

POINT OF VIEW

The nearshore advantage in the age of technology arbitrage

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The IT services landscape is undergoing a seismic shift. For decades, the industry has been dominated by a labor arbitrage model, where companies sought to reduce costs by outsourcing work to regions with lower labor costs. While this approach has been effective for some time, the rapid adoption of AI, automation, and cloud technologies is rendering it outdated. Today, enterprises are shifting toward technology arbitrage, where the ability to leverage advanced technologies—rather than just cheaper labor—drives agility, growth, and measurable business outcomes.

IT leaders need more than just cost efficiency—they require agility, speed, and continuous innovation. To contribute to growth, they must embrace this shift to technology arbitrage, where they can play a crucial role in helping their business partners adopt advanced technologies such as AI, automation, and cloud to deliver operational efficiencies and achieve measurable business outcomes.

Access to nearshore IT services firms could significantly help IT leaders expedite delivery in this new model. To understand the advantages of nearshore resources, with experienced talent in the same time zone as their clients, HFS looks at how Softtek's business model allows it to improve how it provides its clients with improved go-to-market services, promotes real-time decision-making, and delivers access to dynamic talent pools to deliver IT-led outcomes.

Traditional service models struggle with speed, agility, and access to talent

As enterprises rapidly adopt new technologies, traditional IT service models—particularly those dependent on offshore outsourcing—are proving

too rigid to keep up. These models face several critical challenges:

- **Delayed responsiveness and long feedback loops:** Offshore teams, often based in time zones far removed from their clients, suffer from significant communication delays. These delays slow decision-making, hinder real-time collaboration, and can lead to missed opportunities, particularly for enterprises needing to iterate quickly and adapt to changing market conditions.
- **Access to the right talent:** The increasing complexity of the digital landscape requires highly specialized and flexible talent. However, offshore models often struggle to provide the dynamic and flexible talent pools necessary to navigate cloud-native development, AI-powered automation, and continuous delivery practices. Without these specialized skills, enterprises find it difficult to innovate at the required pace.
- **Scaling innovation:** While offshore models have successfully managed back-office operations and maintained legacy systems, they fall short when scaling innovation. In today's era of technology arbitrage, enterprises need partners that can support routine IT tasks and drive business value by integrating emerging technologies into their operations.

Given these limitations, enterprises are rethinking their approach, seeking solutions that offer the speed, agility, and technological foresight necessary for success in today's market. These are the opportunities where nearshore can come into play.

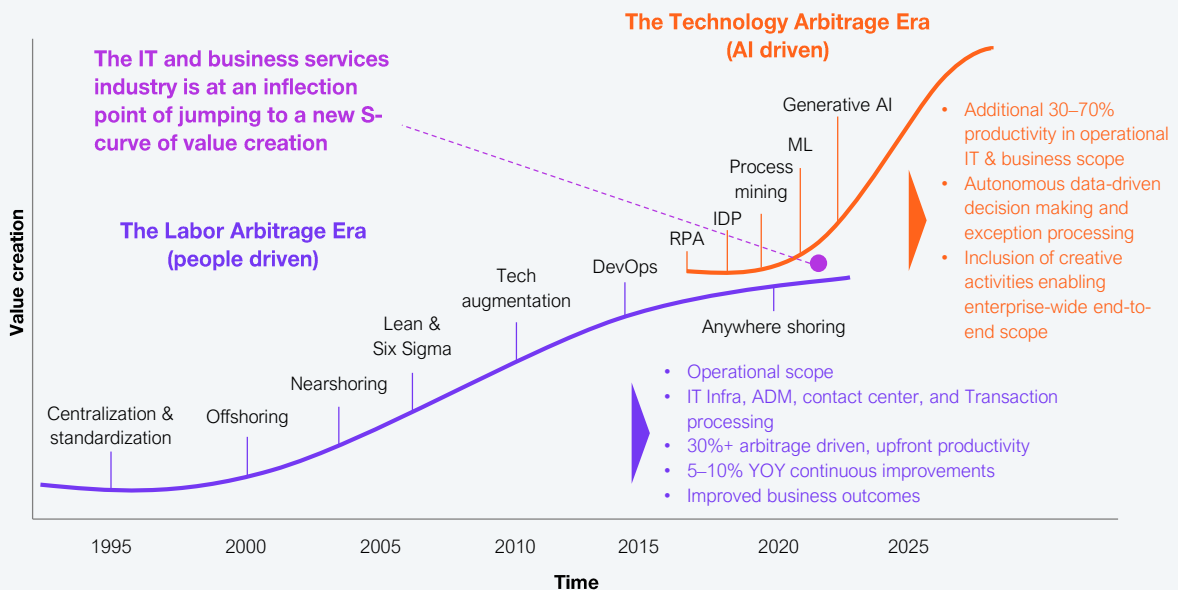
Nearshore partnerships have emerged as a powerful solution to the challenges modern enterprises face

As the IT services industry evolves, the shift from labor arbitrage to technology arbitrage reshapes how enterprises derive value from their service providers. Historically, businesses prioritized cost-cutting by outsourcing work to regions with lower labor costs. However, agility, speed, and continuous innovation are the new priorities in today's rapidly changing digital landscape. Technology arbitrage leverages advanced technologies such as AI, automation, and cloud solutions to deliver operational efficiencies and measurable business outcomes—a far cry from the labor-driven models of the past.

In this new era, technology—not just cheaper labor—is the primary driver of competitive advantage (see Exhibit 1). To capitalize on the opportunities of technology arbitrage, enterprises require service partners that can provide real-time collaboration, quick decision-making, and access to specialized talent. This is where nearshore partnerships prove ideal.

Nearshore partnerships offer a perfect alignment with the demands of technology arbitrage. Working within the same or adjacent time zones enables nearshore teams to deliver rapid responses and seamless collaboration, overcoming the delays often associated with offshore models.

Exhibit 1: The new S-curve of value creation will be AI-driven technology arbitrage



Source: HFS Research, 2024

Here are the key benefits of nearshore engagements in the age of technology arbitrage:

- **Real-time collaboration:** Nearshore teams work within the same or adjacent time zones as their clients, eliminating communication delays and enabling real-time collaboration. This results in faster decision-making and shorter iteration cycles, enabling businesses to adapt quickly to market shifts and new opportunities.
- **Faster time to market:** The proximity of nearshore teams helps enterprises bring products and services to market faster. By reducing development timelines and enabling quicker deployment of digital initiatives, nearshore partners make businesses more responsive to customer needs and competitive pressures.
- **Cultural alignment:** Nearshore teams often share cultural similarities with their clients, aligning business values and strategic objectives more closely. These shared values and experiences can foster a collaborative environment where teams can seamlessly co-create solutions, solve complex problems, and drive digital transformation.
- **Access to specialized talent:** Nearshore models provide access to highly skilled talent capable of supporting AI, automation, and cloud integration. This model ensures enterprises have the technical expertise needed to scale innovation and meet the demands of complex digital landscapes.
- **Agility and flexibility:** Nearshore partnerships offer the agility needed to pivot quickly and adjust as business priorities evolve. Unlike traditional offshore models, nearshore teams can adapt to changing requirements with greater flexibility, enabling faster project iterations.

- **Cost-effective innovation:** Nearshore engagements combine cost-efficiency with the ability to scale innovation. While offshore models may struggle to deliver high-value innovation at speed, nearshore partners can drive both routine IT tasks and technology-led transformation, delivering measurable business value.

Softtek's nearshore model is emerging as a solution that brings innovation closer to business strategy, not just operations

Softtek, a pioneer in nearshore North American IT services, stands out by offering a highly integrated, agile approach to delivering business outcomes. What sets Softtek apart is its ability to combine nearshore advantages, such as proximity and cultural alignment, with deep expertise in emerging technologies. This go-to-market model positions Softtek as a leader in helping enterprises maintain their systems, drive continuous innovation, and future-proof their IT capabilities.

1. **Agility in responding to business changes:** Softtek's nearshore teams work with their North American and European clients in real-time, enabling faster adaptation to shifting market demands and regulatory requirements. Whether ramping up new product initiatives or responding to unexpected disruptions, Softtek's ability to quickly scale resources and pivot strategy offers enterprises a level of responsiveness offshore models can't match.

- 2. Dynamic talent pools to meet evolving technology needs:** As demands for digital transformation increase, Softtek’s access to flexible, specialized talent helps enterprises address current and future challenges. Softtek’s Centers of Excellence (CoE) and innovation labs offer clients access to composable teams with expertise in critical areas such as ERP, application development, cloud-native development, AI-driven automation, and low-code/no-code platforms. By leveraging this talent, enterprises can address their needs as business and technology needs evolve.
- 3. Innovation at scale through AI, automation, and data-centric strategies:** By embedding AI-driven automation, data-centric strategies, and advanced cloud solutions, Softtek helps enterprises solve immediate operational challenges and position themselves for long-term growth. Softtek’s nearshore model ensures that its clients have the tools and expertise to continuously optimize their digital products and deliver business outcomes at speed.

Softtek's nearshore model helped 24 Hour Fitness accelerate digital transformation and build long-term strategic partnerships

24 Hour Fitness embarked on a decade-long digital transformation journey, starting with nearshore and then turning to offshore models for IT support. However, the company quickly faced challenges with time zone misalignment,

high turnover, and lack of real-time collaboration, which hindered progress on critical projects such as system modernization and customer-facing applications.

Recognizing the need for a more responsive and integrated partner, 24 Hour Fitness engaged Softtek, starting with small staff augmentation efforts in 2011. This partnership soon evolved, as Softtek’s nearshore model—primarily based in Mexico—offered the proximity and cultural alignment necessary for real-time collaboration.

Softtek’s early success came when it revamped 24 Hour Fitness’s mobile sales application, providing a cost-effective, responsive solution. Over time, its role expanded, supporting major transformational initiatives such as implementing a customer management platform with Dynamics 365 and migrating from Oracle Financials to Zuora. Softtek can embed within 24 Hour Fitness’ team, working in the same time zone and becoming an extension of the organization rather than just an external vendor. As Rajeev Yeddanapudi, VP – Software Engineering and Architecture at 24 Hour Fitness, explained, *“Everyone worked in the Pacific time zone... it was one big advantage. Some of their people have been with us since 2011 and know our systems better than some of our employees.”*

This real-time collaboration enabled quicker iterations and smoother project delivery, starkly contrasting with the slower, fragmented nature of the company’s former offshore engagements. The ability to integrate talent from across Latin America, leveraging a hypercollaboration model, gave 24 Hour Fitness access to top-tier technical skills without the common challenges associated with offshore models.

This transition to technology arbitrage is at the heart of how Softtek has helped companies such as Chubb navigate digital transformation

Chubb, one of the largest global insurance companies, has been working with Softtek since 2015 to address its need for agile, responsive support across Latin America. The insurance giant required a partner that can handle both infrastructure modernization and fast-paced innovation while maintaining real-time collaboration across markets. After experiencing challenges with traditional offshore models—namely time zone misalignments and cultural disconnects—Chubb turned to Softtek’s nearshore model for a more integrated approach. The ability to work within the same time zones as Chubb’s internal teams quickly became a significant advantage, streamlining communications and ensuring faster decision-making.

Softtek’s nearshore model not only addresses time zone and cultural alignment, making collaboration smoother, but also offers a strategic pathway for integrating cutting-edge technologies. By embedding its teams directly into Chubb’s operations, Softtek provided rapid access to talent and real-time collaboration, which enabled Chubb to accelerate innovation and respond faster to business challenges.

According to Pablo Pessagno, chief marketing and platform engineering officer for Latin America at Chubb: *“When Softtek says they can do something, I can sleep well knowing they’ll deliver. They’re upfront about their strengths and transparent about where they’re still building capabilities. That level of honesty is something I truly value.”*

This approach aligns with HFS Research’s vision of the technology arbitrage era, where the value no longer lies in just scaling people but in orchestrating a complex ecosystem of technologies to deliver business outcomes. Softtek’s ability to balance innovation with transparency and focus on building long-term collaborative partnerships position it as a critical player in helping enterprises such as Chubb scale AI-driven solutions and optimize cloud environments—essential factors for thriving in today’s rapidly evolving digital landscape.

For many of Softtek’s clients, nearshore-based services are the future. They are building their partner-augmented technology investments by sharing culture, language, and time zones with their partners. As pure play people-based outsourcing is giving way to teams that are increasingly adept at using technology-led approaches, the ability to leverage both human and technology advantages in real time provides the service quality and delivery advantages organizations seek.

The Bottom Line: When moving to a technology-led model, companies must determine how the agility, speed, and cultural alignment of IT services firms' teams and capabilities align with their new needs.

Softtek's model enables it to partner closely with clients. Many firms realize tangible benefits by investing in a nearshore resourcing model in the same time zones as many of their customers. The benefits this model can bring IT leaders include:

- 1. Real-time collaboration:** Sharing a time zone optimizes interactions across IT and business teams.
- 2. Cultural alignment:** The shared values of the client and partner, from leaders to front-line workers, enable service delivery capabilities to mesh faster and stay connected longer.
- 3. Agility and flexibility:** Nearshore teams can pivot quickly in response to unexpected events, addressing client business needs and the rapid changes in market needs.
- 4. Cost-effective co-innovation:** Softtek and its customers share managed teams that work together to find new ways of doing business, improving systems, and impacting customer experiences.
- 5. Access to talent and accelerators:** Through product-line digital hubs of innovation and technical excellence, Softtek's virtual captives align the expertise of its people with accelerators for clients to adopt, modernize, and deploy at scale.

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Joel Martin is the executive research leader for enabling tech research on software development and the TMT industry practice for HFS Research.

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