



“Next-wave” Location Profile – Monterrey, Mexico

Locations Insider™ (LI)

Market Report – May 2018: Complimentary Abstract / Table of Contents

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- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio – plus a tracking tool
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

This report provides perspectives on key aspects of the global sourcing market in the location

Monterrey | Quick snapshot



Tier-1 location in Mexico, primarily leveraged for voice and IT service delivery for North America and Spanish speaking Latin American countries

KEY FACTOIDS

16,000-18,000 annual tertiary graduates

Annual operating cost per FTE 170-180% savings over Dallas
13-18% savings over Mexico city for voice-delivery

Current overview

- Leveraged by both service providers and GICs
- Primarily leveraged to deliver voice and IT services (application development and infrastructure)
- Primarily serves North America followed by Spanish speaking countries in Latin America
- Players support English and Spanish delivery with select players delivering Chinese, French, and Portuguese

Key drivers

- Lower cost (13-18%) than Mexico City for voice service delivery
- Large tertiary graduate pool with technical and bilingual skills
 - Being the third largest metropolitan city in Mexico, Monterrey attracts talent from nearby locations
- High-quality infrastructure and good ground and air connectivity with countries in North and Latin America
- One of the lowest wage inflation rates in Latin America; expected to reduce further

Key challenges

- Concerns around withdrawal of U.S. from NAFTA and proposed imposition of 20-30% Border Adjustment Tax (BAT)
- High evidence of crime and drug related violence
- Smaller IT talent pool than Mexico City at comparable cost

KEY PLAYERS:



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Monterrey | Risk profile (page 1 of 2)

Geopolitical and macroeconomic concerns exist given the potential withdrawal of U.S. from NAFTA and Mexico's high dependence on the U.S. business cycle

■ Highly favorable ■ Favorable, some concerns ■ Least favorable

| Parameter | Everest Group rating | Comments |
|---------------|---------------------------------------|--|
| Geopolitical | ■ | <ul style="list-style-type: none"> Shift from a system in which power was concentrated in the hands of president to the one in which the Congress has been increasingly empowered, has exposed institutional weaknesses that impair political effectiveness (e.g., rift between ruling and opposition parties over energy reforms) Outbreak of serious corruption scandals has effected governance. Additionally, concerns around graft and crime, and associated protests have increased However, structural reforms in areas such as education and telecommunications have improved the outlook for government effectiveness Mexico is ranked 66th out of 167 countries in the Democracy Index 2017 by Economic Intelligence Unit (EIU) Cross-border conflict with the U.S. increased, as the U.S. accused Mexico of lax efforts to stop illegal migration over the Mexican-U.S. border |
| Macroeconomic | ■ | <ul style="list-style-type: none"> GDP growth is expected to be sluggish in medium term as the economy is still recovering from slowdown during 2013-2016 and a boost in GDP growth by government reforms is likely to be offset by low oil revenues Dependence of the economy on the U.S. business cycle potentially has significant downside risk, especially with discussions undergoing on NAFTA Withdrawal of the U.S. from NAFTA and proposed imposition of 20-30% Border Adjustment Tax (BAT) can significantly impact nearshoring from Mexico. If implemented, these reforms will increase cost of operations and lower ease of talent movement between countries Depreciation of the Mexican Peso over the years has enhanced the value proposition of Mexico as an outsourcing destination Credit rating agencies, Fitch and S&P, raised Mexico's credit rating to stable from negative, primarily driven by expected stabilization of the public debt burden |

Source: Everest Group (2018); EIU; WEF Global Competitiveness Report; World Bank



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Research calendar – Locations Insider

■ Published ■ Planned □ Current release

Flagship Locations Insider reports

Release date

| | |
|--|-----------------|
| "Next-wave" Location Profiles – Belfast, Northern Ireland | October 2017 |
| "Next-wave" Location Profiles – Medellín, Colombia | November 2017 |
| "Next-wave" Location Profiles – Atlanta, US | February 2018 |
| "Next-wave" Location Profiles – Manchester, UK | February 2018 |
| "Next-wave" Location Profile – Guangzhou, China | May 2018 |
| "Next-wave" Location Profiles – Monterrey, Mexico | May 2018 |
| "Next-wave" Location Profiles – Johannesburg, South Africa | Q2 2018 |
| "Next-wave" Location Profiles – Timisoara, Romania | Q2 2018 |

Thematic Locations Insider reports

| | |
|--|---------------|
| Changing the Contact Center Delivery Model to Target Customer Experience | October 2017 |
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| Brexit, GDPR, and Digital Winds of Change: Disruption or Transformation of Service Delivery to the UK and Ireland? | October 2017 |
| Poland Tier-2/3 Cities: Complementing Tier-1 cities or Carving a Niche for Digital Services | December 2017 |
| Betting on the Future – The Bangladesh IT-ITeS Industry is Poised for Growth | December 2017 |
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| Locations Predictions for 2018 | Q2 2018 |
| How Has Brexit Affected UK's Talent Pool? | Q2 2018 |

Note: For a list of all of our Locations Insider™ reports, please visit the [Locations Insider™](#)

Additional research references

The following documents are recommended for additional insight into the topic covered in this report. The recommended documents either provide additional details or complementary content that may be of interest:

1. **Mexico IT-BPM Industry: Maintaining Competitiveness Amidst Uncertainty** ([EGR-2017-8-V-2222](#)); 2017. The proposed withdrawal of the United States from NAFTA and implementation of Border Adjustment Tax (or outsourcing tax) is likely to negatively impact the IT-BP industry in Mexico in the short-term. Operating costs for IT-BP services from Mexico may increase by 10-30% and Mexico may lose favorable access to the United States market. In this viewpoint, we have examined the facts concerning the current situation and have presented our perspectives on the impact of political events on Mexico's IT-BPM industry
2. **“Next-wave” Location Profile – Medellín, Colombia** ([EGR-2017-2-LP-2417](#)); 2017. This report analyzes Medellín and offers perspectives on global sourcing profile of Medellín, key opportunities, drivers, and challenges, along with an overview of talent availability, operating costs, and environment risks
3. **“Next-wave” Location Profile – Belo Horizonte, Brazil** ([EGR-2017-2-LP-2100](#)); 2017. This report analyzes Belo Horizonte and offers perspectives on global sourcing profile of Belo Horizonte, key opportunities, drivers, and challenges, along with an overview of talent availability, operating costs, and environment risks
4. **IT Services Delivery from Latin America (LATAM)** ([EGR-2016-2-R-1803](#)); 2016. This report analyzes Latin America as a destination for delivery of nearshore/offshore IT services. It provides an in-depth assessment of the ten key cities in the region, focusing on labor pool, operating cost, market activity, and risk analysis. It also provides information on opportunity and challenges offered by Latin America for delivery of IT services

For more information on this and other research published by Everest Group, please contact us:

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