



Three Drivers Turning Nearshore into an Ideal Engine for Digital Business Growth

Introduction

Navigating the complexities of digital transformation requires more than just innovative technology—it demands teams and capabilities that can adapt to shifting global dynamics. Nearshore software service delivery models have become a pivotal force in driving digital business growth by offering a unique blend of proximity, cultural alignment, and economic efficiency. As businesses confront challenges like economic uncertainty and the need for rapid technological adoption, nearshore solutions provide the agility and expertise necessary to stay competitive.

This white paper explores three drivers of nearshore adoption and how they can transform your business's digital capabilities:

- 1. Economic and Geopolitical Uncertainty:**
Nearshore models provide flexibility and cost-efficiency, helping businesses mitigate risks.
- 2. The Post-Pandemic Acceleration of Digital Adoption:** As organizations rapidly adopt digital technologies, nearshore services offer the necessary agility and expertise to support this transformation.
- 3. Prevalence of Distributed Agile Teams:**
Nearshore locations enhance the efficiency of agile teams by offering cultural alignment, time-zone synchronization, and effective communication.



Understanding Nearshore Outsourcing

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Before exploring these drivers, it's important to understand what nearshore outsourcing entails and why it has become an attractive option for companies looking to enhance their digital strategies. Nearshore outsourcing involves delegating business processes and technology services to teams (captive or outsourced) located in nearby countries, offering a blend of cost efficiency, cultural compatibility, and time zone alignment. This model provides a strategic advantage for companies seeking to streamline operations, improve productivity, and drive innovation without the complexities often associated with offshore outsourcing.

What is Nearshore?

Nearshore refers to the outsourcing of business processes and technology services to companies from an adjacent or nearby location.

Since its inception in the mid-1990s, nearshore has become synonymous with outsourcing to nearby countries—primarily US companies collaborating with Canadian and Latin American teams or Western European countries partnering with Eastern European countries.

Originally introduced as a complement and/or alternative to India-centric outsourcing, nearshore has earned its position as a robust global sourcing model.

Nearshore enables Share-the-Sun workflow models

The “Share-the Sun” workflow model emerged during the pandemic as organizations hunted for qualified technology talent with shared time-zone proximity. Unlike the “Follow-the-Sun” model, which relies on 24/7 development, the Share-the-Sun model leverages a synchronous workflow strategy for real-time collaboration, effectively replicating the in-office experience for distributed teams.



The 3 Big Drivers of Nearshore Adoption

1. Economic and Geopolitical Uncertainty

Economic and geopolitical factors are constantly shifting. Questions about the onset of a recession and inconsistent economic growth dominate headlines. Supply chains remain disrupted, and U.S. corporations are increasingly diversifying out of China, fueling a nearshoring boom.

Nearshore's Value Proposition:

1.1. Lower costs

In any economic environment, cost reduction, with little to no impact on the ability to deliver results, is a very powerful tool. Due to proximity, nearshore engagements have the potential to deliver on that promise.

- **Lower Total Cost of Engagement (TCE):** As a methodology, TCE evaluates the cost of outsourcing services beyond just man-hourly rates. It takes into consideration how

much work can be performed in the lowest cost location. Utilization rates of nearshore capabilities for agile distributed teams can be much higher than offshore, bringing the Total Cost of Engagement down.

- **Lower rates than U.S.:** Due to lower cost of living, most nearshore countries can offer lower rates for talent that is as qualified as that found in the U.S.
- **Lower indirect costs than offshore:** Thanks to strong infrastructure, high trade volume, and frequent flights, business travel and telecommunications with providers outside the U.S. tend to be very cost-effective.

1.2. Improved productivity

By sharing the sun and having a robust travel infrastructure that facilitates face-to-face interaction, nearshore teams can become very productive.

Nearshore's most obvious capabilities for improved productivity include:

- **Time zone:** Same time zone enables distributed high-performance Agile teams to thrive, leveraging real-time collaboration for greater problem resolution and innovation.
- **Proximity:** Geographic proximity and cultural affinity increase employee engagement and team integration, resulting in significantly lower attrition rates.
- **Methodology and tools:** Mature nearshore providers have developed world-class quality and productivity capabilities, including, in some cases, their own intellectual property, and AI capabilities.
- **Outcome-based outsourcing:** The most mature nearshore providers prefer outcome-based engagements over Time & Materials, where they commit to

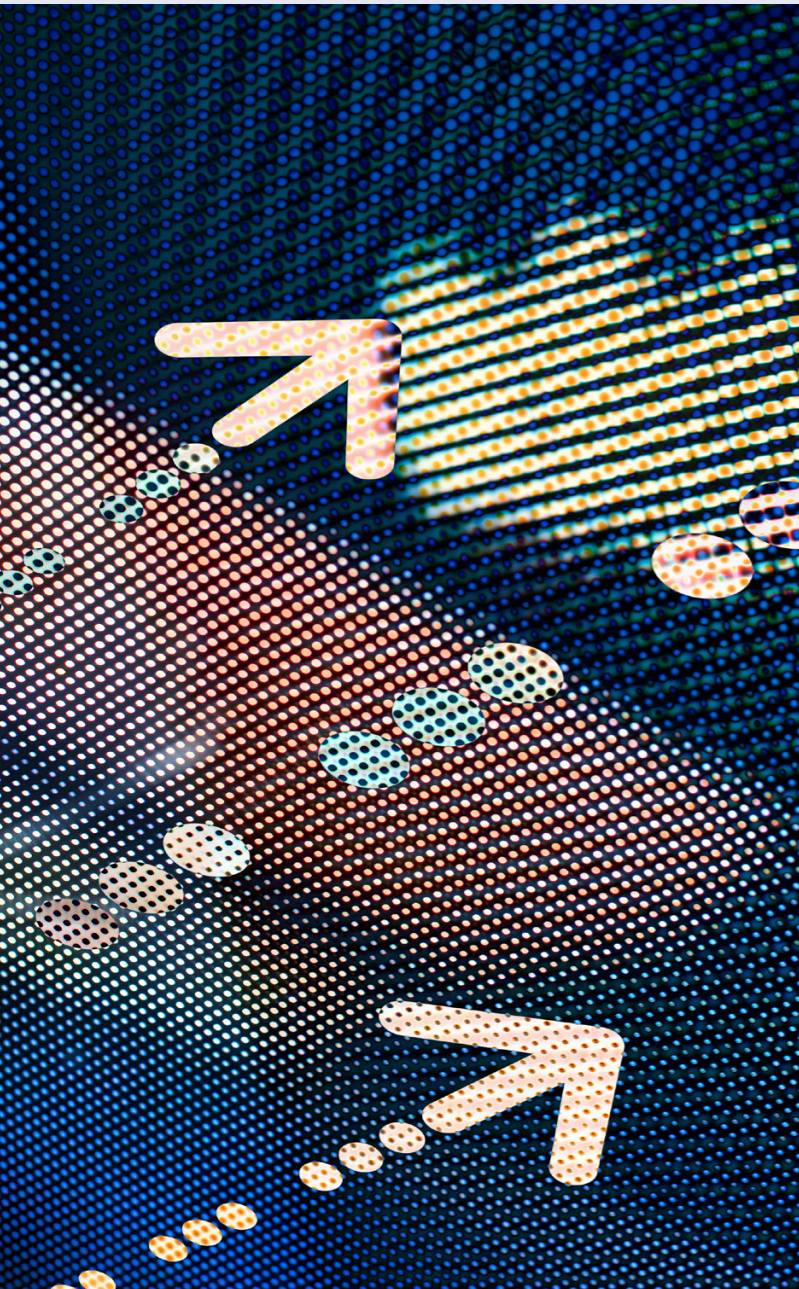
delivering specific results tied to business metrics and manage their own capacity. These high-value engagements require maturity from both the vendor and the buyer.

1.3. Mitigate geopolitical risk

Nearshore IT services were born as an alternative and a complement for India centric offshore services. By utilizing nearby countries, they provide a broader range of global outsourcing capabilities.

Nearshore is valuable for risk mitigation due to:

- **Access to trade agreements:** The USMCA facilitates international trade between the U.S., Mexico, and Canada by providing legal protection, eliminating tariffs, and allowing access to work visas beyond the caps for nationals of countries outside of the agreement.



The U.S. also has similar trade agreements with other Latin American countries, including the Colombia Trade Promotion Agreement.

- **Ease of access:** Mexico, perhaps the most attractive nearshore location, offers hundreds of flights to and from the U.S. and 48 land border crossings, making it the world's most frequently crossed international border.
- **Business continuity:** Since 9/11 and the rise in dramatic climate events, many organizations have set up nearshore locations as backup sites for business continuity plans (BCP). The ease of travel between the U.S. and these locations allows vendors to include the client's facility as a backup site if disruptions occur.

1.4. Elasticity and adaptability.

Corporations need to prepare for potential economic downturns while still expanding their digital capabilities. Mature nearshore providers can quickly scale services up or down for clients.

- **Easy setup:** Accessibility and ease of travel allow quick reactions to unanticipated scenarios. Mature providers can rapidly ramp up capabilities and facilitate knowledge transfer with minimal lead time. This is also enabled thanks to trade agreements like USMCA.

- **Nimbleness and creativity:** Latin American professionals are highly resilient and well-equipped to finding solutions, even in suboptimal conditions, making them great at adapting and solving client problems.

2. The post-pandemic acceleration of digital adoption

Since 2020, almost every organization has had to fast-track their digital transformation strategy to adapt to the surge in digital communication tools, cloud computing, e-commerce, online learning platforms, telehealth services, and other technologies.

A well-implemented nearshore capability can effectively address key components of these digital transformation strategies. Here are three examples:

2.1. Delivering on customer expectations

Today's consumers expect seamless and efficient digital interactions with companies. To meet these expectations, organizations have embraced iterative customer-centric approaches and methods like customer personas and Design Thinking; alongside continuous feedback to anticipate needs and stay ahead of the competition.

Nearshore teams are well-positioned to help meet customer expectations thanks to their proximity, cultural affinity, and similar time zones:

- **Familiarity with consumer behaviors:** Teams often understand consumer behaviors of the markets they serve, because they use the same digital products or services as the customers for which they are supporting or developing.
- **Seamless communication with product managers:** Sharing a similar time zone allows for impromptu conversations and meetings. Furthermore, cultural understanding facilitates communication beyond just timeliness.
- **Proactiveness:** Western cultures tend to be more proactive, so team members often anticipate customer needs and propose solutions rather than waiting for instructions. They are not afraid to push back to offer ideas and differing points of view to team leaders which is especially valuable because nearshore teams develop solutions for users with familiar consumer behaviors.

2.2 Improved time to market

Businesses need to test and validate ideas quickly, make data-driven decisions, and pivot their strategy if necessary.

Rapid digital product development is crucial for adapting to changing market conditions and customer needs.

Nearshore services excel at accelerating the development and introduction of digital products and capabilities through:

- **Faster iterations:** Sharing the same time zone allows team members to collaborate in real time, improving throughput and speeding up iterations.
- **Greater accountability:** Fewer handoffs between teams that collaborate across distant time zones means better communication, reduced errors and misunderstandings, and greater sense of ownership and accountability among team members.
- **Greater integration:** Real-time collaboration fosters greater cohesion among team members. Increased face time builds better relationships, lowering talent attrition and creating more cohesive, motivated teams.

2.3 Improved ability to respond to change

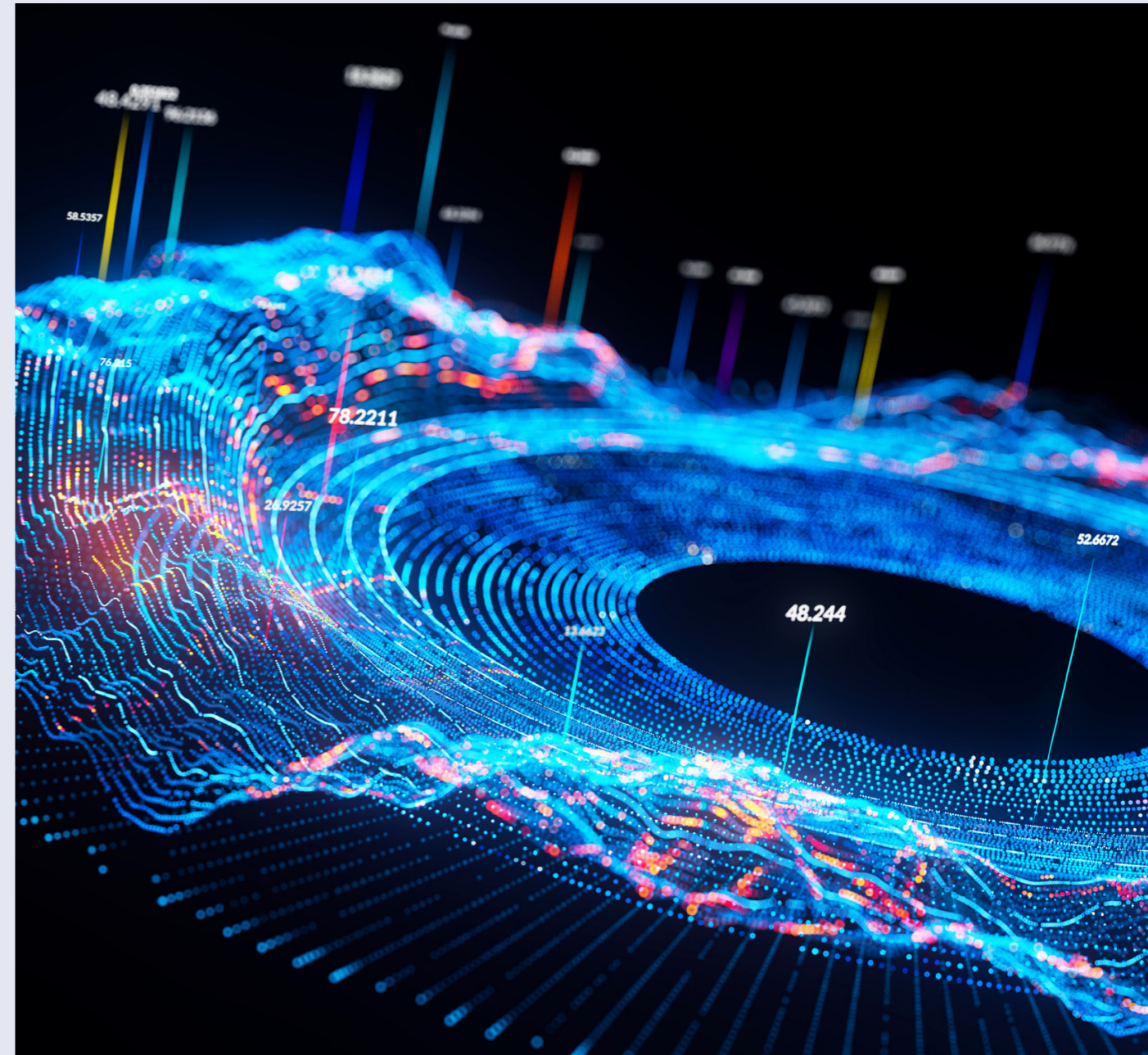
Changes in customer needs, preferences, and market conditions demand greater adaptability for digital business competitiveness. Successful digital strategies require testing ideas, making decisions, and pivoting quickly when necessary.

Nearshore teams are particularly well-suited for adaptability:

- **Improved agility:** Sprint velocity, lead time and cycle time are greatly improved by teams that share the sun.
- **Better risk management:** Nearshore teams work synchronously, sharing information and insights in real time. This collaboration and transparency enhance risk management and problem-solving capabilities that exceed what asynchronous teams achieve in faraway regions.
- **Enhanced problem-solving:** Team cohesion fosters a culture of trust, collaboration, and communication, leading to better decision making and innovation.

3. Prevalence of distributed Agile teams

To build strategic digital business capabilities, Agile is the norm due to its inherent flexibility and adaptability. Distributed Agile Development teams enable organizations to tap into a global talent pool, offering diverse perspectives and experiences which can lead to more innovative and effective products. This model also enables global labor cost arbitrage.



However, distributed agile teams can complicate things for executives that want predictability in the form of fixed prices and deliverables; it also potentially increases talent attrition.

Nearshore provides significant advantages for distributed agile teams:

3.1 Predictability of costs

IT and vendor management executives need to have predictability of the cost of any given project. Distributed agile methodologies complicate this, as it's often difficult to anticipate all iterations and changes in the product development cycle, making it harder to measure value from third-party service providers and control costs.

Nearshore has proven to be cost-effective, and deliver predictable solutions, especially for agile-based engagements when compared to India-based options, due to the following:

- **Efficiency gains:** Mature nearshore vendors bring a wealth of processes, methodologies, and tools that create efficiency gains. In many cases, these efficiencies translate into cost reductions for clients from the get-go.
- **Optimal team size:** Nearshore projects don't require overstaffing to compensate for time-zone differences, allowing for more efficient team sizes.

- **Better communication, better estimates:** Teams that share the sun communicate more effectively, resulting in more accurate story points and relative sizing estimates.
- **Improved control and monitoring:** Identifying potential risks and overruns or inefficiencies early is facilitated through the real-time communication endemic to nearshore.

3.2 High-performance teams

High-performance distributed agile teams have a combination of technical and soft skills to achieve outstanding results. When paired with a service delivery model that supports real-time communication, these teams can deliver better and faster business outcomes.

Nearshore provides an ideal collaboration platform for high-performance teams, enhancing every commonly-used agile performance metric (velocity, cycle time and lead time). This effectiveness is driven by aspects like:

- **Trust:** Building trust among distributed team members can be challenging. Real-time communication has a significant positive impact in building trust among nearshore teams.

- **Clarity:** Effective communication and trust, inherent to nearshore agile teams, bring clarity to goals and tasks, boosting performance and productivity.
- **On-time delivery rate:** The ability to conduct face-to-face or video conferencing throughout the workday reduces misalignment and improves on-time delivery rates.

3.3 Talent retention

Better team dynamics promote retention. Regular face-to-face interaction, consistent schedules in regular business hours, and cultural affinity strengthen strong bonds within agile development teams.

Nearshore teams offer several benefits over offshore arrangements that lead to higher retention rates, benefiting businesses in the following ways:

- **Consistency:** Agile development teams that work together for long periods become more predictable, deliver higher-quality work, and foster a continuous improvement mindset.
- **Lower costs:** High talent retention reduces costs associated with unfilled positions, hiring, training and onboarding new employees.

- **Faster and defect-free:** Longstanding cohesive teams release products faster with higher quality.
- **Improved knowledge management:** Retaining talent prevents the loss of critical knowledge and expertise, which can cause delays, errors, and reduced productivity.



Conclusion

In summary, as businesses strive to stay competitive in a rapidly changing digital environment, nearshore software service delivery models have proven to be a key enabler of growth and innovation. By leveraging proximity, cultural alignment, and cost-efficiency, nearshore outsourcing addresses critical challenges like economic uncertainty and the demand for agile digital transformation. Companies that embrace nearshore partnerships can be better positioned to enhance their digital capabilities, drive operational efficiency, and sustain long-term success in an increasingly dynamic market.

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