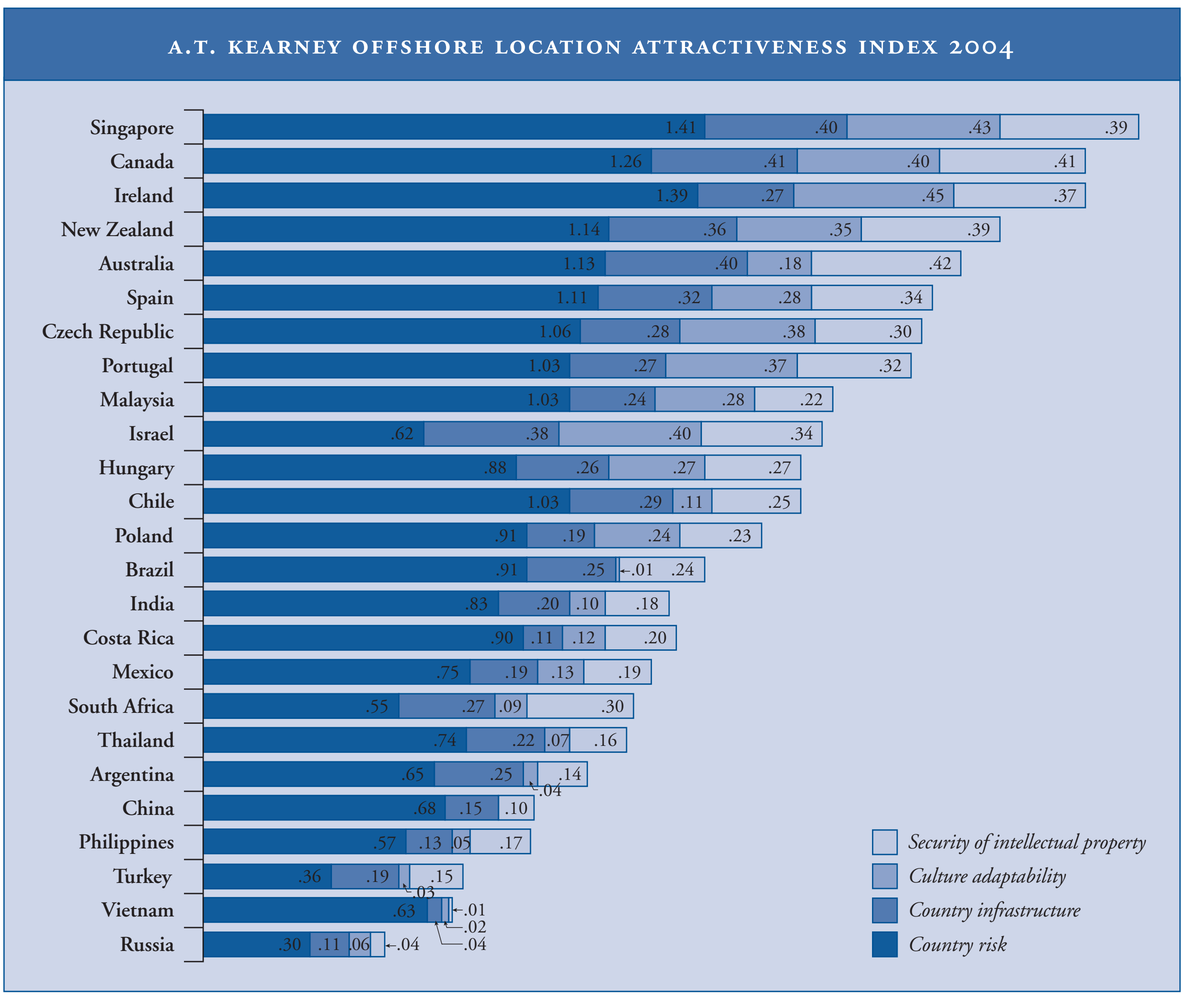


economic and political stability, IP security and aggressive government promotion of the ICT sector continue to reinforce Singapore's position as a favorite location for regional service functions *(see figure 4)*.

Data security and intellectual property protection are growing concerns for companies with offshore operations. Legal protection of IP in many offshore destinations is casual at best, non-existent at worst.

Singapore has made IP security a key weapon in its competition with lower-cost locations. In February 2003, the Industry Functional Advisory Committee on Intellectual Property Rights for Trade Policy Matters announced that the "U.S-Singapore Free Trade Agreement sets

Figure 4: Singapore ranks highest in business environment




*Note: Calculated on a scale of 1 to 3.*
*Sources: A.T. Kearney, Economist Intelligence Unit, A.T. Kearney Foreign Direct Investment Confidence Index™ 2003, A.T. Kearney/Foreign Policy Globalization Index™ 2003, World Economic Forum Global Competitiveness Report, Business Software Alliance, local government agencies*

Data security and intellectual property protection are growing concerns for companies with offshore operations.

out the highest standards of protection and enforcement for IP yet achieved in bilateral or multilateral instruments, treaties or conventions." Singapore also signed a Memorandum of Understanding with the European Union to collaborate on the awareness and protection of intellectual property. Such laws are not just for show: Singapore has an extremely active Intellectual Property Office charged with formulating and enforcing laws and stimulating the creation of intellectual property.

Indian outsourcers are major players in Singapore. Tata, Infosys, vMoksha and others have decided to locate there. And European giant ABB is using Singapore as its Asia-Pacific hub for IT and infrastructure services.

Local pundits wonder how Singapore can maintain its position as lower-cost competitors emerge. Many see Singapore providing a high-quality front end to a lower-cost Indian or Chinese back end. Already, Singapore is targeting leading-edge offshore functions such as remote robotics management, and healthcare and genetic diagnostics. Singapore companies, such as Singapore Computer Systems, are also establishing their own outsourcing facilities in India and China.

Given its small size, Singapore will likely remain a high-end niche player in the long term, and an important candidate for companies considering offshore hubs.

### The Philippines: An Established Success Story

The dominance of emerging Asian countries in the offshore equation is further underscored by the performance of the Philippines in the 2004 index, due to its favorable cost structure and promising human resource capabilities *(see figure 5)*. While much smaller than China and India, the Philippines has more students enrolled in universities than most European countries. In fact, it has more students than any other country in the index except China, India, Russia and Brazil. Recent estimates indicate that the Philippines graduates about 15,000 technology students annually. In addition, the U.S. military presence in the Philippines during the last century means that much of the population can speak American English, which poses fewer problems for U.S. callers than British-influenced accents.

Not surprisingly, the market focuses on call centers. Global providers include Sykes, Convergys and ICT Group; local competitors include eTelecare, People Support and Source One Asia. Among the BPO players in the Philippines are Accenture and locals including SPI Technologies, American Data Exchange and Innodata. Chevron-Texaco, Time Warner and Procter & Gamble are among the multinationals that have captive call centers and BPO units in the Philippines.

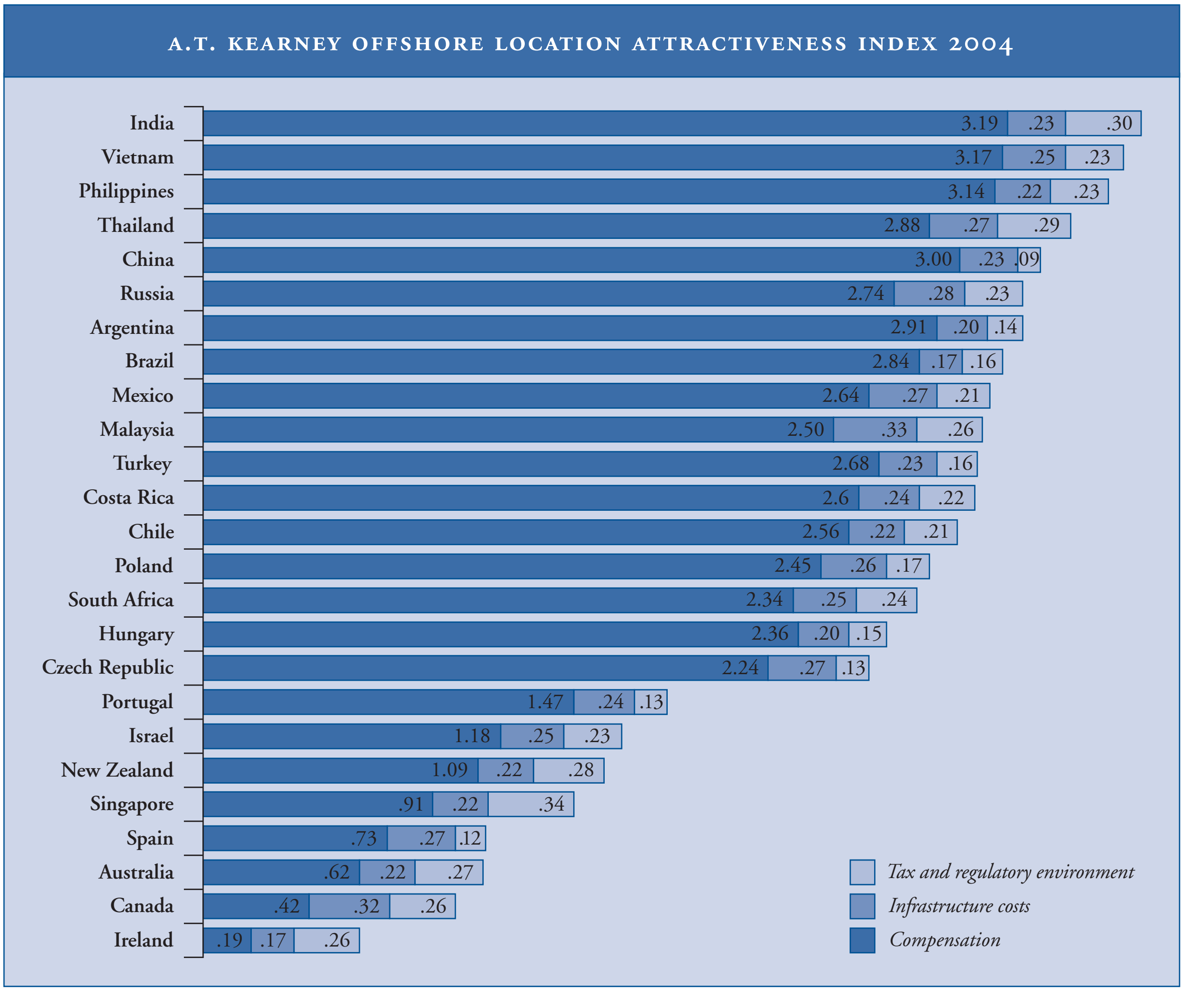
The Philippine government acknowledges the need to improve the country's image and overall business environment for BPO and related services. It has designated special economic zones, of which five are suitable for IT, call-center and BPO businesses. Participating companies receive income tax holidays, duty-free imports and other advantages. In addition, the country facilitates IT- and BPO-related investments by providing tax benefits and forging smoother dealings with the government.

### Brazil and Chile: Focusing on What's Important

Brazil and Chile are Latin America's representatives in the top 10 of the index. Brazil's strong points include cost advantages and a large workforce with relatively good BPO experience. As of last year, Brazil had close to 700 people working in international call centers according to Associacao Brasileira de Telemarketing. That number is expected to rise to 5,000 by the end of 2004.

Brazil is moving beyond providing basic services. The growing sophistication of the local software industry and IT service sector is expected to attract new businesses. For example, Instituto Atlantico, a group specializing in IT and telecommunications software, gained CMM level 2 certification for software development last year. The institute joined 15 other Brazilian IT companies in a recent visit to the United States to promote its capabilities to potential clients. Later this year, TCS Brazil, a joint venture between TBA of Brazil and India's Tata Group,

Figure 5: Philippines ranks among the top three in financial structure

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*Sources: A.T. Kearney, Economist Intelligence Unit, Organisation for Economic Cooperation and Development (OECD), World Economic Forum Global Competitiveness Report, CB Richard Ellis, Forbes, EDS, local government statistics, independent compensation surveys*

is expected to receive CMM level 5. This will be Brazil's first software development center with top-level certification. Despite these efforts, however, Brazil will find it difficult to move further up in the index unless it can improve its overall education levels and language skills.

Chile's success reflects the growing interest in Spanish-speaking offshore services. While generally higher cost than other Latin American locations, the country offers the best business environment and infrastructure in the region, with a robust digital network and good quality satellite service. Chile's government is aggressively pursuing offshore opportunities. It has set up a registry to identify and certify English speakers for the labor market. More than 25,000 people applied, with 15,000 making the grade for inclusion in the registry. Chile's next challenge is to produce more bilingual technicians.

Along with promoting language skills, the government is also working on ways to protect intellectual property. Chile has established free-trade agreements with the United States and the European Union that include penalties for infringing on IP. Chile also ranks among the top Latin American countries in the World Economic Forum Global Competitiveness Report and the Economist Intelligence Unit Overall Business Environment Ranking.

These attributes make Chile a desirable headquarters for Latin America. The Economist Intelligent Unit identifies Santiago as among the least expensive cities in the world; Citigroup has both a software development center and fund advisory center there. Unilever has invested US$13 million and created 200 jobs in its financial shared services center for Latin America, also located in Santiago. Tata Consulting Services and Chilean partner Comicrom set up a facility to customize financial services software for export to the rest of Latin America, and 35 multinational companies operate call centers, mainly in Spanish.

### Canada: Cost Isn't Everything

Canada is ranked eighth on the index, proving that developed countries can be profitable offshore destinations despite their high cost structures. The country provides an excellent business environment and high-quality workers for BPO tasks. Robust infrastructure and cultural and language similarities with the United States further contribute to Canada's performance.

Initiatives at the provincial level also contributed to Canada's success. The British Columbia Premier's Technology Council (PTC) aims to build the province into one of the world's top 10 technology centers, attracting high-tech investment, growth and job creation from around the globe. Similarly, the British Columbia Science Council promotes job creation through, among other initiatives, the China Science & Technology portal, which provides information on doing business with and in China. On the other side of the country, the Atlantic Canada Opportunities Agency (ACOA) promotes the Atlantic provinces to U.S. site selection consultants, and advertises and hosts location tours.

Canada has proven particularly attractive to Indian companies setting up near-shore operations. U.S. domestic outsourcers are also balancing near-shore and offshore investments. Many select Canada as a location to carry out higher-value mission-critical tasks close to major North American clients.

Interestingly, there is less IT and call-center attrition in Canada than in the United States, where attrition levels range from 25 percent to 50 percent annually. Many Canadian call-center staff consider customer service a career—and it shows: CGI, one of the largest operators in Canada, reports 6 percent attrition.

### THE OFFSHORE CHALLENGE

The United States and Japan, as well as higher-income European countries and other "customer markets" for offshore services were not surveyed in this index of potential offshore locations. Nonetheless, the United States and other leading economies remain the largest beneficiaries of foreign direct investment. Since 2000, the United States has received nearly US$600 billion in foreign direct investment, compared to slightly more than US$300 billion invested in Germany and US$225 billion invested in the United Kingdom. Over the same period, China attracted less than US$200 billion in foreign direct investment and India received less than US$20 billion.

According to the U.S. Census Bureau, employment by U.S. affiliates of foreign companies between 1990 and 2000 increased by more than 35 percent to 6.4 million. Today, financial service professionals who work in German and Japanese banks in New York, and autoworkers at BMW and Mercedes-Benz plants in South Carolina and Alabama, hold "offshored" jobs just as much as programmers in India. In fact, offshore services suppliers from India and elsewhere are creating jobs and buying products and services in North America.

As executives continue to search for answers about "what to" and "where to" locate, more and more voices are being raised. The ongoing offshore debates in the United States and the European Union are prompting thoughtful self-examination.

The higher-income countries vying to be offshore destinations score particularly well on standardized international assessments of mathematical, scientific and reading literacy. Yet two countries that have witnessed some of the loudest public concern about offshore strategies—the United States and Germany—do not perform well in these same assessments. Both countries consistently rank behind Canada, New Zealand, Australia and Ireland in math, science and reading literacy.[1] In another study, the United States also ranked behind several other countries in math and science performance, including emerging markets, notably Singapore, Hungary, Czech Republic and Russia.[2]

As mentioned, the United States is not the only country with cause for concern. Findings in a recent A.T. Kearney study of offshore trends in Germany point out the importance of keeping technical education at the leading edge—60 percent of IT curricula in German schools is focused on content that will be offshored in the near future.

To compete, countries concerned about exporting jobs should address the factors that they can affect on their own shores. These countries should raise educational standards, invest in research, provide more extensive training, and promote their ICT industries at both state and national levels. They should reinforce the cultures of innovation and experimentation that create new technologies, processes and products. Clearly, the offshore challenge calls for realistic self-appraisal and action.

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[1] *The Organisation for Economic Cooperation and Development Program for International Student Assessment.*
[2] *"Trends in International Mathematics and Science Study (TIMSS)," the International Study Center at Boston College.*

# Conclusion

Offshoring will continue to gain momentum. As companies make critical location decisions, they will rely on various benchmarks and country reports to arrive at an educated conclusion. A.T. Kearney's Offshore Location Attractiveness Index is one weapon in the arsenal of company intelligence. It shows that offshoring should not be based on a one-size-fits-all strategy. There are opportunities from Vietnam to Canada, from Mexico to the Philippines. In fact, all 25 countries exhibit characteristics that will attract companies to their shores.

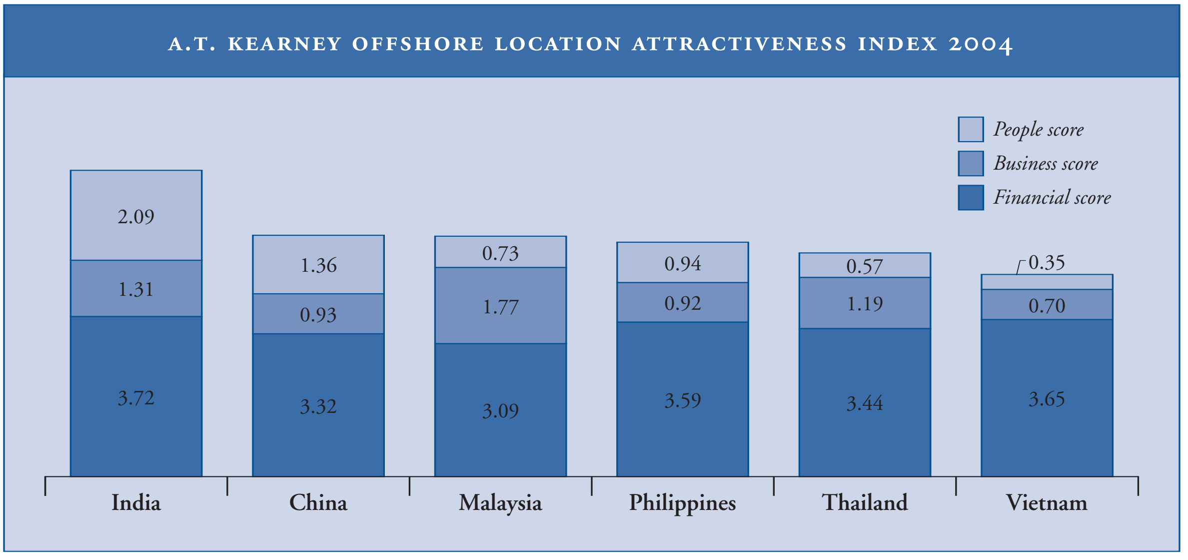
Of course, the index is not the only tool used in deciding where to locate; final country selections will vary for each company. By providing a quick snapshot of the relative pros and cons of various locations, the index is a good starting point for performing in-depth evaluations. For governments, the index provides insights into their assets and liabilities as they seek to position their countries as attractive offshore destinations.

# Appendix: A Regional View

**EMERGING ASIA**

Given the dominance of Asian countries among the top 10 on the index, most locations are profiled individually. Looking ahead, we expect competition to intensify among these countries, particularly between India and China. Malaysia is developing an attractive business environment. Success in Thailand and Vietnam will depend on how well they upgrade their workforce skills; the Philippines will need to address its business environment and perception by investors to capitalize on its cost advantages.

Figure A: Emerging Asia

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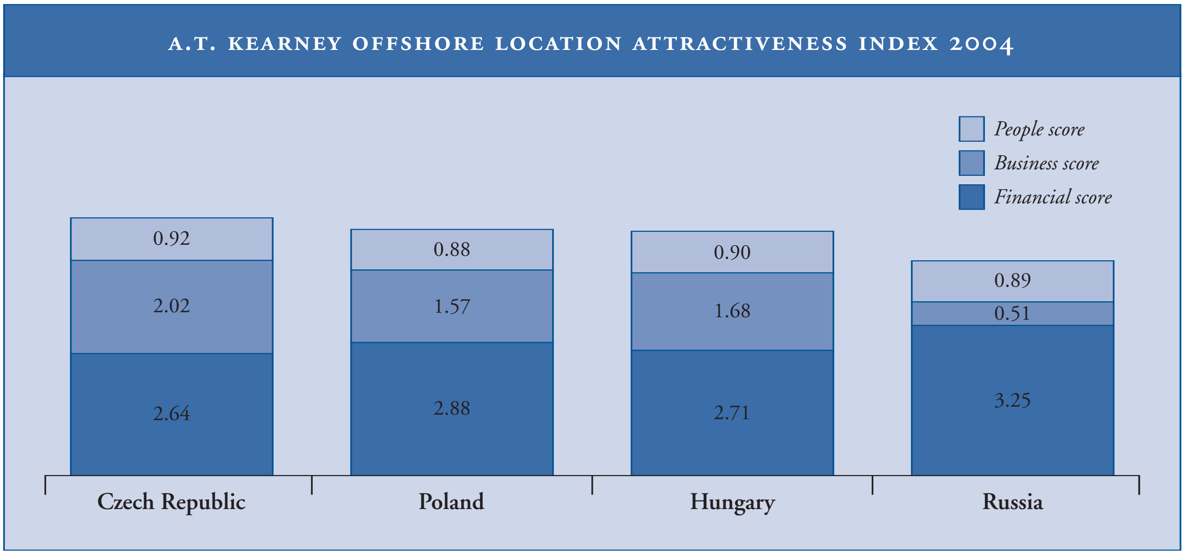
*Source: A.T. Kearney*

## EASTERN EUROPE

Compared to the Czech Republic, Poland and Hungary, Russia has a few challenges to overcome before it becomes a solid offshore destination. On the positive side, Russia has significant cost advantages, competitive universities and a large pool of engineers and scientists. Yet a weak infrastructure and lack of global integration is keeping Russia from reaching its full potential as an offshore destination. Improving the business environment and enhancing foreign investor confidence will be prerequisites for Russian success in the offshore arena.

To maintain their progress, Poland and Hungary still need to upgrade their infrastructure to reach European Union levels and, along with the Czech Republic, to continue with measures to comply with EU requirements.

Figure B: Eastern Europe




*Note: The weight distribution for the three categories is 40:30:30, meaning that the financial structure is rated on a scale of 1 to 4, and that business environment, and people skills and availability are on a scale of 1 to 3.*
*Source: A.T. Kearney*

## LATIN AMERICA

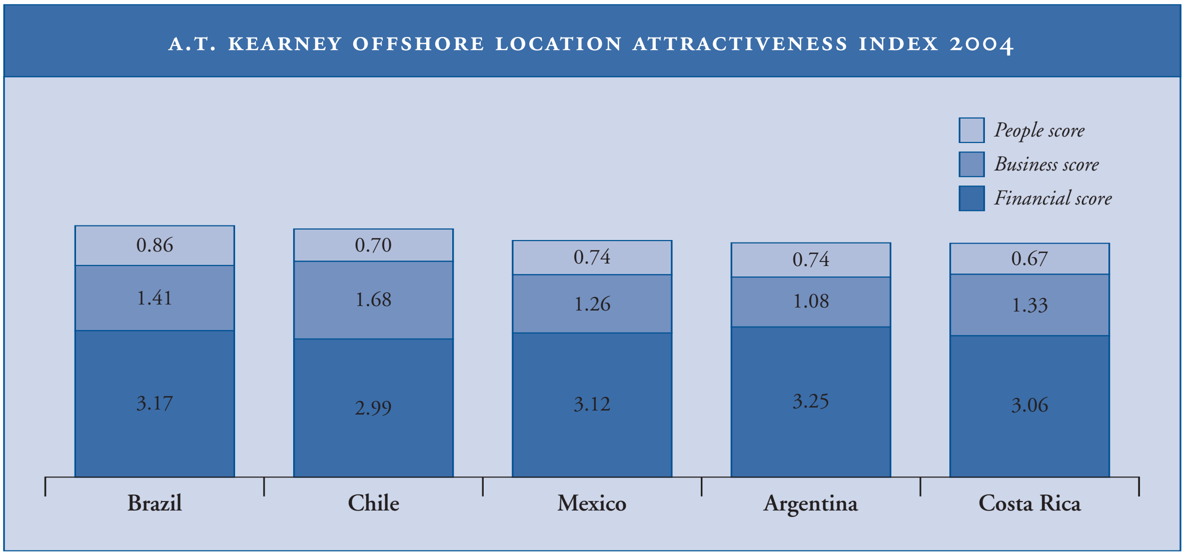
All countries in Latin America provide good offshore outsourcing opportunities. Brazil and Chile were the most successful performers in the 2004 index.

Mexico scores roughly on a par with Chile and Brazil in terms of costs and people skills, but scores relatively low in terms of infrastructure, IP security, and perceived levels of political instability and bureaucracy. Further south, regional competition is intensifying. Brazil has the best people skills in the region and attracts companies such as HP. Yet Motorola is transferring its call-center operations from Brazil to Argentina.

Argentina enjoys cost advantages, but a low score in the business environment category, and limited experience in BPO-related services, is keeping the country from moving up the ranks. Costa Rica offers competitive costs, the best English-language proficiency among the Latin American countries surveyed, and a relatively friendly business environment—for example, the government has set up free-trade zones that offer tax and other benefits. However, the country's performance in the index is constrained by the relatively small size of the labor force and lack of university-educated workers.

Overall, Latin America should become a BPO hub in the near term, led by Spanish-language call centers. This transformation will be spurred by increased government support and infrastructure improvements.

Figure C: Latin America




*Note: The weight distribution for the three categories is 40:30:30, meaning that the financial structure is rated on a scale of 1 to 4, and that business environment, and people skills and availability are on a scale of 1 to 3.*
*Source: A.T. Kearney*

### English-speaking developed countries

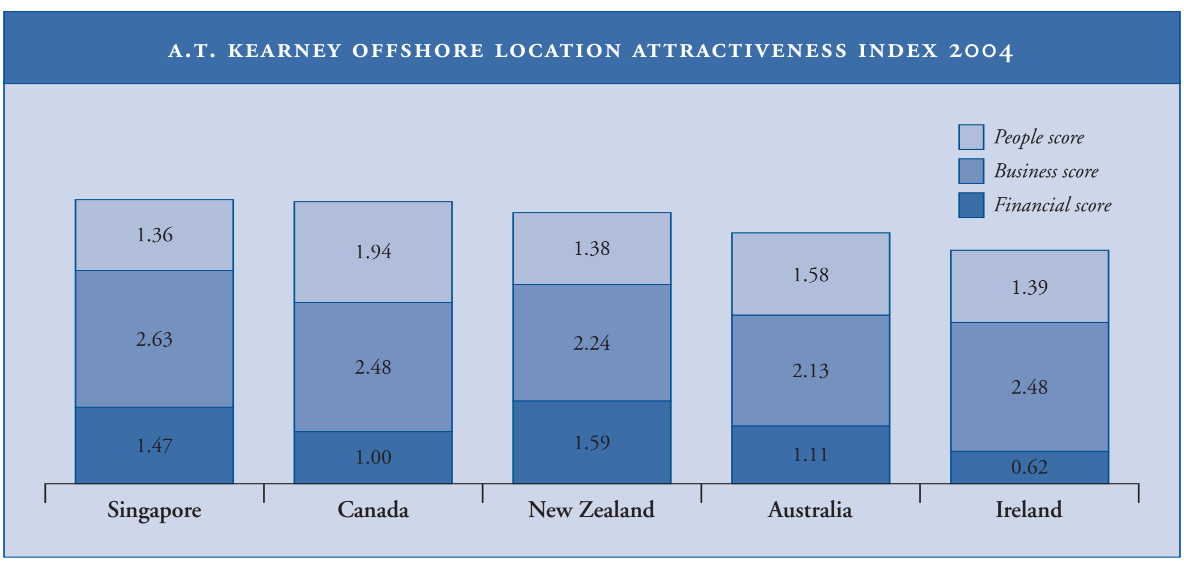
New Zealand, Australia and Ireland rank among the top 25 offshore locations. They are relatively costly locations, but they offer competitive business environments with skilled labor.

New Zealand performed well at number 12 in this year's index, noteworthy for a combination of creative people and innovative technologies. Also, the government established a program called the Silicon Valley Beachhead, based in California, to help local IT companies establish operations in the United States and to foster growth at home.

Australia hosts call and research centers for Fujitsu, Ericsson and IBM, and several important India-based providers such as HCL Technologies, Satyam and TCS operate there. Australia's comparative advantages in labor, business environment, language and cultural similarities will help the country remain among the top 25 offshore destinations despite its relatively high costs.

Ireland already hosts shared services centers for large companies including IBM, Microsoft and Intel. However, the labor force is small and it can be a challenge to find sufficient resources. Ireland's relatively low score (23) in the index is a direct result of high compensation costs and problems with workforce availability. Despite the overall low ranking, Ireland will continue to attract companies that want to take advantage of its secure business environment, leadership in the software industry and educated workforce.

Figure D: English-speaking developed countries




*Note: The weight distribution for the three categories is 40:30:30, meaning that the financial structure is rated on a scale of 1 to 4, and that business environment, and people skills and availability are on a scale of 1 to 3.*
*Source: A.T. Kearney*

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