**The 2014 A.T. Kearney
Global Services Location Index™**

A Wealth of Choices: From Anywhere on Earth to No Location at All

Back-office services are now embarking on a third wave of arbitrage, as automation becomes simpler.

The value chain for back-office business services has evolved dramatically over the past two decades. Continual advances in technologies and communications infrastructure are allowing companies to gain access to pools of talent at locations across the globe that were previously inaccessible. By the same token, offshoring has been revolutionary for many countries, giving them a stepping stone into the global economy as distance ceases to be all-important.

The impetus behind this trend has been access to a larger talent pool and cost arbitrage. As we look back, we can see three waves of arbitrage that, although they have appeared in sequence, today are all acting in concert (see figure 1):

- Offshoring itself, which consists of locating resources in low-cost countries, using centers owned and operated by the offshorer

- Outsourcing, in which back-office operations are performed by specialized third parties under agreed contractual terms, which makes geography relatively indifferent to the company hiring the services

- Automation, a wave that is still in its infancy, in which robots are programmed to perform routine tasks even less expensively than low-cost labor

This paper begins with an overview of the 2014 findings of the A.T. Kearney Global Services Location Index™ (GSLI), which seeks to bring rigor to companies' decisions about where to locate offshore operations. The GSLI, now in its sixth edition, tracks the contours of the offshoring landscape in 51 countries across three major categories: financial attractiveness, people skills and availability, and business environment. Based on an assessment of 25 metrics, we identify the countries with the strongest underlying fundamentals to potentially

Figure 1
Three waves of back-office arbitrage

Wave	1. Offshoring	2. Outsourcing	3. Automation
Emergence	~2000	Mid-2000s	Mid-2010s
Evolution	• Location of IT and BPO resources in low-cost countries was (and is) the main way of finding arbitrage • Still, the globalization of services has just begun • The range of countries and their respective roles in global value chains are in constant evolution	• Third parties operate back-office operations, either onshore or offshore, much more effectively • Most companies spin off noncore operations to vendors • Companies selectively bring key roles back in-house to retain knowledge and adapt to shifting core businesses	• Currently, automation is in the form of ERP solutions that automate repetitive, high-volume jobs • Large investments have traditionally been needed for implementation • Quick and easy deployment makes automation feasible for whole new categories of jobs

Notes: IT is information technology. BPO is business process outsourcing. ERP is enterprise resource planning.
Source: 2014 A.T. Kearney Global Services Location Index™

deliver information technology (IT), business process outsourcing (BPO), and voice services (see appendix: About the Study on page 12). In subsequent sections, we discuss the second and third waves of arbitrage—outsourcing and automation—examining their defining features, emerging trends, and implications for business executives and political leaders.

Offshoring: A Wealth of Choices

The first wave of arbitrage—offshoring to low-cost developing countries, mainly India—took off in the late 1990s, driven by improved telecommunications and increased need for large-scale IT operations. The pioneers, often in financial services or telecom, set up new centers from scratch, which they built, owned, and operated. The move to set up these "captive centers" was complicated, expensive, and involved many unanticipated hurdles, but it also delivered significant savings. This trend has been transformational for businesses and countries alike, and as big as the offshore business services industry already is, there is still ample room for continued growth. While large companies have long had many of their service operations offshore, studies show that many midsize and small companies are now poised to follow suit.[1] Furthermore, as the value propositions of formerly low-cost countries evolve to the higher-value end of the spectrum, new countries are joining the competition to entice companies to locate service production on their shores.

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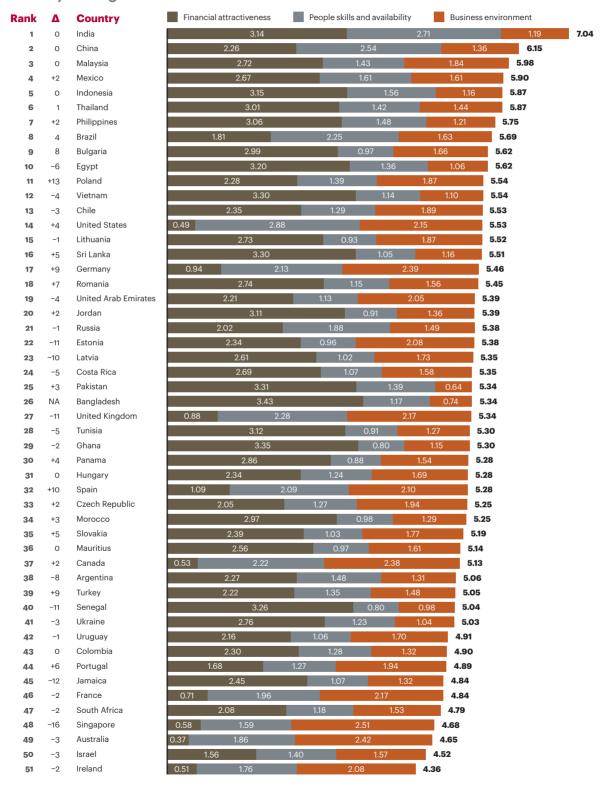
Today, the number of locations suitable for business services offshoring is greater than ever. For companies that is a boon, but the availability of choice also increases the complexity of designing the optimal footprint. For countries, it means an ever fiercer competition for offshore jobs and dollars.

The 2014 A.T. Kearney GSLI sheds light on this set of complex and shifting choices by ranking more than 50 potential destinations (see figure 2 on page 3). Asia continues to dominate, with six entries among the top 10. Latin America as a region also does well, as it offers the second-deepest pool of qualified labor after Asia. Central Europe offers mature industry and highly skilled players at around 50 percent arbitrage compared to Western Europe; deeper arbitrage opportunities are available in Southeast Europe, but with a more immature industry and regulatory landscape. The Middle East and North Africa benefit from proximity to Europe and a large talent pool. And North America continues to offer attractive opportunities outside the tier 1 metropolitan areas.

[1] Arie Y. Lewin, "Global Sourcing of Business Services: Key Findings and Trends from ORN Research" (paper presented at the International Association of Outsourcing Professionals' 2012 Outsourcing World Summit, Orlando, February 2012)

Figure 2
2014 A.T. Kearney Global Services Location Index™

Country rankings

Rank	Δ	Country	Financial attractiveness	People skills and availability	Business environment	Total
1	0	India	3.14	2.71	1.19	**7.04**
2	0	China	2.26	2.54	1.36	**6.15**
3	0	Malaysia	2.72	1.43	1.84	**5.98**
4	+2	Mexico	2.67	1.61	1.61	**5.90**
5	0	Indonesia	3.15	1.56	1.16	**5.87**
6	1	Thailand	3.01	1.42	1.44	**5.87**
7	+2	Philippines	3.06	1.48	1.21	**5.75**
8	4	Brazil	1.81	2.25	1.63	**5.69**
9	8	Bulgaria	2.99	0.97	1.66	**5.62**
10	−6	Egypt	3.20	1.36	1.06	**5.62**
11	+13	Poland	2.28	1.39	1.87	**5.54**
12	−4	Vietnam	3.30	1.14	1.10	**5.54**
13	−3	Chile	2.35	1.29	1.89	**5.53**
14	+4	United States	0.49	2.88	2.15	**5.53**
15	−1	Lithuania	2.73	0.93	1.87	**5.52**
16	+5	Sri Lanka	3.30	1.05	1.16	**5.51**
17	+9	Germany	0.94	2.13	2.39	**5.46**
18	+7	Romania	2.74	1.15	1.56	**5.45**
19	−4	United Arab Emirates	2.21	1.13	2.05	**5.39**
20	+2	Jordan	3.11	0.91	1.36	**5.39**
21	−1	Russia	2.02	1.88	1.49	**5.38**
22	−11	Estonia	2.34	0.96	2.08	**5.38**
23	−10	Latvia	2.61	1.02	1.73	**5.35**
24	−5	Costa Rica	2.69	1.07	1.58	**5.35**
25	+3	Pakistan	3.31	1.39	0.64	**5.34**
26	NA	Bangladesh	3.43	1.17	0.74	**5.34**
27	−11	United Kingdom	0.88	2.28	2.17	**5.34**
28	−5	Tunisia	3.12	0.91	1.27	**5.30**
29	−2	Ghana	3.35	0.80	1.15	**5.30**
30	+4	Panama	2.86	0.88	1.54	**5.28**
31	0	Hungary	2.34	1.24	1.69	**5.28**
32	+10	Spain	1.09	2.09	2.10	**5.28**
33	+2	Czech Republic	2.05	1.27	1.94	**5.25**
34	+3	Morocco	2.97	0.98	1.29	**5.25**
35	+5	Slovakia	2.39	1.03	1.77	**5.19**
36	0	Mauritius	2.56	0.97	1.61	**5.14**
37	+2	Canada	0.53	2.22	2.38	**5.13**
38	−8	Argentina	2.27	1.48	1.31	**5.06**
39	+9	Turkey	2.22	1.35	1.48	**5.05**
40	−11	Senegal	3.26	0.80	0.98	**5.04**
41	−3	Ukraine	2.76	1.23	1.04	**5.03**
42	−1	Uruguay	2.16	1.06	1.70	**4.91**
43	0	Colombia	2.30	1.28	1.32	**4.90**
44	+6	Portugal	1.68	1.27	1.94	**4.89**
45	−12	Jamaica	2.45	1.07	1.32	**4.84**
46	−2	France	0.71	1.96	2.17	**4.84**
47	−2	South Africa	2.08	1.18	1.53	**4.79**
48	−16	Singapore	0.58	1.59	2.51	**4.68**
49	−3	Australia	0.37	1.86	2.42	**4.65**
50	−3	Israel	1.56	1.40	1.57	**4.52**
51	−2	Ireland	0.51	1.76	2.08	**4.36**

Notes: Δ represents the change in rank since the 2011 index. For France, Germany, the United Kingdom, and the United States, tier 2 locations are assessed.
Source: 2014 A.T. Kearney Global Services Location Index™

Asia Pacific

India, China, and Malaysia head up the ranking—as in every single previous edition. Indonesia, Thailand, and the Philippines follow closely on their heels. And Bangladesh is a new entrant to the index this year.

The region offers significant diversity: India continues to provide all-around strengths across the offshoring spectrum. In China, despite rising wages, the IT sector shows promise, not only for the growing domestic market but also for other Asian countries seeking nearshore options. Southeast Asia includes both established players such as Malaysia and the Philippines and newer entrants such as Indonesia and Thailand, both of which present good fundamentals accompanied by still-improving English-language skills.

India (1) remains the preeminent destination for offshore services, with excellence in IT, BPO, and voice services. The undisputed leader in the field for the past decade, India is still unrivaled in both scale and skills. According to the National Association of Software and Service Companies (NASSCOM), the sector today employs one million people and represents 25 percent of India's total exports. The IT services sector dominates the industry with exports of $40 billion, followed by BPO exports of $20 billion. In addition to a continually evolving service portfolio within their core business, leading IT services firms are expanding their traditional offerings to include R&D, product development, and other niche services, drawing on their extensive experience and highly skilled workforces. Moreover, the line between IT and BPO is blurring as players offer bundled and specialized services to their clients and develop skills in niche domains such as healthcare and telecommunications, where sector-specific knowledge is crucial.

As **China** (2) transitions to a more service-oriented economy, its advanced analytics and IT offerings are expanding and garnering government support. Rising wages are already limiting Chinese service providers' cost competitiveness in lower-end functions vis-à-vis India and other Asian destinations. In high-end IT and analytics, however, the country offers an alternative to Eastern Europe, particularly for Asian customers. Most customers of Chinese BPO and IT services providers, nevertheless, are likely to be domestic.

Though hindered somewhat by a smaller labor pool, **Malaysia** (3) competes against nearby India and the Philippines with a politically stable, multilingual environment at reasonable rates—a good fit for companies with mid-sized demand and a lower risk appetite.

Indonesia (5) and **Thailand** (6) share solid underlying fundamentals including large, well-educated populations and low costs, as their top-10 rankings attest. Without a tradition of English-language education and use in government, language continues to be a major impediment, though instruction is part of school curricula today. Both countries also require greater government support for the business environment and more aggressive industry promotion to convert their significant potential into success. In Thailand's case, though, continued political instability could threaten plans for new investments.

The **Philippines** (7) is an industry powerhouse, rising two places this year and with an export sector second only to India. Philippine industry is one of the most sophisticated in the world and its qualified labor force is one of the deepest. Countless companies operate centers—mostly on central Luzon, but also in several tier 2 locations around the country. With traditional strengths in call centers, the industry is expanding into higher value-added voice services as well as into IT and BPO offerings.

Sri Lanka (16) moves up five places in this year's index, as it develops a successful but relatively unknown knowledge services industry. With a highly educated talent base and sophisticated technical skills, Sri Lanka-based firms are providing advanced services to clients such as Google, Nokia, JPMorgan, and the London Stock Exchange. Offerings extend beyond software development and transaction processing to offshore legal services, architectural drawings, and medical diagnostics.

Bangladesh (26) joins the index for the first time this year. Although it shares many traits with industry leader India, it has been surprisingly slow to the game. The sector is growing, however, with both IT and BPO services offered. Thus far, most companies are homegrown and have developed export clients—for example, Bangladeshi company GraphicPeople provides graphic design services for companies across the world—but in the IT space there are notable examples of foreign captive centers such as that of Norwegian software company Vizrt.

The Bangladesh Association of Software and Information Services (BASIS) is actively working to support the industry. While traditional outsourcing remains relatively small, the country has become a huge hub for freelance work via online marketplaces such as oDesk. In fact, Bangladesh has become the number three country for contractors on oDesk in just three years, behind only the Philippines and India. It has quickly moved to the forefront of entrepreneurial activity thanks to its young, educated, and rapidly growing workforce eager for opportunity.

Asia Pacific offers significant diversity, and **India, China, and Malaysia head up the ranking once again.**

Latin America

With its large pool of skilled labor, Latin America offers increasingly attractive options across the spectrum. Mainstays Mexico and Brazil continue to lead, and new entrant Colombia appears in the index for the first time this year.

Mexico (4) reaches its highest level ever, reinforcing the advances it is making in the industry and the success it enjoys as a nearshore option for U.S. companies. The premier destination in Latin America, Mexico benefits from reasonable costs and a large, well-educated labor force that are feeding the growing industry. Guadalajara in particular offers low labor costs and an extremely strong talent pool capable of supporting large captive centers for multinationals such as Dell, IBM, and Oracle.

Software powerhouse **Brazil** (8) advances four positions, supplying domestic and international markets with software and systems integration. Brazil shows an improving business environment, people skills, and availability scores, pointing to an increasingly experienced industry that can serve global firms. Rising costs are hollowing out competitiveness in lower-end functions, forcing Brazilian firms up the value chain in international markets. The country's size makes several different cities candidates to consider for global services. In addition to the obvious choices of São Paulo and Rio de Janeiro, tier 2 cities such as Campinas, Curitiba, and Porto Alegre all boast skilled talent.

Chile (13) is a top performer based on a stellar business environment comparable to that of many developed countries. Though the Chilean business services industry is relatively small, Chilean firms offer high-end R&D and analytics services, particularly to those American firms for which time-zone proximity is important. As an example, security software company McAfee set up its first Latin American McAfee Labs location in Chile, employing 60 specialized software engineers, and Google started construction of a data center on the outskirts of Santiago in 2013.

Costa Rica (24), though dropping five spots due to challenges to its cost competitiveness, improved its people skills and availability score this year. The IT labor force is growing, fed by a strong educational system that actively collaborates with industry. Thanks in part to one of the best investment promotion agencies in the region, Costa Rica has been very successful in attracting large brand names to the country and providing strong government support to the companies once established. The country hosts firms such as Amazon and IBM, the latter of which is building a center that will employ 1,000 full-time equivalent employees (FTEs).

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Europe

Europe offers a split between established players with mature business environments and a high level of human capital, and emerging locations where costs are lower and the industry and regulatory landscape are still developing.

Central Europe offers a mature industry and highly skilled players. While relatively expensive compared to offshore locations in other regions, there is still substantial arbitrage to be had. The region's leader, **Poland** (11), moves up 13 spots in the index this year. The biggest country in Central and Eastern Europe, it boasts a large labor force and multitude of city options. With industry dispersed across Warsaw, Krakow, Lodz, Katowice, and other cities, the country has a reasonable cost profile that, while slowly converging with Western Europe, is still lower by several magnitudes. Multinationals Sabre and Motorola operate large software development centers in Poland, accompanied by Comarch, Capgemini, and HCL in IT consulting.

Elsewhere in the region, the **Czech Republic** (33) is integrated into the regulatory framework of the European Union (EU) and offers a stable, low-risk environment. **Hungary** (31) and **Slovakia** (35) are relatively smaller but also offer close proximity to Europe's business centers.

Southeast Europe presents deeper arbitrage opportunities, although its industry and regulatory framework are less developed. **Bulgaria** (9) is home to advanced IT centers serving both multinationals and local companies, focused mostly on traditional software development for captive players such as CSC and SAP. One drawback is that Bulgaria has not yet implemented EU data security directives and therefore may not be suitable to handle sensitive customer information for clients with a European customer base.

Another recent EU member, **Romania** (18) offers a sound regulatory environment. The country's size guarantees a robust pipeline of talent from its network of universities. Transylvania is home to a large German-speaking population. French and Italian speakers are also relatively easy to find thanks to Romania's linguistic and cultural affinity to Latin countries. The Romanian government is actively courting the sector: companies that operate in the IT sector are able to deduct the payroll tax for their employees, making for a more attractive financial environment. Supported by government incentives, IBM is expanding from 300 FTEs to more than 1,200.

Offering a large, qualified labor pool at post-recession prices, **Spain** (32) jumps 10 spots. Although lower-cost locations on the European periphery have taken share from Spain over the past decade, it is once again gaining traction as a nearshore location for European firms in need of well-educated talent. Moreover, its cultural and linguistic ties to Latin America are useful for multinationals doing business in the region.

Middle East and North Africa

Several countries across the Middle East and Africa with large and growing talent pools are well positioned to play a greater role in service delivery, particularly to Europe. **Egypt** (10), the region's industry leader, has scored well over the years thanks to solid fundamentals including favorable costs, good universities, and proximity to Europe. The government has also invested heavily in developing the industry through targeted efforts. This year, however, Egypt drops six places because of the prolonged political turmoil that has introduced uncertainty in the minds of investors and customers alike. Once the country's political situation stabilizes and investors again consider it to be a safe destination, we expect Egypt to return as one of the leading locations for both IT and BPO services.

Tunisia (28) and **Morocco** (34) are the main sources of French-language talent in the sector, joined by **Mauritius** (36). Mauritius is an example of how even very small countries can compete for offshoring investment by conducting targeted efforts and creating a good business environment. U.S. human resources management company Ceridian and Maureva, a French outsourcing company specialized in high-end BPO solutions for airlines, are examples of companies that operate in the island's Ebene Cybercity. More developments are on the way.

North America

In North America, the **United States** (14) has moved up four positions as tier 2 cities, particularly those in the South, provide increasingly good value as onshore options. While some—such as Pittsburgh and Raleigh—boast large talent pools and excellent universities, their cost pressures are much lower than those of traditional locations in the Northeast, and wages are stagnant in the wake of the crisis. As a result, some U.S. companies are rebalancing their offshore and onshore services to take advantage.

Course Correction for Outsourcing

The second wave of arbitrage started about 10 years ago, when multinationals began to look for additional savings on top of the labor arbitrage already achieved. After spending considerable time and effort to build up their own centers in offshore locations, many chose to sell their captive centers to an outsourcing provider and buy back the services on a contractual basis. Specialized firms, by solely focusing on back-office functions and balancing workloads between

several different clients, could deliver services more efficiently and effectively than captive centers. Monetizing the assets that had been created during the buildup of the offshore IT and BPO centers was another important, but ultimately secondary, reason. Companies that were late to the offshoring game in many cases went straight to an outsourcing model and thus transferred capabilities from in-house to external vendors and from onshore to offshore at the same time.

Today, however, companies are reassessing their outsourcing strategies, and the pendulum is swinging back toward captives. What was once a decision based primarily on cost-effectiveness has now begun to incorporate other considerations—such as whether certain functions are core to the business (and therefore important to retain), as well as external regulatory factors that impact business relationships, company structures, accountability processes, and locations' suitability to protect intellectual property and customer privacy.

This is particularly true in IT, whose strategic importance has vastly increased over the past decade. Up and down the value chain, IT is essential, whether to increase productivity in logistics and operations or to enhance revenues in marketing and sales.

Crucially, IT solutions increasingly represent companies' interface with their customers, which has further elevated its importance to the core business. The surge in omnichannel strategies means that having a high-quality, functioning digital presence (whether a web portal or mobile apps) linked to the physical world (for example, via a two-dimensional bar code) is a funda-mental aspect of the customer experience. Moreover, collecting and analyzing customer data is a key driver of future growth, as it enables more effective customer targeting and conversion, as well as the broadening and deepening of business channels. In other words, whenever digital technology is central to the value chain, the importance of retaining those capabilities in-house increases.

Equally important, many companies find that outsourcing has caused their capabilities to atrophy and that they would be hard-pressed to bring functions back in-house should they desire to do so in the future. With a core team of in-house people manning critical IT functions, companies are able to increase their flexibility, albeit at a somewhat higher cost.

As a result, companies such as British Telecom have backed away from outsourcing to giants such as Tech Mahindra and elected instead to reincorporate newly captive functions. Other notable examples include Allstate, which is setting up new captives in Bangalore, and Citigroup, which announced that it will reestablish 900 jobs in India. In addition, General Motors stated that it will bring back 10,000 jobs in key functions. All in all, multinationals established 70 new captives in India alone in 2012.

Another fundamental concern has emerged: IT outsourcing is leaving vulnerabilities in company data integrity and in the chain of custody—a key issue in risk management. A number of outsourced functions involve the transfer of large amounts of highly sensitive data, including financial records, government identification numbers, spending habits, and even health records. One of the effects of this phenomenon has been the breach of confidentiality and the abuse of those records. In light of high-profile and controversial incidents, legislators across the world are trying to address these questions and close the legal gaps.

As companies rethink their outsourcing-versus-captive balance, they also have an opportunity to revisit their location strategies. Companies may find that they have developed an overcon-centration of assets in a particular location or country and can seize the opportunity to diversify their footprint as they move to a captive model for certain functions. In some cases, where

specific roles are crucial to the firm's core business and require close interaction with the business units, a move back onshore may make sense. And in some cases, staying put in the location where work was performed in the first place may be the wisest decision. The point is that recalibration of the model should be preceded by a location assessment process to ensure that the new investment will provide lasting advantage.

The "No Location" Option: Robots Provide the Third Wave of Arbitrage

One of the most interesting recent trends in location assessment has been the rise of the "no location." Technological advances have allowed robots to take over the jobs of individual analysts, with potentially revolutionary consequences for industry rationalization and labor markets. It also renders virtually meaningless the location where a task is actually performed. Similarly, advances in connectivity have given rise to a new class of freelance outsourcers that also make geography irrelevant (see sidebar: Freelance Outsourcing on page 10).

Computers and automation have been around for a long time. But today we find ourselves at an inflection point that Massachusetts Institute of Technology (MIT) technologists Erik Brynjolfsson and Andrew McAfee call the "second machine age," brought about by rapid increases in computational power.[2] Things that just a few years ago we thought were far off in the future are becoming reality. Amazon, for example, announced that it plans to deliver packages by unmanned aerial vehicles (UAV), or drones, as early as 2015. More to the point when it comes to white-collar jobs, IBM's Watson computer won quiz show Jeopardy! against human contestants in 2011, a feat that required significant capabilities, both in interpreting the questions, often ambiguous to non-human players, and in identifying the correct answers among 200 million pages of content.

The technology to start replacing offshore employees with machines is already available, and as so often occurs, the main barrier to rapid implementation is human: organizational obstacles and slow adaptation of new technologies. Companies such as British technology firm Blue Prism have developed the requisite technology, and outsourcing providers are already offering companies a mix between onshore, offshore, and robot resources in new service contracts. The question is not if, but how fast, companies will adopt this new technology and if traditional outsourcing providers will be quick enough to adapt before their business models become obsolete.

Automation in services is of course nothing new. Automated teller machines (ATMs) started to replace bank tellers in the 1970s, and enterprise resource planning (ERP) systems have enabled many companies to automate finance and human resources tasks that previously employed large numbers of people. What was characteristic of the automation of the old was the need for huge economies of scale. Only tasks that were performed in massive volumes were cost-effective to replace with new hardware or software.

Before, when a specific function needed to be automated, the IT department in combination with an outside systems integrator was involved. Now, a single trained individual can implement automated processes. This in turn means that a business unit can autonomously build, maintain, and update its pool of robots as requirements shift. The implication is that it is now cost-effective to automate low-volume or temporary tasks. Not only do robots cost much less than their human

[2] Erik Brynjolfsson and Andrew McAfee, The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies (New York: W.W. Norton, 2014)

counterparts, they also make far fewer mistakes, are able to work 24/7, and the only real estate they take up is in companies' server halls.

Yet, it is important to emphasize that even with these innovations, we are still years away from seeing Watson-type computers taking over complex roles currently performed by humans. So far, whereas with a huge amount of effort computers can be programmed to win Jeopardy! against intelligent, well-prepared humans, it still does not pay to use robots to replace humans performing complex tasks that require judgment and flexibility. The technology is evolving, and in the future the calculus may very well shift rapidly. However, even the current generation of robots still carries large opportunity for savings. Outsourcing provider Sutherland reports it has been able to reduce headcount by as much as 50 percent with the introduction of robots.

What's Next?

This shift to automation has profound implications for companies, outsourcing providers, and countries alike. For companies, automation offers the next wave of savings once offshoring and outsourcing have exhausted their arbitrage potential. As back-office costs are further reduced, more focus can be directed toward the core business. At the same time, scarce IT resources can be freed up to concentrate on more strategic issues than helping business units with low-scale automation tasks. The main challenge for companies today is to evolve their organizations to be able to adopt already existing technology.

Freelance Outsourcing

The offshoring revolution brought millions of people into the global economy. Yet there are millions more living in countries where companies have been hesitant to set up shop (for example, Pakistan, Ukraine, or Belarus) or far from the large industry centers in, say, Bangalore.

Today, the freelance outsourcing revolution is bringing in whole new cohorts of talent to the global services value chain. Freelance professionals offer services ranging from simple data entry to application development to project management. Given that freelancers perform a full range of services, companies could theoretically run all of their operations on a project-by-project basis, nearly eliminating fixed costs. These freelance outsourcers are disrupting the industry in three ways.

First, freelancing offers employment opportunities to talented individuals, regardless of their physical location—whether they are in Chicago, Dhaka, Kiev, or anywhere in between.

Second, companies that could previously not take advantage of the talent and cost benefits outsourcing offers are now able to contract freelancers—with no need for cumbersome long-term agreements or large volume requirements.

Third, new countries with talent but with strong operational risk are now able to take part in the industry. Local freelancers have an opportunity to hone their skills in a global market, and the income they earn can support the growth necessary for the country to eventually compete with larger players on the world stage.

For countries seeking to benefit from the freelance outsourcing industry, there is a strong case to be made for greater investment in education, as talent becomes the sole basis of competition.

oDesk, one of the industry's pioneers, was started in 2005 and has since grown to contract with over 5 million freelancers. Sixty percent of their freelancers' hours are in the BPO space, while IT work—which has higher hourly rates—accounts for 60 percent of their freelancers' income. Russia and Ukraine, followed by Pakistan, lead the way with the fastest growth for oDesk contractors, highlighting how global talent constrained by country risk in their home countries can now reach global markets.

Outsourcing providers compete on their ability to hire and manage large groups of employees across a variety of geographies. Currently many five-year contracts are coming up for renegotiation, and clients are demanding further savings. For outsourcers, automation can be a way to stay competitive when most other sources of savings have already run dry. At the same time, this new paradigm presents a risk for companies that do not adapt fast enough. We have seen again and again how companies that have found competitive advantage in a niche are unwilling to change when challenged by new technologies, and they end up sliding into irrelevance. Adoption among companies has been uneven so far, and slow movers may suffer. For now, uptake has been quickest among smaller companies that are swift and nimble and are looking for new ways to attain competitive advantage.

Countries in the low-value-add niche may see their opportunities erode. An industry development strategy that relies on starting with data entry and similar routine tasks is increasingly in danger. Some countries, such as India, have effectively moved up the value chain to perform more advanced tasks, but thousands of people in the country's offshore hubs are still conducting routine work. New entrants to the industry may have less ability to adapt to the threat of elimination of routine jobs. Countries need to have a strategy to aggressively advance along the value chain to stay relevant in the industry. At the same time, a new opportunity is opening up: although the robots are physically located in anonymous server halls that can be situated anywhere, qualified staff is still needed to program and direct these robots. These jobs will be far fewer than the ones they replace, but they will also be better paid. Countries that already have an advanced IT or BPO industry are in pole position to capture this opportunity.

The offshore industry, itself a disruptor, has been in rapid change since its inception, and today's situation is no exception. The trends highlighted in this paper, an ever-evolving list of locations, the recalibrating of the use of outsourcing, and the emergence of the "no location" are all rewriting the industry playbook. Companies need to constantly reassess their global footprint and how they deploy talent. For countries, the global services industry remains a great opportunity to develop and grow economies, but challenges are mounting.

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About the Global Business Policy Council

A.T. Kearney's Global Business Policy Council, established in 1992, is dedicated to helping business and government leaders worldwide anticipate and plan for the future. Through strategic advisory services, regular publications, and world-class global meetings, the Council is committed to engaging in thoughtful discussion and analysis of the trends that shape business and government around the globe.

Appendix

About the Study

The 51 countries in the 2014 Global Services Location Index were selected on the basis of corporate input, current remote services activity, and government initiatives to promote the sector. They were evaluated against 25 measurements across three major categories: financial attractiveness, people skills and availability, and business environment (see figure).

The metrics used to evaluate location attractiveness were determined from responses to A.T. Kearney surveys, other industry questionnaires, and knowledge obtained in client engagements over the past five years. The relative weights of each metric are based on their importance to the location decision, again derived from client experience and industry surveys. Because cost advantage is typically the primary driver behind location decisions, financial factors constitute 40 percent of the total weight in the published index. The two remaining categories—people skills and availability, and business environment—each constitute 30 percent of the total weight.

Figure
Assessment criteria

Category	Subcategories	Metrics
Financial attractiveness (40%)	**Compensation costs**	• Average wages • Median compensation costs for relevant positions (call-center representatives, BPO analysts, IT programmers, and local operations managers)
	Infrastructure costs	• Rental costs • Commercial electricity rates • International telecom costs • Travel to major customer destinations
	Tax and regulatory costs	• Relative tax burden • Corruption perception • Currency appreciation or depreciation
People skills and availability (30%)	**Remote services sector experience and quality ratings**	• Size of existing IT and BPO sectors • Contact center and IT center quality certifications • Quality ratings of management schools and IT training
	Labor force availability	• Total workforce • University-educated workforce
	Education and language	• Scores on standardized education and language tests
Business environment (30%)	**Country environment**	• Investors' and analysts' ratings of overall business and political environment • A.T. Kearney Foreign Direct Investment Confidence Index™ • Security risk • Regulatory burden and employment rigidity
	Infrastructure	• Overall infrastructure quality • Quality of telecom, internet, and electricity infrastructure
	Cultural exposure	• Personal interaction score from A.T. Kearney Globalization Index™
	Security of intellectual property (IP)	• Investor ratings of IP protection and ICT laws • Software piracy rates • Information security certifications

Notes: BPO is business process outsourcing. IT is information technology. ICT is information and communications technology.
Source: 2014 A.T. Kearney Global Services Location Index™

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The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring "essential rightness" in all that we do.