

MEXICO: KEY CX DYNAMICS IN THE AMERICAN NEARSHORE'S LEADING MARKET



**BY
SEAN
GOFORTH**

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PREFACE



Peter Ryan, Ryan Strategic Advisory

Since its founding 7 years ago, Ryan Strategic Advisory has sought to explain how the outsourcing sector is evolving and what it means for service providers, their clients, and consumers.

Technology and business processes are immensely important, but so too are the countries that host BPO delivery. As this report by Research Director Sean Goforth demonstrates, Mexico continues to attract attention from outsourcing executives who prize stability, while promising new pathways continue to emerge.

This research, based primarily on results from the 2023 Ryan Strategic Advisory Front Office CX Omnibus Survey, highlights how BPO location favorability takes into account, work-from-home capacity and, yes, costs.

Many dynamics are at play in the American nearshore. As demonstrated in this report, Mexico provides opportunity for enterprise CX clients and their outsourcing partners — provided key factors are taken into consideration. Ryan Strategic Advisory hopes that readers from across the customer experience ecosystem find its insights helpful in regards to how service delivery into Mexico is progressing.

Sincerely,

Peter Ryan
Montréal, Canada

INTRODUCTION

Mexico is basking in the warmth of renewed interest from outsourcers in the United States. With established outsourcers expanding and new entrants flocking to the country, revenue in Mexico's BPO sector grew by 10.5% in 2022.¹ And once again, Mexico recorded the highest favorability score of any country in Latin America, according to US-based CX decision-makers sounded for the Ryan Strategic Advisory 2023 CX Front Office Omnibus Survey.

US Offshore Location Favorability

Using a scale of 1 – 8 (1 = not at all favorable, 8 = very favorable), please provide your degree of favorability to the following offshore locations for contact center delivery.



Source: Ryan Strategic Advisory, 2023
Front Office CX Omnibus Survey.

More than 176,000 people work for BPOs in Mexico.² Overall industry revenue is expected to eclipse \$3.5 billion in 2023. With a forecast compound growth rate above 6% over the next four years, the industry may reach \$4.45 billion in revenue by 2027.³

¹ Statista, "BPO: Mexico: Market Forecast" (Nov. 2022). Note: Conversion from euros to dollars at 1.07: <https://fr.statista.com/outlook/tmo/it-services/business-process-outsourcing/mexico#revenue>

² Statista, "Key Figures on the BPO in Mexico" (2021): <https://www.statista.com/statistics/895283/mexico-bpo-market-key-figures/#:~:text=As%20of%20February%202021%2C%20th,e,employed%20nearly%20176%20thousand%20workers.>

³ Statista, "BPO: Mexico: Market Forecast" (Nov. 2022). Note: Conversion from euros to dollars at 1.07: <https://fr.statista.com/outlook/tmo/it-services/business-process-outsourcing/mexico#revenue>

During this time, the global outsourcing sector will likely develop amid a fraught trade environment. Already trade tensions are stirring a shift of supply chains and investment away from China and toward Mexico as the “nearshore” alternative of choice.⁴ Given this, outsourcers and their partners must weigh important questions, including:

- What are Mexico's strengths as an outsourcing delivery market?
- How are these strengths evolving in light of the recent surge in nearshore investment?
- Conversely, what problems do outsourcers in Mexico face?
- How should new entrants and outsourcers looking to expand design their investments for lasting competitive advantage?



Hermosillo

MEXICO'S ALL-IMPORTANT DEMAND MARKET NORTH OF THE BORDER

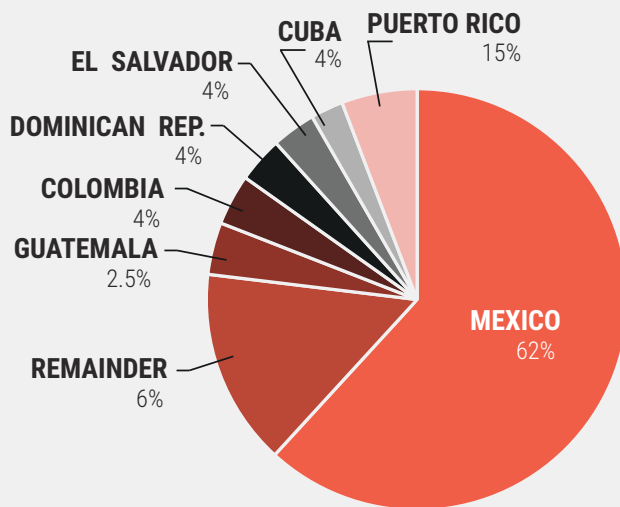
Unlike offshore CX heavyweights such as India, South Africa or Philippines, Mexico has a largely unidirectional orientation. Service buyers in the United States go to Mexico because they seek value-driven English-Spanish bilingual delivery. An estimated 54% of workstations in Mexico are dedicated toward US consumers, with a sliver devoted to delivery to Spain and the remainder servicing the domestic market.⁵

⁴ Inter-American Development Bank, “Nearshoring Can Add \$78bln Annually in Exports from Latin America and the Caribbean,” 7 June 2022: <https://www.iadb.org/en/news/nearshoring-can-add-annual-78-bln-exports-latin-america-and-caribbean>

⁵ Based on survey research conducted by Ryan Strategic Advisory in 1Q2023.

US Hispanic Population

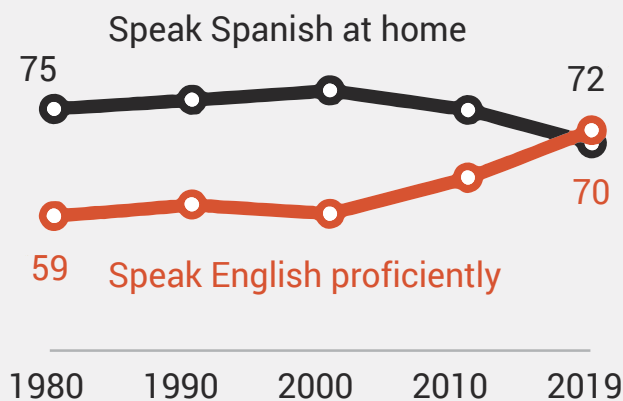
By National Origin, Self-Identified



Source: US Census Bureau (2018)

Among US Hispanics, the Use of English is Increasing

% of Latinos Aged 5 and Older



Source: Pew Research Center, based on tabulations from US Census Bureau and American Community Surveys.

Hispanic community members comprise about 19% of the US population.⁶ Among this demographic, more than 60% trace their origins to Mexico.⁷

Yet, in the past, two key factors have led enterprises — and thus outsourcers — to under-serve the group historically. First, Spanish-speakers account for only 11.4% of consumer spending in the United States, according to McKinsey & Co.⁸ Second, as Spanish-speaking immigrants to the United States assimilate they abandon Spanish for English.

In general, this produced a provision of Spanish-language service volumes into the US market that was lower than the demographic rate would suggest. Recently has this begun to change. As US Hispanic community members gain buying power, service volume rates are increasing in key verticals such as utilities, e-commerce, and travel and tourism.⁹ And some CX executives report anecdotally that more consumers are willing to “press 2 for Spanish” when they call customer service, less out of need than opportunity when they perceive wait times as shorter.

On the basis of these trends and projections from outsourcers, the share of Spanish-language volumes in the US may rise to the 15-20% threshold in the years to come.¹⁰ Outsourcers with operations in Mexico are poised to capitalize on this growth.

⁶ For a survey of Latinos as a share of the US population over time, see Pew Research Center, “A Brief Statistical Portrait of US Hispanics,” 14 June 2022: <https://www.pewresearch.org/science/2022/06/14/a-brief-statistical-portrait-of-u-s-hispanics/>

⁷ Ibid.

⁸ McKinsey & Co, “The Economic State of Latinos in America: The American Dream Deferred,” 9 Dec. 2021: <https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/the-economic-state-of-latinos-in-america-the-american-dream-deferred>

⁹ For a long-term overview, see US Census Bureau, “Real Median Household Income by Race and Hispanic Origin, 1967-2020,” undated: <https://www.census.gov/content/dam/Census/library/visualizations/2021/demo/p60-273/figure2.pdf>; also see McKinsey & Co, “The Economic State of Latinos in America: The American Dream Deferred,” 9 Dec. 2021.

¹⁰ Estimate based on surveys conducted by Ryan Strategic Advisory.

*Guadalajara*

MEXICO'S NEARSHORE ADVANTAGES

Mexico's value to outsourcers targeting the US CX market involves attributes long associated with nearshore delivery, including:

- Time-zone alignment with the United States
- Spanish-English bilingual delivery
- Cultural affinity to US consumers
- Easy access via flights from the US
- Arbitrage opportunities in the form of wage savings

These classical nearshore advantages are evident in other Latin American and Caribbean destinations. Even so, Mexico's proximity to the United States amplifies many of these benefits. Flights to Mexico are quicker, with direct hauls from over a dozen major US airports arriving in Mexico in 2-4 hours. Also, agents can offer a high degree of customer empathy because they consume products from the same brands, have family north of the border, and follow similar social media outlets.

Furthermore, Mexico's multi-city delivery capability is unrivaled in Latin America. Between Monterrey, Guadalajara and Mexico City, the country offers three of the largest and most mature cities for outsourcing. While each city boasts a distinct flavor, they all possess large Spanish-English bilingual talent pools, world-class universities, and sound infrastructure.

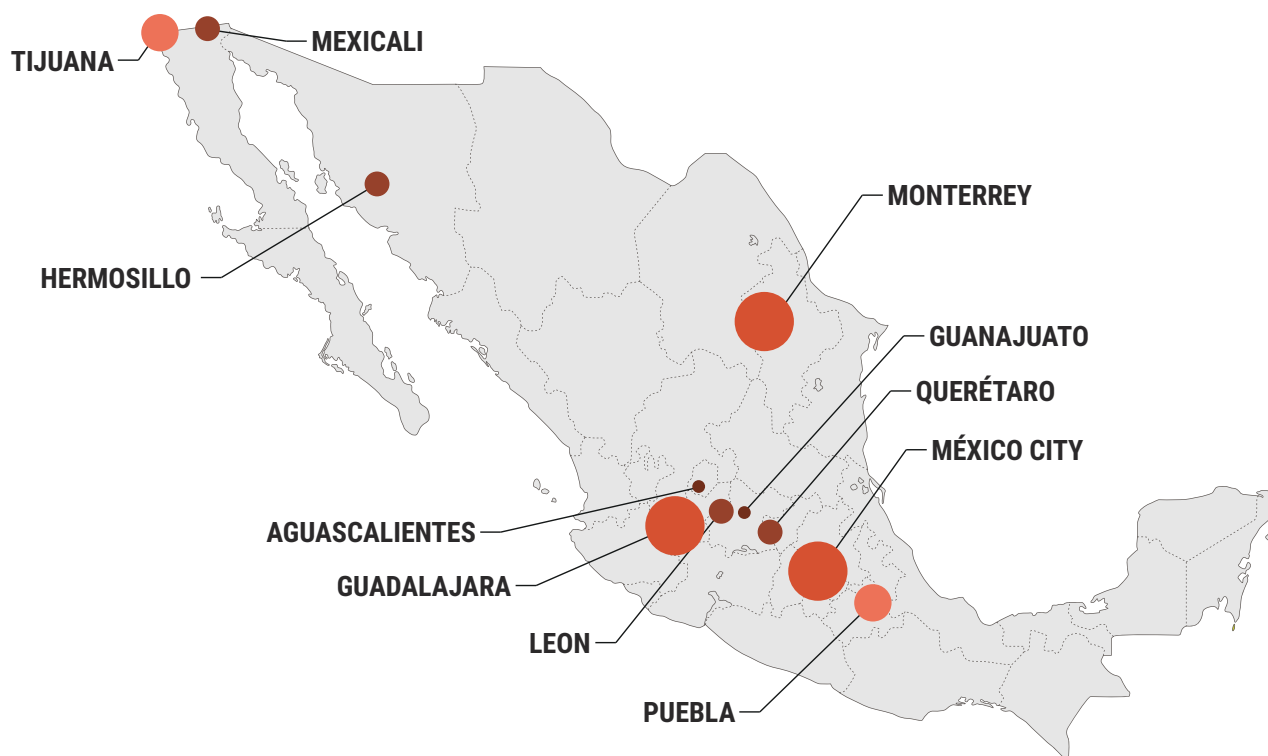
Economic growth, while sedate by Asian standards, has trended in the mid-single digits over the past decade. Disciplined management by the country's central bank ensures inflation loosely tracks that in the United States. These stabilizing forces have helped draw outsourcers to Mexico for years, resulting in a mix of large global outsourcers alongside mid-sized domestic and US-based outsourcers catering to consumers north of the border.

EMERGING NEARSHORE TRENDS

Lately, additional nearshore trends bolster Mexico's value proposition as a delivery destination. From Tijuana to the border city of Mexicali, a hyper nearshore has emerged. The hyper nearshore represents an intensification of the nearshore paradigm. Commute times from San Diego to Tijuana are reduced to less than an hour by car.¹¹ A significant proportion of agents in these cities have lived or worked north of the border and many have received their postsecondary education in California. Along these border cities, cultural affinity melts away into cultural fusion.

Naturally, this perk is geographically constrained. But while it exists in a relatively small portion of Mexico, virtually no other country in the world can claim to offer the level of know-your-customer empathy found in Mexico's hyper nearshore region.

Mexico's credentials are further enhanced by the dispersion of work-from-home agents. With the onset of the COVID-19 pandemic, few contact center agents in Mexico worked from home. But operators and employees managed the transition well. Reliable residential internet and electricity eased the switch. As a result, today many outsourcers in Mexico are expanding their remote delivery offerings.



A large share of Mexico's recent headcount growth has occurred in secondary cities like Puebla and Hermosillo. As an executive at one of the world's largest outsourcers put it, this is Mexico's hidden strength: the firm can recruit bilingual agents in sleepy port cities and former company towns, and in so doing find talent with industry-specific expertise in IT, oil, transport logistics, and fintech.

¹¹The US Department of Homeland Security's SENTRI program facilitates commutes for frequent cross-border travelers.

COMING TO TERMS WITH STALE PERCEPTIONS

As the remote-working model matures, the underside of its growth is that talent pools are highly absorbed in Mexico's largest cities. Monterrey is near-saturated with BPOs. In Guadalajara, the robust software industry poaches away agents and operations managers from pure-play BPOs. And notwithstanding lower wages in the country's capital, operational expenses in Mexico City are elevated compared to other Mexican or Latin American locales.

Furthermore, Mexico suffers from stale perceptions when it comes to costs. Many outsourcing clients believe that wages in the country reflect that found in offshore BPO hubs. For the most part, agent wages are notably lower in the Philippines, South Africa or Poland.¹²

Cost pressures have mounted recently as the Mexican peso strengthens versus the dollar. From 2019-2022, the peso traded in a range of roughly 20 per dollar. In 2023 though, the "super peso" has surged to a rate of 17.5 per dollar. Export-oriented businesses, including outsourcers, have been stung by this unexpected FX swing.

FOREIGN EXCHANGE RATE: US DOLLAR VS. MEXICAN PESO



Source: Bloomberg

Puebla

¹² Based on survey research conducted by Ryan Strategic Advisory in 2Q2023.

CRIME AND OTHER CHALLENGES

Mexico's long struggle against drug gangs continues with no end in sight.¹³ Nationwide, the homicide rate has not risen — but it has plateaued at a high level.¹⁴

Mexico City offers one bright spot. From 2018-2022, the homicide rate fell by almost half.¹⁵ Across smaller cities, crime levels vary.

Further complicating investment decisions, Mexican President Andrés Manuel López Obrador (AMLO) has spent much of this six-year term meddling with regulations to privilege state companies over private enterprises. While most of his ire has been directed toward the energy industry, his attacks have sewn doubts among multinationals in the country, including outsourcers.

PATHWAYS FORWARD

Mexican delivery of Spanish-English language services has proven scalable across three large metropolitan areas and numerous smaller cities. And Mexican agents share a cultural affinity with end-users in the United States that translates into high degrees of customer empathy.

Outsourcers must be discriminating, though. The notion of opening a large center in Mexico City, Guadalajara or Monterrey that serves as a one-stop shop for Spanish-English service delivery is becoming passé. Saturation and inter-vertical pressure threaten to snare the growth of contact centers in these cities.



Mexicali

¹³ Since 2018, Mexican President Andrés Manuel López Obrador (AMLO) has pursued a strategy of accommodation with drug gangs through a policy called 'abrazos no balazos'—hugs not bullets. See, for instance, *The New York Times*, "AMLO Promised 'Hugs not Bullets,' but the Violence Continues," 21 Sept. 2022:

<https://www.nytimes.com/es/2022/08/31/espanol/mexico-violencia-amlo.html>

¹⁴ 2022 Mexico Peace Index.

¹⁵ *The Economist*, "Mexico Could Elect its First Female President Next Year," 23 May 2023:

<https://www.economist.com/the-americas/2023/05/23/mexico-could-elect-its-first-female-president-next-year>

Looking ahead, investors eyeing Mexico's potential for new or expanded operations should weigh the value that secondary cities offer. In select border cities, hyper nearshore synergies promise advantages in CX management. A host of other locales, from Puebla to Hermosillo, offer potential. Niche operators may well succeed by tapping the talent available from these smaller locations.

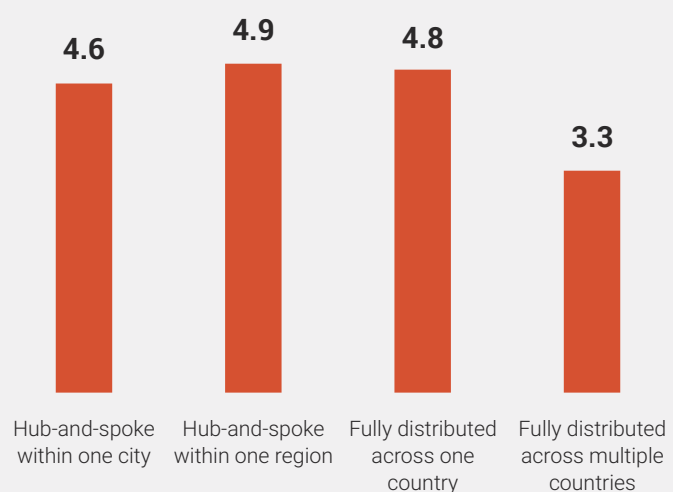


Tijuana

Managing Remote Working with Hub-and-Spoke Delivery

What WFH Distribution Best Meets Your Outsourcing Needs? US Respondents

*Source: Ryan Strategic Advisory, 2023
Front Office CX Omnibus Survey.*



Scaling up operations could involve a hub-and-spoke remote working approach. In Mexico, this would allow an outsourcer to conjoin a small footprint in a mature city with the growth potential and cost advantages of WFH or a secondary-city presence. And by doing so, Mexico promises the talent and scale desired by outsourcers seeking to satisfy end-users in the United States.

With a large pool of bilingual talent, multi-city delivery and strong nearshore advantages, Mexico offers a desirable mix of traits for outsourcers. Exploiting these traits for CX delivery to the United States remains a strong value proposition—especially when secondary cities are taken into consideration.

ALLIANCE BPO SERVICES AND THE AMERICAN NEARSHORE



Alliance BPO Services, Hermosillo Contact Center

With a strong workforce, impressive accessibility and a healthy BPO ecosystem, the city of Hermosillo offers a host of benefits for outsourcers seeking to exploit Mexico's nearshore advantages.

Nestled along the Gulf of California, the city of a million people welcomed its first BPO over a decade ago. It had a strong labor force that was steeped in US business and culture. Ford had built cars in the city since the 1980s. Aircraft parts manufacturers had been operating there for nearly as long.

Proximity to Arizona and Texas meant that many residents had traveled north of the border; some did so regularly. Multiple daily flights arrive in Hermosillo just an hour after taking off from Phoenix; daily flights from Dallas arrive in about two hours.

As one might expect, pop culture seeps southward, shaping how people in Hermosillo consumed news, music, and art. A young active working population helps keep the cultural vibe fresh and receptive to the latest trend.

Mexico is dotted by cities of a similar size and a strong manufacturing tradition. Even so, the advantages of Hermosillo have come to stand out as investors cozy to locales that are safe and stable. Unlike some places, crime rates are relatively low in Hermosillo. And well away from volcanoes and fault lines, the city does not face the threat of natural disasters.

Recently, the CX landscape in Hermosillo has matured. Today nearly a dozen international BPOs operate there. Most deploy English-Spanish bilingual teams, offering their clients arbitrage opportunities. Wage savings are consistently below that offered by providers based north of the border, and in some cases even slightly lower than other established BPO hubs in northern Mexico.

Based on these advantages, Alliance BPO Services launched operations in Hermosillo. Its 100% bilingual team of agents has focused since the company's inception on direct-to-consumer campaigns, aiding US-based clients throughout all steps of the growth cycle, from sales and lead generation to customer support, retention, and back-office tasks.

Voice-based customer care is a major component of contact volumes at Alliance BPO Services, a reflection of the wider trend among the US Hispanic consumer. Digital contact channels like chat are growing as well.



Alliance BPO Services

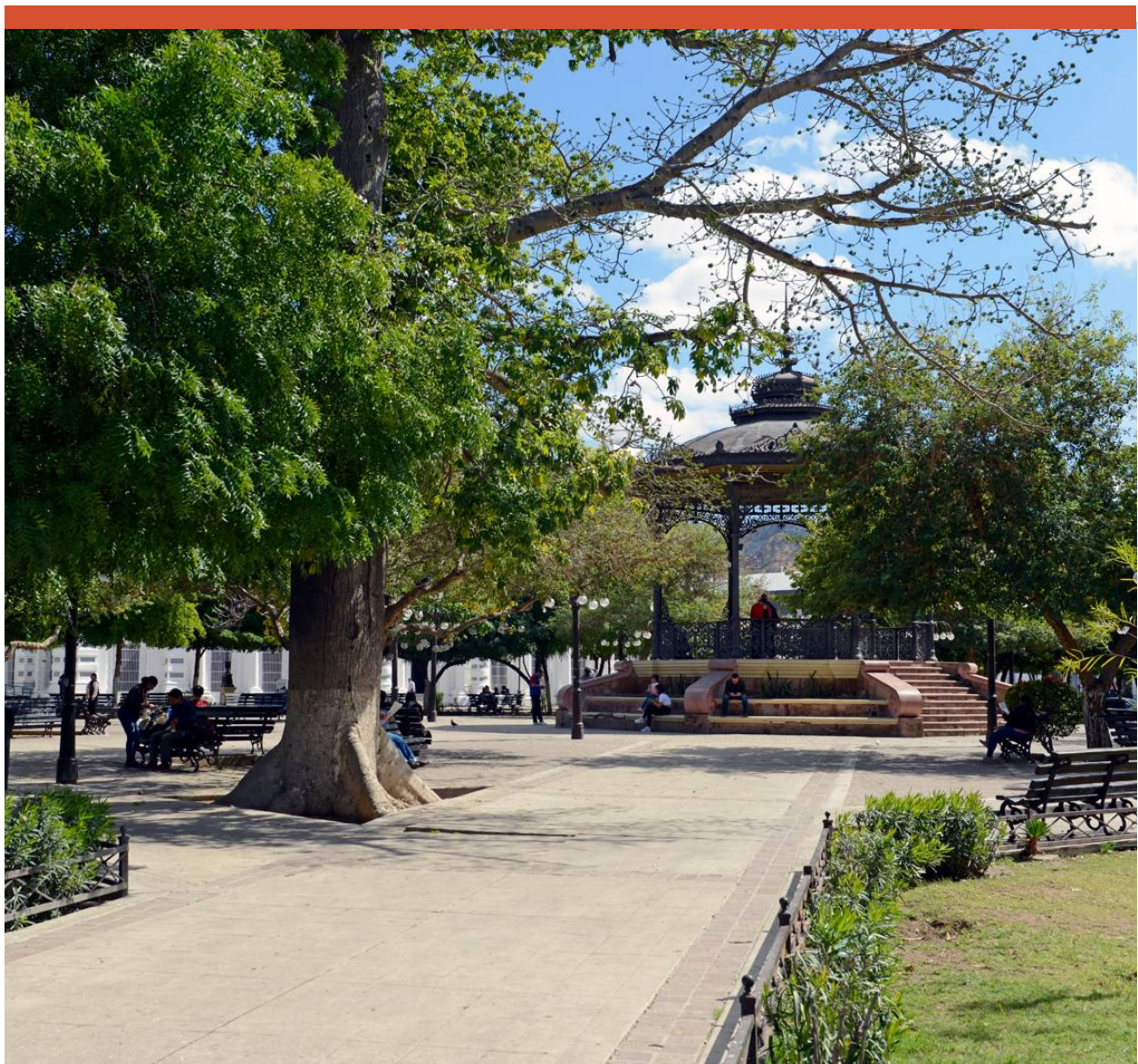


Hermosillo enjoys a strong telecom infrastructure. So even before the pandemic hit, Alliance BPO Services boasted strong remote delivery. More recently, it has transitioned part of its workforce back to the office, principally in order to meet the demands of clients involving sensitive information.

After steady growth in recent years, the firm now employs more than 250 agents. The firm's heritage of recruiting agents who are not only fully bilingual, with neutral accents, but who possess programming or other tech skills, remain a core distinguishing feature.

Part of Alliance BPO Services' success stems from its unique partnership model. Rather than standard service contracts, the outsourcer offers custom tailored agreements, with performance commitments aligned to their client success.

A strong base of technology-empowered CX with flexible WFH options helps distinguish Alliance BPO Services as a go-to partner for bilingual customer care in Hermosillo. Still, "every competitor firm has strong technology, but skilled people remain a big differentiator," says Alliance BPO Services co-founder Juan Caire. "And our level of skills and acculturation with America is unmatched."



Hermosillo



For more information please visit www.ryanadvisory.com.