da IAMCP Portugal

Capítulo Nacional da "International Association of Microsoft Channel Partners"

- "Position Paper" de contribuição para a discussão da Agenda Digital - Proposta de um Modelo de "Nearshoring" nacional para as empresas de serviços de TI

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Sumário Executivo (PT)

Este *position paper* apresenta uma *framework* de desenvolvimento de políticas que fomentem o crescimento do "Nearshore" de serviços de tecnologias de informação e comunicação (TICs) no âmbito da Comunidade Europeia (CE), baseados em empresas nacionais.

Em particular apresentam-se alguns factos relevantes com base no ecossistema de cerca de 1000 empresas, parceiros da Microsoft em Portugal, que pode representar uma grande oportunidade para desenvolver as exportações, a empregabilidade e a economia nacional. Foram também dadas contribuições para este trabalho por parte de 4 empresas nacionais de diferentes tipologias de serviços e tecnologias, que atualmente prestam serviços de "Nearshore" para clientes na maioria dos países do centro e norte da Europa, conseguindo obter valores de negócio atual na ordem dos 15% e correspondente % de empregabilidade.

Num mercado de serviços de "Outsourcing" de TICs que se prevê em 2017 valer na Europa mais de 990 Mil Milhões de Euros, é necessário que Portugal atue no sentido de acelerar desenvolvimentos em aspetos tais como Pessoas, Políticas, Infraestruturas e Educação, de acordo com a *framework* proposta, que eleve o seu atual posicionamento de 50ª localização mundial e 2ª na Europa Ocidental, no que diz respeito ao nível de atração do País para fornecer serviços de Outsourcing, de forma a tornar-se o destino preferencial para o desenvolvimento de "Nearshore" na CE.

Executive Summary

This *position paper* presents a framework for policies development which enables growth of Nearshore in information and communications technologies (ICT) services inside European Community (EC), which are based in Portuguese companies

We present some relevant data based in a 1.000 companies ecosystem of Microsoft partners in Portugal, which might represent a big opportunity to develop exportations, employability and the national economy. There is also the contribution to this work from 4 Portuguese companies, from different areas of service and technologies, which are currently doing "Nearshore" to customers located in central and northern Europe mainly, which today represents an additional annual turnover of 15% in average and the corresponding % in employability.

In a market of ICTs Outsourcing services forecasted in 2017 to be larger than 1000 Billion Euros, it is necessary that Portugal accelerates developments in areas such as People, Policies, Infrastructures and Education, according to the proposed framework, which supports the growth from the 50^{th} location worldwide and 2d in Western Europe, regarding attractiveness for providing Outsourcing services, in order to become the preferential destination for the development of a "Nearshore" in EC.

Introduction

Europe 2020, Digital Agenda presented by the European Commission forms one of the seven pillars of the European strategy which sets objectives for the growth of the European Union by 2020. It proposes to each country member the exploitation of the potential of Information and Communication Technologies (ICTs) sector in order to foster innovation, economic growth and progress.

Accordingly with a recent report from Eurostat (2014), Portuguese exportations increased in communication, telecommunications and computer services, showing the structural change of the Portuguese economy towards a medium-high technology economy. Exports associated with this structural change increased 18% from 2010 to 2012 while imports decreased 6%. In the first quarter of 2015 Eurostat revealed an increase in exports of 21% in this sector, representing a surplus of 400 million Euros in the respective Portuguese balance of payments, which accounts for all economic transactions concerning the transfer and trade of technology related activities.

Portuguese ICT sector contribution to GDP is 4,1% of total added value [data from Eurostat, 2014], contrasting with 6,3% in the UK. Moreover, in relation to employment, the Portuguese ICT sector represents only 1,4% of the total employment in the Portuguese economy, whereas in UK represents 3,7%.

Accordingly with a Management Information Systems (MIS) Quarterly article these two factors can be greatly improved by exploiting Off/Nearshore Outsourcing business models. This point of view, reinforced by the input we have been getting from several players in the market (companies which are local Microsoft partners and also IAMCP Portugal associates), led us to present a *position paper* proposal for a Nearshore framework for Portuguese ICTs in general, which we declined further for specific application on the ecosystem of the services companies comprising Microsoft partners.

The ICT Outsourcing Nearshore model

Within ICT business, both tangible (such as products, buildings and people) and intangible (such as reputation and trust) assets are factors that determine the usage of ICT’s services, or buying their products. As more and more ICTs firms are evolving from a purely focus on software and communications to services providers, the Outsourcing of the IT and business processes are critical factors for the transformation of the economy into the digital era, and sourcing locations are the root for its success both financial and economical.

The past decade has brought immense changes in technology. In an increasingly globally connected world, some leading organizations have established the practice of getting work done or services performed by people in neighboring countries. This outsource work to other countries with a geographic proximity means that travel and communications are easier and less expensive, that is, likely to be cheaper and people are more likely to speak the same customers language and be at the same time zone.

The Outsourcing of information systems (IS) services has been one of the most discussed phenomena in IS in recent years; it has significantly influenced the thinking of both academics, governments and ICTs and its extension has been significant and will continue in the future. However, new realities such as the **IS Nearshoring presents challenges in the domains of People, Policies, Infrastructures and in the Educational system that have to be considered**.

Nowadays Outsourcing has evolved to a **“as a service”** model and the leading service providers are industrializing solution offerings by investing in cloud capabilities to increase automation, decrease resource intensity and decrease customization.

More precisely, these solutions bundle services into the business value driven stack such as:

1) Business Process as a Service – to achieve business agility and process innovation;

2) Software as a Service – to improve functionality and ease of use;

3) Platform as a Service – to develop and deploy applications faster;

4) Infrastructure as a Service – to handle peak loads cost effectively.

Whereas Business Process as a Service is the biggest payoff for customers, Software as a Service and Platform as a Service are the largest market opportunity for service providers and Infrastructure as a Service is a commodity market usually addressed by large suppliers (IDC, 2014).

These four Outsourcing “as a service” delivery models are boosted by cloud technologies with a highly positive impact (Deloitte, 2013; A.T. Kearney, 2013) on:

1) Business agility – by accelerating cycle time and time to market, breaking down IT barriers to innovation and enabling first market movers;

2) Risk mitigation – by improving ROI for new initiatives, increasing capacity and availability, improving IT control and security and responding quickly to competitive threat;

3) Cost effectiveness – by preserving capital and the shift to an OpEx model, refocusing on core business, optimizing IT resources and spend, expanding and contracting as needed.

In this new context over 150 Off/Nearshore delivery centers were established in 2014. Although Asia led these activities, the adoption also spread to other geographies (Everest Group analysis, 2015). Latin America locations continue to develop slowly due to lack of skilled workforce and the political developments in Middle-East and Africa also cause slower growth.

According to IDC (2013), regarding the positioning of EU Nearshoring we have: Central and Eastern Europe continue to expand; Poland is considered mature, with Hungary and CZR close behind; Estonia, Latvia, Lithuania are all buoyant. On the other hand, there are doubts on the next move from countries such as Bulgaria, Romania and Tier 2 cities in Germany and France. There is also the need to clarify the impact of the financial distress in Portugal, Ireland, Greece and Spain and also the impact of the UK mutual job creation program with India.

Accordingly with recent reports from World Bank, World Economic Forum, Heritage Foundation, The Economist, European Outsourcing Association and U.S. Bureau of Labor Statistics, also supported by several research/analyst reports from Gartner, IDC, Everest Group, Forrester, Outsourcing Institute, Offshoring Institute, McKinsey, Deloitte and A.T. Kearney, about assessing countries in regards to their attractiveness for providing Outsourcing services, **Portugal ranks in the top 50 locations worldwide and as second after Ireland for Western Europe region**.

Nearshore framework for Portuguese ICTs

Although several studies reveal that Portugal is looked as a top destination for large companies to locate services, mainly due to the initiative of local subsidiaries management, there is no evidence of a framework to allow the ICT Portuguese firms to take advantage from this new era. Moreover a study from AICEP (2014) reveals that around 35 multinational firms based a service Nearshore centre in Portugal, creating more than 10.000 qualified employees and generating more than 1.200 M euro.

As a basis we take these 35 Nearshore initiatives as well as the ranking factors from the reports mentioned previously, to present in Figure 1 a systematization of the main determinants in the form of a framework that aims to support the development of this new business model across Portuguese ICTs, which can be applied to organizations and institutional players.

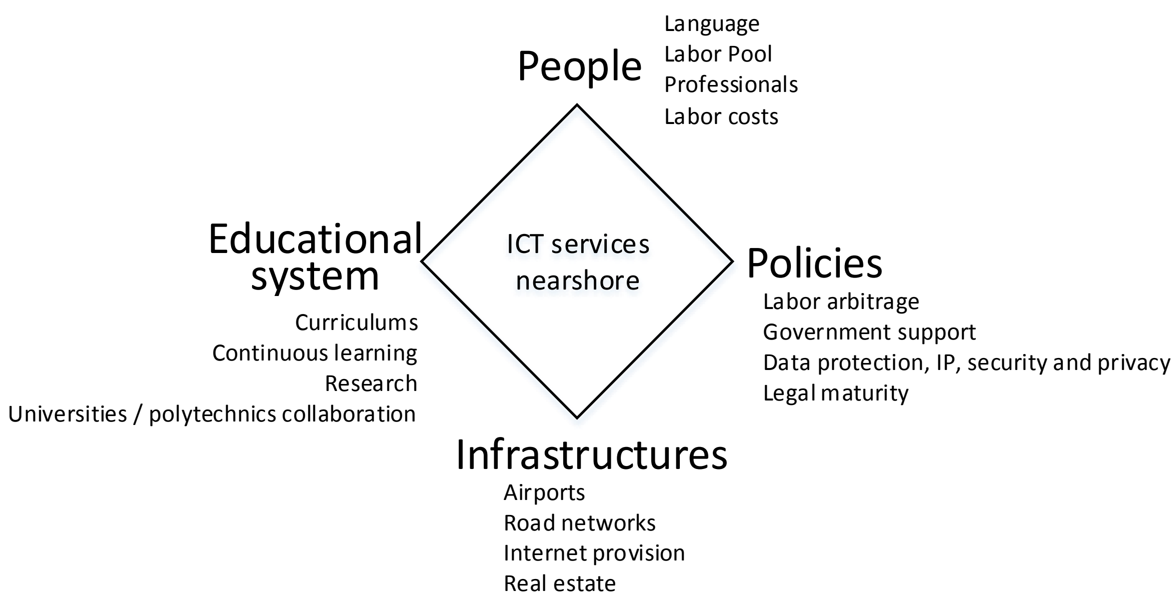

Figure 1. Nearshore framework

Let´s see in detail the aspects addressed by each determinant of the framework.

People

Language – the great majority of ICTs professionals have Multilanguage capabilities;
Labor pool – capacity might be limited and as such we should also attract foreigners, sons of emigrants and skilled people that emigrated in the last few years;
Professionals – generally highly skilled, flexible and adaptable;
Labor costs – usually very competitive when comparing with the original source locations from the customers.

Policies

Labor arbitrage – although labor legislation is fair, there still exists a bureaucratic systems when litigation arise;
Government support – incentives are needed for investment, I&D, employment and marketing Portugal, cities and national ICTs;
Data protection, IP, security and privacy – there is the need to develop legislation, norms and audits around the ISO 27001 and EU clauses;
Legal maturity – reduce bureaucracy and develop a program that articulates the specificity of this business model.

Infrastructures

Airports – near city centres with connections with major EU cities (such as Lisboa, Porto and Faro);
Road networks - fast and done with few commutes, but there is the need to develop more public transportation;
Internet provision - fast and reliable but we need to keep ensuring a high broadband and take advantage of our positioning to implement/support marine cables;
Real estate – costs are very competitive but there is the need to develop a sustainable pool of houses and offices to rent.

Educational system

Curriculums – very good, although 10% of a course should have "hands-on-lab" on the most common systems/processes/applications, etc;
Continuous learning – more executive courses should be put in place to reconvert workers and managers in terms of technological, organizational and service aspects;
Research – there is a lack of studies targeting the transformation to the digital era, in particular the value of Outsourcing models;
Universities / polytechnics collaboration – very limited, it is critical to be improve this with the industry as well as between them.

These four determinants from the framework, leverage on assumed existing "must haves" such as Portugal geographical location, the resilience of the political and economic environment, business and global maturity, physical and health protection, climate, low labor costs and financial attractiveness in general.

Applying the framework to Portuguese service's Microsoft ecosystem.

Accordingly with a Microsoft commissioned study (2014), the Portuguese Microsoft ecosystem includes multinational firms and national level firms from every size, with 90% of these controlled by Portuguese capital. **The Portuguese Microsoft ecosystem incorporates around 1.000 companies in the services sector (the second largest category after resellers) and these generated 1.500 M Euro (1,5 Billion) in Revenue, employing 17.500 people and paid around 52,5 M Euro in taxes**. The same study shows that in comparison with 2006 there is a greater and positive variation in all three indicators: Revenue was +37,9%, People was +55,1% and Taxes was +353,4%. Within the services category, exported services represented an increase of +60%.

Accordingly with a Gartner report (2012) the Outsourcing of services related with ICTs landscape is expected to be the next "blue ocean", representing a stellar 1 Million of Millions Euros in 2017 in Europe (1.000 Billion Euros).

This new avenue can be greatly capitalized by the Portuguese ICT market which includes Microsoft ecosystem. Reorganizing the business to take advantage from this "ocean" of opportunity is greatly related with the Nearshore adoption model and grounded in the above frame, a qualitative framework is presented below for Microsoft service companies channel:

People

Language – build core delivery teams with English-based language for development/solution architecture/problem solving and both English and customer language in the cases of customer support;
Labor pool – a technical resources manager needs to ensure that the Nearshore centre integrates at least 10% of new hires from other Nearshore ecosystems, from the industry, universities or other countries (preferably from customer countries);
Professionals highly skilled, flexible and adaptable – a readiness program should ensure specific training in both hard and soft skills;
Labor costs – in order to keep competitiveness, a career development plan should be put in place in order for the centre to develop deep and breadth offerings to market/customers and consequently move through the value chain.

Policies

Labor arbitrage – define a program that empowers team managers to attract people/teams (and also to detach people/teams);
Government support – quarterly engagement (recommended) between Microsoft channel representatives (eg. IAMCP) and governmental organizations (such as AICEP) for promotion, getting intelligence and benchmark studies on the countries and industries where the centre focuses;
Data protection, IP, security and privacy – implement a rigid process about these matters that certifies the Nearshore centre with ISO 27001 and EU clauses;
Legal maturity – On top of the policies above mentioned, implement in the Nearshore centre a trustworthy culture of high quality service, SLAs, documentation and contracts.

Infrastructures

Airports – recommendation that the Nearshore centre is less than 6 h travel from European customer sites, which implies airport neighboring and/or with shuttle services;
Road networks – fast, with few commutes and good public transportation as an important factor for visitors;
Internet provision – ensure high broadband availability in the Nearshore centre;
Real estate – locate the centre near a good pool of houses and offices to rent.

Educational system

Curriculums – ensure collaboration programs (including hands-on-lab) with learning centres, especially related with the systems/process/applications to support and enabling Microsoft competences/certifications;
Continuous learning – implement a continuous learning path for all personal, including managers, in technological, organizational and service topics;
Research – consider availability to participate in research projects, eg. facilitating real case-studies, from which the community and the customers can extract value;
Universities / polytechnics collaboration – be available for seminars, exhibitions and other events.

Some examples in the Portuguese Microsoft ecosystem

We also had the contribution of four companies, Microsoft Portugal partners and IAMCP associates, which have been developing "Nearshore" practices, since a couple of years, especially in the European market. A summary of their positions is presented below:

Arquiconsult, **cleverti**, **ITEN** and **myPartner** are four companies which work in diverse technology areas, developing and implementing Solutions and making Services around Microsoft technologies.
These 4 companies have been created after 2004, have their operations centered in Lisbon and Porto, but operate all over the Country and in some cases also in other geographies beyond Europe.

Number of Employees: From 25 to 300 people (averaging 120 people)

Annual Revenue: Between 1,25 M EUR and 74,5 M EUR (averaging 21 M EUR)

Nb of Employees working in Nearshoring: In average around 20 people (which is around 15% of the workforce)

Annual Revenue in Nearshoring services: Between 350 K EUR and 7,450 M EUR

Countries of Nearshore destinations for these 4 Companies: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxemburg, Netherlands, Norway, Sweden, Switzerland, United Kingdom (not exhaustive)

Areas of technology covered: Web applications, Cloud solutions, Mobile applications, Mobile Analytics and Big Data, Enterprise management solutions (ERP – Enterprise Resource Planning and CRM – Customer Relationship Management applications), Digital certificates management (Public Key Infrastructures), Mobility Testing & Development, Desktop Management, Software Testing, etc.

Distinctive added value these companies bring to the market: personnel experience, knowledge and skills; culture flexibility; multi language capability; knowledge in specific vertical markets; certifications in ISO 20000, 27001 and information security, etc;

Major challenges and opportunities: most of these companies refer that the major challenge is the fact that Portugal is not yet recognized as a traditional location for nearshore outsourcing services.

The majority of these companies refer that before selling their services and competences they need to start selling Portugal and Portuguese skills and know-how. One of these companies even has in their presentations, 4 slides with data and graphical comparing between Portugal and other countries based on studies from the Eurostat, World Economic Forum, World Bank.

Some also mentioned that it seems there has been a focus on the promotion and incentives to install shared service centers but Nearshore doesn´t seem to be promoted and given specific incentives.

There is a common understanding that in Europe there is a lack of resources in software engineering, which gives us a large scope of opportunity to exploit and the (gradual) rise of Portugal in the rankings of nearshore locations together with the customer references that these companies have should be exploited as a national portfolio of the capabilities this industry has to persuade more European customers and generate additional turnover in exports.

Conclusions

This *position paper* from IAMCP Portugal and its contributors aims to raise some topics we believe are important that our institutions, the industry and academy bring to Portugal discussion of the Digital Agenda, especially in the support of elevating the country as the best Nearshore destination in ICT services.
We present a framework to work and take advantage of Europe 2020 programs (eg. such as Horizon 2020, among others) where the Government can expand on these factors to develop policies, incentives and support initiatives to increase Portugal's ICTs international competitiveness and reputation.
In particular, the Microsoft services ecosystem comprising more than 1000 companies (among the total of 3250 Microsoft partners) can leverage on this framework and greatly improve its results in productivity, employability, exportation and other returns.
Nowadays we have already a significant number of companies, such as the 4 companies which gave their inputs also to this *position paper*, which are contributing individually to increase the reputation of the quality and high level of expertise of the Portuguese Nearshore services, in some case bringing an additional 10 – 15% (or more) of annual turnover and a corresponding % of employment.
We believe that we can have a stronger value proposition than other non-EU countries and other Nearshore destinations which are set to arise (eg. such as newer EU entrant countries which are getting now structural funds to develop) due to the uniqueness of some characteristics especially important in the ICT services market and as such Portugal should aim to be in the Top Quartile positioning when comparing ICT GDP % and % of Labor force.

Conclusões (PT)

Este *position paper* da IAMCP Portugal e dos seus contribuidores pretende levantar alguns dos tópicos que acreditamos serem importantes para a discussão que Portugal deve ter no âmbito da Agenda Digital, no conjunto das instituições, da industria e da academia, em especial para elevar o país como o melhor destino de Nearshore de serviços TIC na Europa.

Apresentamos uma *framework* para trabalho mais aprofundado e para tirar partido dos programas Europa 2020 (ex. tais como o Horizon 2020, entre outros) em que o Governo português possa a partir destes fatores desenvolver políticas, incentivos e iniciativas de suporte para aumentar a competitividade internacional e reputação do setor de TICs nacionais.

Em particular o ecosistema de serviços Microsoft, que conta com mais de 1.000 empresas do total de 3.250 parceiros Microsoft, pode alavancar sobre esta *framework* e aumentar de forma muito sensível os seus resultados em produtividade, empregabilidade, exportação e outros retornos.

Atualmente temos já um número crescente de empresas, que tal como as 4 que deram os seus inputs para este *position paper*, estão a contribuir individualmente para aumentar a reputação de qualidade e elevado nível de competência dos serviços de Nearshore portugueses, em muitos casos conseguindo um volume de negócios adicional de 10 – 15% (ou mais) e a corresponde % em empregabilidade.

Acreditamos que Portugal pode ter uma proposta de valor mais forte que outros países fora da CE e outros destinos de Nearshore que se podem posicionar como emergentes (eg. os novos países da CE, suportados pelos fundos estruturais para o desenvolvimento) dadas algumas caraterísticas únicas, especialmente importantes no mercado de serviços de TICs e como tal Portugal deve ter como objetivo posicionar-se no Quartil Superior quando em comparação da contribuição % das TIC para o PIB e na % da força de trabalho.

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