MEXICO

THE NEXT FRONTIER

For collaborative
Software
and **IT Services**

A whitepaper by **Duncan Tucker** and **Anurag Kumar**

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Finding development teams capable of providing expert, efficient and low-cost service with minimal risk has proven something of a problem for US-based businesses. Far-flung offshore destinations such as India, Brazil and Eastern Europe have presented some solutions, but also many new challenges, including hidden costs, higher turnover, language problems, disparate working cultures, intellectual property considerations, and political and economic instability.

Relying on offshore operations in such locations means taking on unnecessary risks and losing a significant degree of control over the development process. Geographical separation means face-to-face interaction becomes rarer, leading to a lack of visibility and transparency, while incompatible time zones lessen a buyer's ability to ensure sufficient supervision and respond to evolving requirements and changing market conditions.

MEXICO MEETS YOUR
BUSINESS NEEDS

The answer to this dilemma is much closer to home. Mexico is an ideal, low-risk nearshore location where companies can move their development forward faster while dramatically cutting costs. How? By contracting extended technology teams that work collaboratively using Agile development processes.

Mexico is the world's fourth largest provider of IT services. Its IT outsourcing (ITO) and business process outsourcing (BPO) market is worth over $12 billion a year, with annual growth of 10%. By outsourcing software development to Mexico, US businesses stand to save 43% on average, according to KPMG.

Among the advantages that Mexico offers are geographic proximity, strong cultural and economic affinity with the US, world-class infrastructure, low employee attrition rates, strong government support for the IT industry, and excellent educational institutions that guarantee bilingual expertise and a well trained workforce. Mexico's talent pool is vast, with approximately 500,000 IT professionals working in the ITO/BPO sector, while over 80,000 students graduate from IT-related programs every year.

A growing sense of optimism in Mexico has been buoyed in the last year by the passage of long-overdue reforms to the energy, education and telecommunications sectors. In a bid to foster better service and cheaper prices through greater competition, the Enrique Peña Nieto administration has opened up the monopolized telephone and cable-TV markets and for the first time allowed a level of private investment in state-owned oil and gas monopoly Pemex.

Most of Mexico is on Central Standard Time, while the northwest tip of the country is aligned with Silicon Valley on Pacific Time. This allows for real-time collaboration at every level of development. Face-to-face communication is also facilitated by the scores of daily non-stop flights between dozens of major cities in the US and Mexico.

Such advantages have drawn many leading technology service providers to increase their presence in Mexico. TCS, HCL, iGate, MindTree, NoShore Group, Indra and Genpact are among the many major IT firms that have recently set up facilities or expanded their operations in the country. For many big companies, establishing a presence in Mexico also serves as an important gateway that provides access to the growing commercial market in Latin America.
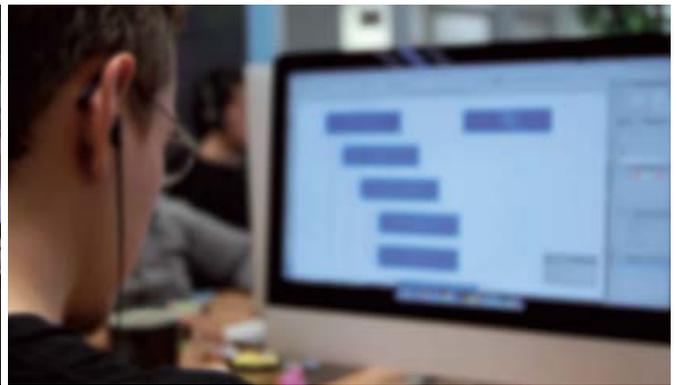
US companies sometimes hesitate to contract extended teams because of concerns that developers may not fully understand the business issues they are trying to solve, but Mexico's proximity to the US and the constant stream of migration between the two nations has fostered a greater understanding of American business culture than in any other nearshore destination.

The business process is well understood and defined, as Mexico is the US' second biggest trading partner, with trade in goods and services totaling $540 billion in 2012. Moreover, Mexico is currently ranked a respectable 53rd in the World Bank's Ease of Doing Business index, well above other offshore destinations such as Brazil (116th) and India (134th).

The North American Free Trade Agreement (NAFTA) has significantly facilitated the process of doing business in Mexico by reducing (and in many cases completely eliminating) tariffs for many goods and virtually all services between the US, Canada and Mexico. Another of the primary benefits of NAFTA has been the reduction of visa restrictions so that it is easier for Mexican professionals to visit their employers' headquarters in the US for extended periods of time. NAFTA also significantly reduces risk by guaranteeing investors the same legal and intellectual property rights that they enjoy in the US. In effect, transferring operations to Mexico is no different to moving them to Canada or another state in the US.

NAFTA has not only spurred growth in Mexico's services sector, but also in manufacturing, particularly in the automotive and aerospace sectors. Mexico recently overtook Japan and is on course to surpass Canada by the end of 2015 as the number one exporter of cars to the US. The production boom is being fueled by a multibillion-dollar wave of new factories opened by the likes of Nissan, Honda, Mazda and Volkswagen. Mexico is also home to some 300 aerospace factories, with exports of $5 billion in 2012 forecast to rise to $12 billion by 2020.

MINIMAL RISKS

Mexico maintains steady economic growth and receives $12.6 billion a year in foreign direct investment. It is one of the most politically and economically stable countries in Latin America and the Caribbean, making it much less risky than offshore destinations such as Russia, Ukraine or India.

Despite the avalanche of negative headlines related to Mexico's war on drugs, security risks are minimal for U.S. or multinational businesses operating south of the border. The rise in drug-related violence from 2006 to 2011 understandably led investors to exercise greater caution, but the homicide rate has since dropped significantly – falling 18% in 2012 and another 19% in 2013 – and the authorities have brought down the most-wanted leaders of every major drug cartel in the last year.

> "*The people that are involved in the violence are a very small subset of the population.*" *- Andy Kieffer*

Contrary to popular belief, Mexico is one of the safest countries in the region, with a significantly lower murder rate than many of the nearest states in the Caribbean and Central or South America. Prominent nearshore locations such as Mexico City, Guadalajara, Monterrey and Queretaro have been unaffected by drug-related violence.

Mexico is a hugely popular destination with tourists and retirees alike. Almost six million US citizens visit Mexico every year and an increasing number of North Americans now call Mexico their home. The number of US citizens living south of the border doubled from 443,591 in 2000 to 870,103 in 2012, and there were also 23,150 Canadians living in Mexico as of 2012.

GUADALAJARA
Mexico's Silicon Valley

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There are dozens of IT clusters spread across almost the entire country, but Mexico's primary hub of high-tech innovation is its second biggest city, Guadalajara. The capital of the western state of Jalisco, Guadalajara is known as "Mexico's Silicon Valley." Major industries include software services, multimedia production, aerospace and automotive design, electronics contract manufacturing, and embedded design, while major corporations such as IBM, Dell, Intel, HP, Freescale, Oracle, HCL and TCS all have significant operations in the city.

Home to 6.9 million people with an average age of just 22, Guadalajara produces no shortage of talented young developers proficient in new technologies such as Social Media, Mobile, Analytics and Cloud (SMAC). More than 6,500 electronic engineers graduate every year – most with a good level of English – from over 20 universities that offer IT-related programs in the city. These academic institutions include the prestigious Monterrey Institute of Technology and Higher Education campus, lauded as "world class" by Bill Gates and "Ivy League standard" by the New York Times.

The private sector and the city's educational institutions have both benefitted from strong government support for the high-tech industry, which accounts for 60% of Jalisco's total exports. To strengthen the sector, the municipal, state and federal authorities all provide funding for PhD-level IC design and validation and other academic programs in specialist technologies such as Java, .NET and C/C++, among others.

An Enviable Location

Guadalajara has its own dual-terminal international airport and is just a three-hour flight from Texas or Silicon Valley. Famed as the birthplace of tequila and mariachi music, the city combines a rich cultural heritage with world-class infrastructure and a near-perfect climate to offer residents and visitors an excellent quality of life.

"It's a wonderful place to be, a great place to work," says Silicon Valley veteran Andy Kieffer, who moved to Guadalajara six years ago. "It's an exciting time, I think what we went through in Silicon Valley 15 years ago is happening now here. It's fantastic to see the ecosystem evolving so quickly."

The future looks bright for Guadalajara, as in 2012 it was chosen to host the Creative Digital City, a major media and technology complex that the federal government says will generate 25,000 high-tech jobs and stimulate $10 billion of investment in the next ten years.

An ambitious, long-term project being overseen by the Massachusetts Institute of Technology (MIT), the Creative Digital City will occupy 300 hectares in downtown Guadalajara, fueling considerable urban renewal in the historic city center. The complex will be home to global giants and local firms, such as Kaxan Media Group, who became the first company to move into the nascent site in January 2014.

ITEXICO OFFERS
FLEXIBLE SOLUTIONS

Founded in 2010 by Indo-American and Mexican entrepreneurs, iTexico has an headquarters in Austin, Texas, a regional office in Silicon Valley and a wholly owned software development center in Guadalajara. Experts in Agile software development, .Net, PHP, Java and cross-platform mobile app development, iTexico have drawn talent from all over the world, including developers from the US, UK, India, Pakistan, France and Belgium.

iTexico provides dedicated teams for mobile and web development, testing and support. It has developed an innovative Extended Team as a Service (eTaaS)TM model that allows clients to build the team including project managers, analysts and developers, that they can utilize for the time they need it. iTexico reduces project delays by quickly scaling size to meet its clients' financial needs, and by providing on-demand infrastructure and well trained staff with flexible skillets.

By outsourcing software development and other IT services to Agile firms such as iTexico, US companies will reap all the benefits of having scalable extended teams (without any long-term commitment) in a nearby, low-risk and inexpensive environment.

About the Authors

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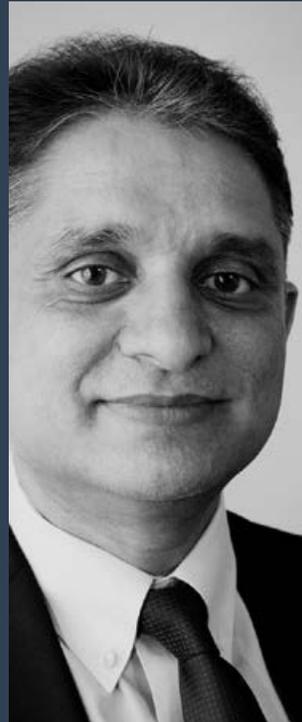
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