Mexico: The Competition Is Stiff, Global, and Here to Stay

An interview with Blanca Treviño. Since being named President and CEO of Softtek in 2000, Mrs. Treviño has steered the company to become the largest private IT service provider in Latin America.
A passionate advocate of service over labor arbitrage, Blanca Treviño has focused Softtek on adeptly undertaking complex projects and providing value, not just low costs. She is also a vocal proponent of sponsorship as a means of helping small- and medium-sized Mexican companies in the sector gain a toehold. At a recent A.T. Kearney conference on global competitiveness, Ricardo Haneine and Rodrigo Slelatt interviewed Mrs. Treviño for Executive Agenda to discuss the future of global IT outsourcing, the means by which Mexico can improve its competitiveness, and her aspirations for Softtek.

**Executive Agenda:** From a macro context, what is your perspective on the global IT outsourcing industry—where it was and where it will be in the next 10 years?

**Mrs. Treviño:** Within the past few years, more companies have seen the value in outsourcing their services. That’s the reason for the kind of growth we have been experiencing. Certainly, in today’s economic downturn, the United States, as the largest market, is more open to exploring outsourcing.

In the beginning, outsourcing was mostly related to labor arbitrage. If we perform work in India, we will have far lower costs than if we do it here in the United States. However, as buyers and sellers gained a better understanding of the alternatives, it’s more about the value we bring to the table. So our value proposition has to be service rather than low costs.

This is very important for us. We want to be strong in our industry and to have a value proposition, rather than just having an attractive cost. We no longer focus on providing the two, three, four...
four, or 10 programmers needed to get a job done—what we call a “body shop” of workers offering basic services.

As a service provider, we are using our know-how, our understanding, and our expertise in an industry to add real value. We have moved from the first level of maturity, charging a fixed price for the hours it takes to do a job, to the next level of maturity that takes into account service levels and the ability to resolve issues and add value. I expect this to continue for some time. When you move from cost to value, it’s easier to compete.

**Executive Agenda:** When discussing growth in Latin America, labor arbitrage isn’t as accentuated as in the United States or India. How do you appeal from a competitive standpoint to Latin American customers?

**Mrs. Treviño:** Since day one, we have been very focused on our target market—Fortune 50 and Fortune 100 companies—and have made it clear that we want to compete on value. From then on, the kinds of investments made to meet that goal have been very important.

In Mexico, when we really started becoming a leader in our field, our success was more related to the way people perceived us in terms of handling projects. They saw us as a company that could deftly handle ambitious, complex projects. It became difficult for us to work for clients where value was not important, where our unique capabilities didn’t matter.

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Our first look outside of Mexico was Latin America—Peru, Colombia, and even Brazil—before we looked at the United States in 1997. Something that really helped us back then, aside from our value proposition of “nearshoring,” was that we were already very committed to quality, to productivity, and to efficiencies. We were already aligned on the kinds of things the U.S. market wanted, or more accurately, expected. These attributes are not things you differentiate yourself on—they are the basic requirements to get into the game. If you want to play in this industry, you better understand that.

The Latin America market understands that success is not just about having the lowest price but also about supporting your clients. For us, it is not really complicated; we support our clients.

Today, 17 of the Fortune 50 companies are our clients. We’ve been supporting two or three of these companies for more than 10 years. If you stay with a client for the long term, you gain experience. These clients expect us to sit at the table every two years to talk about improvement opportunities. They do not ask for discounts. They ask for cost-out initiatives—for efficiencies, for productivity. When you do that, then it’s much easier to support Latin America.

Clearly, we are not only competing with Latin American companies offering services in Latin America. Our competition is India and other major players in the market. The competition is stiff, global, and here to stay!
Executive Agenda: When you look at the IT outsourcing sector in Mexico, what can the sector do collectively to improve competitiveness in North America?

Mrs. Treviño: Our industry is very competitive, but certainly there are things that we should do to strengthen our performance. For instance, we want to have more players capable of moving into and succeeding in key markets such as the United States. In the long run, the Mexican IT market benefits if more than one Mexican player is competing for large contracts.

Today, the industry is made up of many small and medium-sized companies. So it is unavoidable that our best competitive strategy is association. This is probably what’s behind the clusters and sponsorship initiatives in Mexico. Large companies—large by Mexican standards but not compared to India—are acting as sponsors, supporting two, three, or four small companies and integrating them into their projects. This way, the first time a small company moves into the United States, it is with another company that has already been there and understands what the market wants. And that sponsor will help the small firm improve its processes.

We must give smaller players the exposure that will lead to their work and prosperity in other markets.

It is still difficult, however, because the industry in Mexico is largely made up of the cost-focused body shops that I mentioned earlier. They do not have value to add so it is difficult to differentiate one from the other. What we need to do is foster and promote more sponsorships, more industry clusters, and to mentor the smaller players.

We form these clusters because we believe in them and believe in integrating these small companies. It’s integrate—not subcontract. Integrate implies positive things for the other company, while subcontract is just getting bodies.

To be honest, some of these associations and sponsorships haven’t really worked yet. The reason is, if you’re a very small company, you don’t have the means to invest in higher-level processes. At the end of the day you have to invest in becoming a more process-oriented company.

Another way to improve competitiveness is consolidation, to acquire smaller companies. But that should not be the idea. The idea should be how can we help strengthen the smaller players.

We know what’s in it for the small companies. But people often ask what is in it for the large companies. That’s easy: a stronger industry. I remember reading an article a few years ago that discussed how Mexico could be an alternative location in IT outsourcing. Something was definitely here for Mexico to be a crown jewel. But we have still not reached our full potential.

Executive Agenda: Why do you think it’s important for the private sector to bolster these smaller players?

Mrs. Treviño: It’s one of the most important things we can do. Let me say, too, that the government should be a big player in helping small- and medium-sized companies. One of the largest clients in Mexico, with the most ambitious projects, is the federal government. But it is
close to impossible for smaller companies to have access to these projects. Certainly, they will do well if given the opportunity.

We in the industry also have a responsibility to provide such opportunities. It is not necessary to give smaller, less experienced companies a strategic application, only to start working with them.

I’ve mentioned this to industry executives in Latin America, asking them why they are not helping us build the industry by retaining the services of smaller Mexican companies. After all, the Mexican government cannot ask U.S. companies to retain the services of a small company that hasn’t even worked for large clients in Mexico. We in industry must give the smaller players the necessary exposure that will eventually lead to their work and prosperity in other markets.

Private sector involvement is precisely why Brazilian companies are so strong, because they support so many domestic clients. We still do not see this in Mexico. Companies will go with the Accentures, the IBMs, the Infosys, the Softteks, instead of going with one of our many smaller Mexican companies.

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**Executive Agenda:** Mexico has made great strides in working with the education sector to help develop people and skills. How do you assess today’s situation? Is it a success story or an area of concern going forward?

**Mrs. Treviño:** It is both: a success but still a concern. We have done many things well but there is more work ahead of us. If we don’t focus on developing people and skills the way we should, we’ll get into a vicious cycle in which we’ll lose competitiveness because we lack human capital.

I said before that we should compete on value. But cost is an important component of that value. Many companies moved to Monterrey because they thought there was enough talent there. But it’s very obvious now that Monterrey is no longer competitive.

We also have to bridge the training gap for people coming from our universities. We as companies in the private sector have to work with them. We cannot simply go to the universities and hand them a list of what we need. We also have to expose the students to the kinds of challenges they will encounter.

Yes, we can work with the universities—and we are doing that and they are adapting their programs. But we need to understand what we’re responsible for. So my final answer: For universities, I’d say “great work but we have more to do.” For the private sector, I’d say “still concerned.” If we don’t develop our talent soon, we’ll lose our edge.

**Executive Agenda:** When you say Monterrey is not competitive, what do you mean?

**Mrs. Treviño:** Monterrey became a very visible outsourcing destination. Infosys arrived, followed by Accenture and Deloitte. As other companies set up facilities in Monterrey and started looking for people, guess what? There weren’t enough people. The demand for skilled
workers was much higher than the supply. So a vicious cycle ensued in which companies hired and trained people and then another company swooped in and hired them away by offering 20 percent more in pay. So the first company matches that 20 percent to keep its people. As salaries rise, the market was no longer competitive.

Executive Agenda: What are your aspirations for Softtek over the next five years?

Mrs. Treviño: First, to be very clear about who we are: We are a global, aspirational company. When we move into China, we have Chinese people working for Chinese companies. We want to become a global leader, a global provider, but doing so is not merely a matter of scale. We do not necessarily want to be the largest in our field or to compete on cost. Rather, we want to be a global leader that keeps opening doors for others in our region.

We also want to go public. There are a few reasons for this. When you are a public company, you become transparent—you can show clients the evidence about how solid you are and how well the organization is being managed.

Another reason is growth. While we have done well in terms of growth, not as well as we would like. We compete with very large companies that continue to grow through acquisitions. I don’t want to sell the company—I can’t say we’d ever do that—but I’d love to see the Softtek name everywhere we go. Going public would provide the capital we need to fuel growth.

A third reason is that our business model is very different. We’re not a partnership. We are a private company with 200 to 300 active shareholders. That’s how we have managed to get where we are today without large amounts of capital. In difficult times, we’ve stuck together because the company belongs to all of us. We have grown by always reinvesting our profits. This is how we’ve been able to compete with companies in China, Europe, and elsewhere.

As a global leader we can keep our entrepreneurial spirit alive. This is part of our culture and must be nurtured. For example, we moved into Brazil because someone in Mexico wanted a company presence in Brazil. It was a clear-cut decision. When we discussed moving into China, some of our shareholders weren’t sure we were ready. Others, however, were quite adamant: “If you don’t give me the opportunity in China, I’m going to leave,” as one person said. We came to an agreement and are in China today as a result.

The way we maintain our growth and leadership is by maintaining our culture—a culture where we control our own destiny.

Interviewers

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