

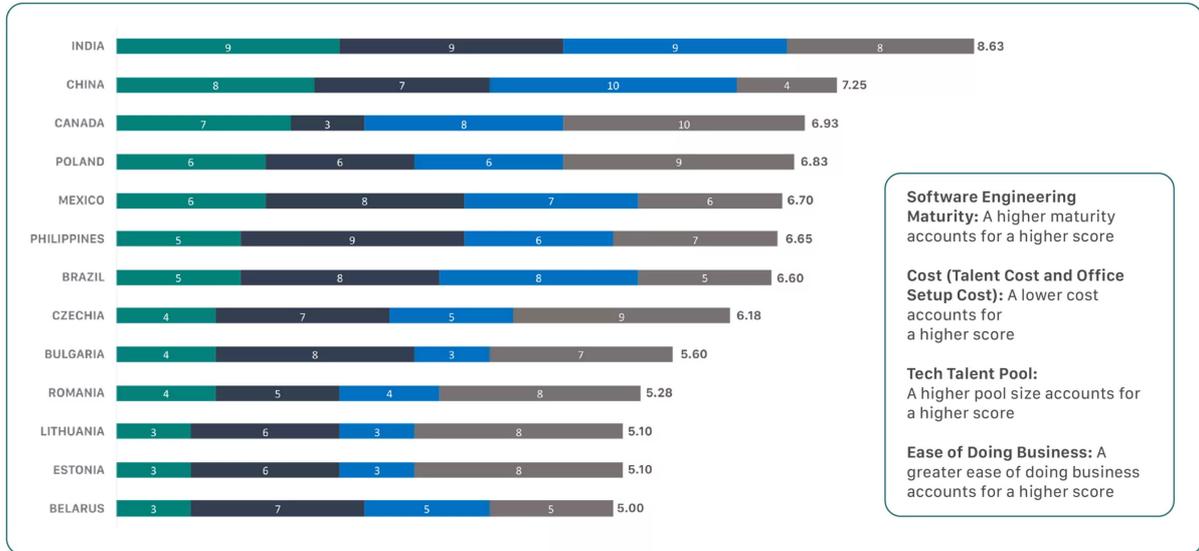
How Mexico Evolved As LATAM's Center Of Excellence Hub

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Mexico has become a preferred destination of choice for the C-suite to set up their **Centers of Excellence (COE also known as Global capability centers)** for the parent organizations. These COEs are currently the top-of-mind facets to **expedite digital transformation** and **form antifragile business solutions** to withstand future blows to the ecosystem. Mexico's geographic boon (proximity to US), government initiatives, workforce skilled in technology, and mature infrastructure has made it a near/offshoring pivot across the globe.

COUNTRY RANKING BASED ON THEIR POTENTIAL TO BUILD A COE



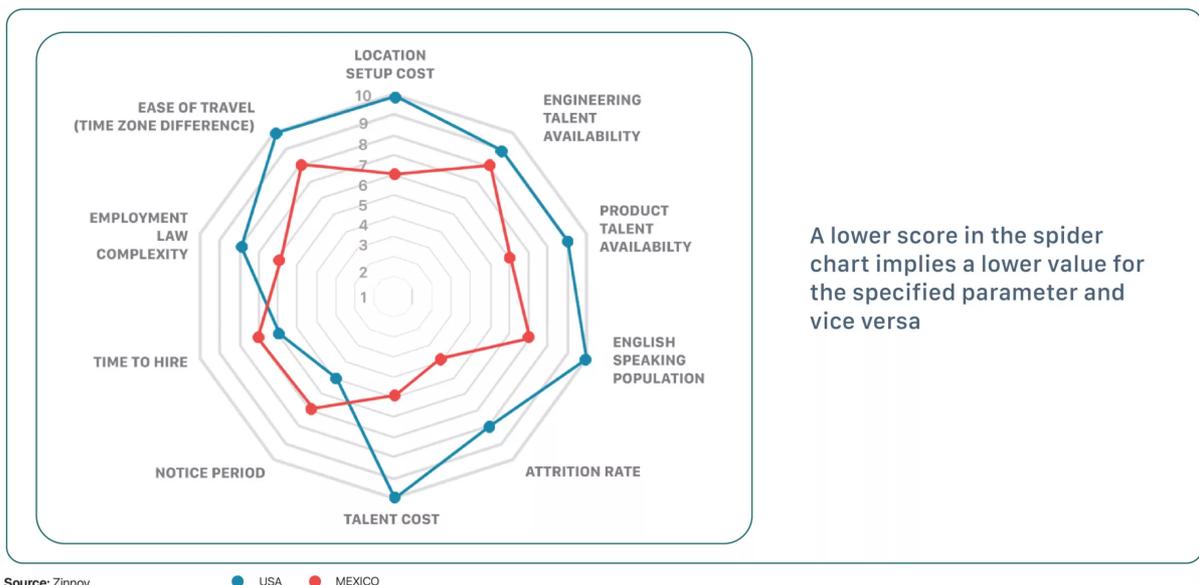
Source: Zinnov Reports, Zinnov Secondary Research

Zinnov's analysis of Global COE Hotspots based on talent, cost, ease of doing business, and ecosystem maturity suggests **Mexico to be one of the top 5 Hotspots to expand globally and set up COEs.**

Compared to other LATAM (Latin America) countries, Mexico has taken the lead since 2006. The country's digital efforts have been noteworthy. The construction of world-class business and technology parks, the drafting of pro-business policies, improvement in educational resources to bolster STEM (Science, Technology, Engineering, Mathematics) growth, among other measures have rapidly attracted ER&D (Engineering Research and Development) spenders from across the world.

Mexico and its X Factors –

COMPARATIVE LOCATION INDEX: US & MEXICO



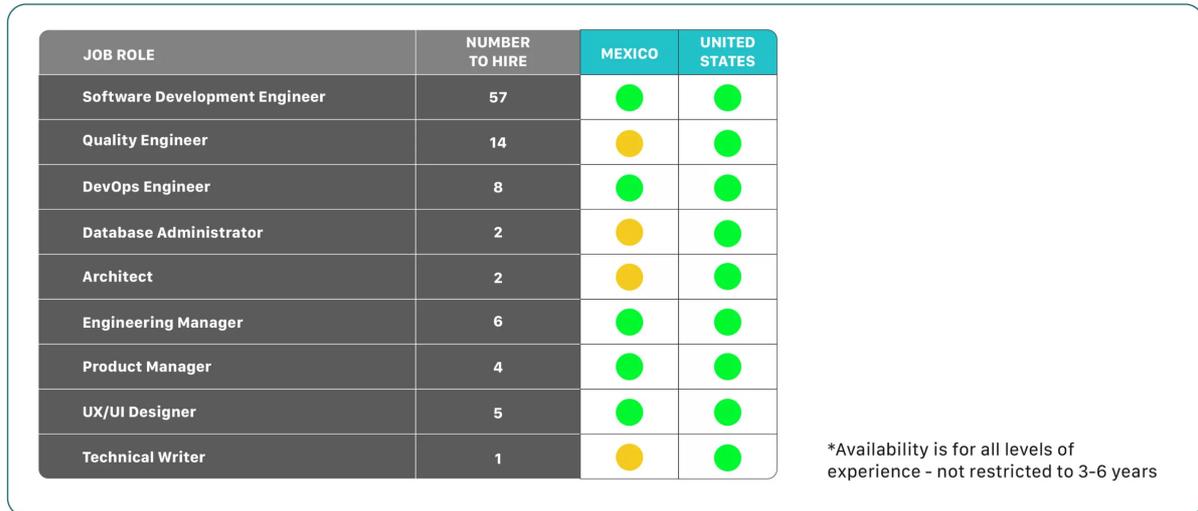
Source: Zinnov

1. Talent

Mexico has a high concentration of full-stack developers, project managers, UX/UI designers, system admins, SPs, back-end developers, etc. The average talent pool accounts for **213k+ individuals yearly** (fresh + experienced talent), with an **annual attrition rate of ~8% only, as of 2020**. This indicates high retention levels. A leader can expect to work with employees longer, improve their knowledge and experience, while enhancing credibility with reduced changes in job roles. However, we believe COVID-19 have impacted the talent market dynamics dramatically. Our upcoming report will focus on the rekindling in potential COE Hotspots due to the global pandemic.

TEAM SCALABILITY ANALYSIS - 100-MEMBER TEAM

Software engineering talent availability as a function of 'number to hire' in comparison with USA



Source: Zinnov

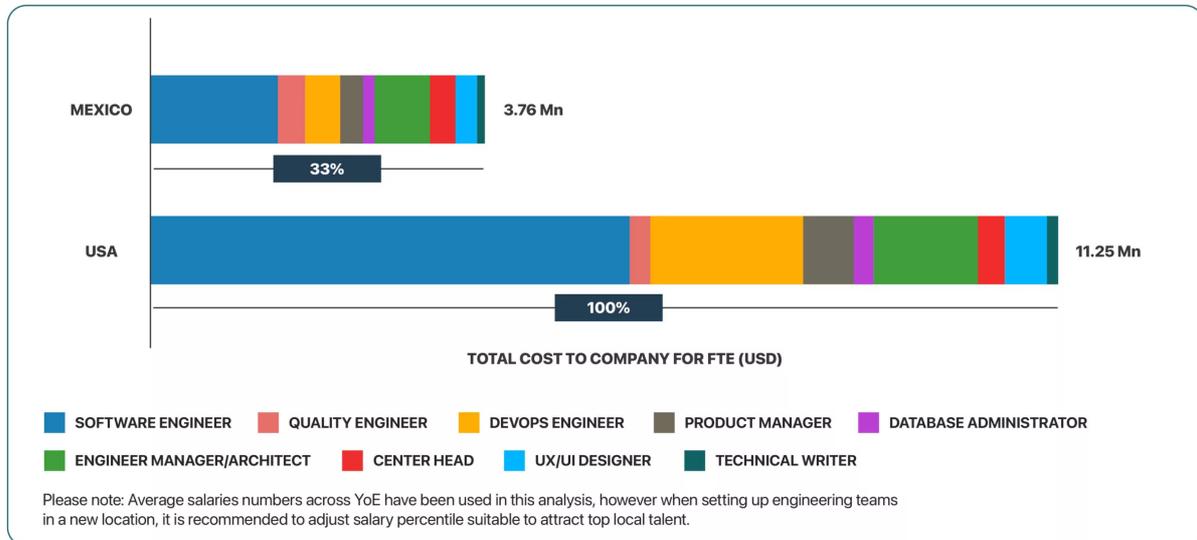
● 100x Availability ● 500x Availability

2. Affordable Cost Advantage

• Talent

Mexico has high potential to build scalable full software teams. Setting up large engineering teams in Mexico, in comparison to the U.S. provides 60% cost savings for global companies.

SALARY COSTS FOR A 100-MEMBER SOFTWARE ENGINEERING TEAM IN MEXICO, RELATIVE TO COST IN USA



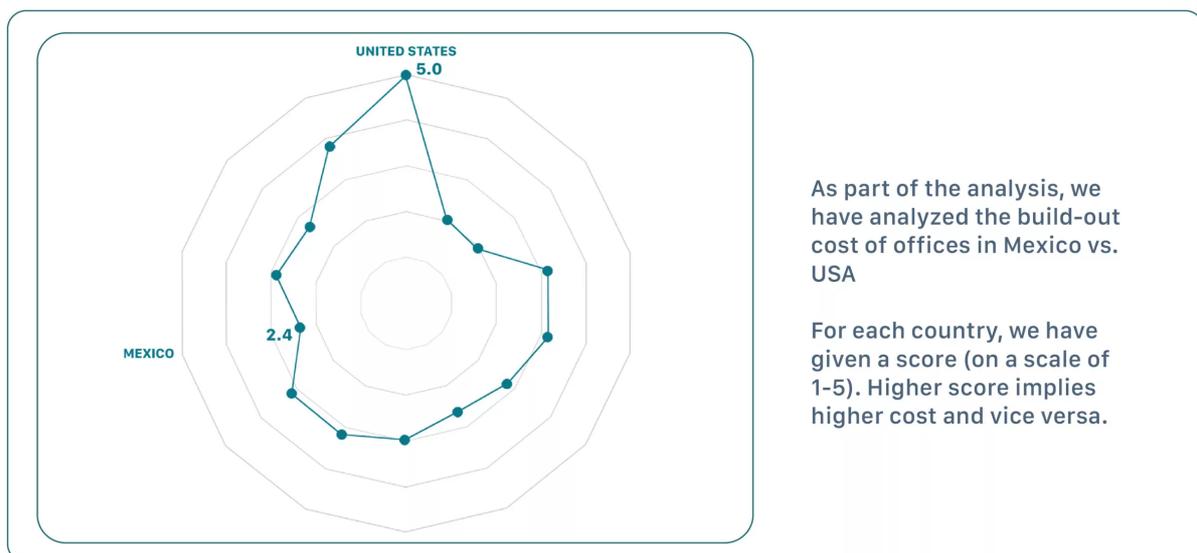
Source: Zinnov

Furthermore, when we think in terms of a Mexican Software Development Engineer’s (SDE) average salary expectations, it usually comes to USD 38,500. In contrast, the average expectations of a U.S. SDE come to an estimated USD 72,162. **Leaders can leverage this visible disparity in compensation to scale their core team in Mexico without burning a hole in their pockets.**

• Facility build-out cost

When we go deeper into the logistics, Mexico is lower on the build-out cost index, compared to developed economies such as the U.S.

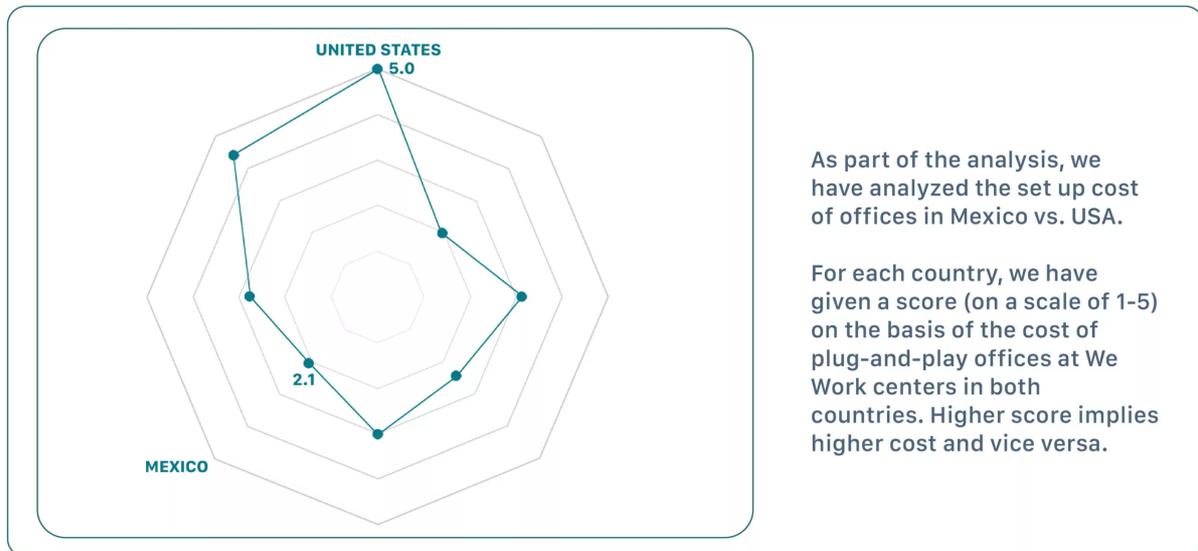
OFFICE BUILD-OUT COST COMPARATIVE ANALYSIS



Source: Zinnov

• Plug-and-play

Additionally, if leaders are opting for plug-and-play options, Mexico showcases visible cost arbitrage compared to US that companies can leverage.



Source: Zinnov

These favorable factors have transformed Mexico into a digital epicenter for leaders.

3. Mature Infrastructure

• Global Companies

Guadalajara, Monterrey, and Mexico City collectively employ 35% of the SDE talent pool in Mexico. Companies like Oracle, Amazon, Microsoft alike are proactively recruiting local talent and expanding operations in Mexico.

USD 23 Bn has been invested in Automotive manufacturing in recent times. The country has 8 automotive giants, including Ford, Chrysler, GM, VW, Toyota, Nissan, Mazda, and Honda, making it the second-largest automobile manufacturing nation in the Western Hemisphere.

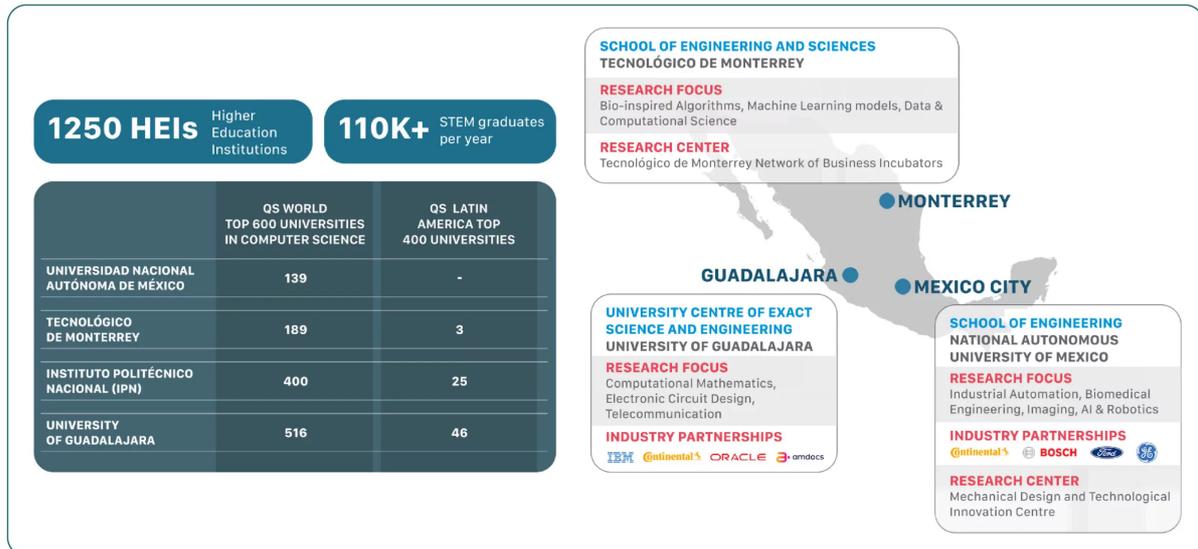
It is also the **fifth-largest medical device exporter across the globe** and has the presence of companies like Medtronic, Kimberly Clark, Boston Scientific, and Johnson & Johnson.

• Academia and Industry Partnerships

Mexico has 63 universities out of the top 400 universities in the LATAM region, making it a strong education hub. Furthermore, it has **1250 higher education institutions** -- a good mix of public/private, technology, and teacher training institutes. In fact, in the QS World Top 600 Universities in Computer Science – Universidad Nacional Autonoma De Mexico and Tecnologico De Monterrey ranks 139 and 189, respectively. Additionally, in the QS Latin America Top 400 Universities, Instituto Politecnico Nacional stands at the 25th rank, and the University of Guadalajara holds the 46th rank, showcasing its laudable knowledge prowess. **These universities have a definitive technology bent**, which is demonstrated in their research centers. Each center focuses on distinctive focus areas such as Industrial Automation, AI & Robotics, Telecommunications, Bio-

inspired Algorithms, ML Models, among others. Bosch, Oracle, Ford, GE, Continental, etc., all have long term tie-ups with these institutions alike, and time-to-time train STEM talents, host learning programs, provide placement offers, and more.

TIER-1 ACADEMIC INSTITUTIONS AND INDUSTRY RELATIONSHIPS IN MEXICO

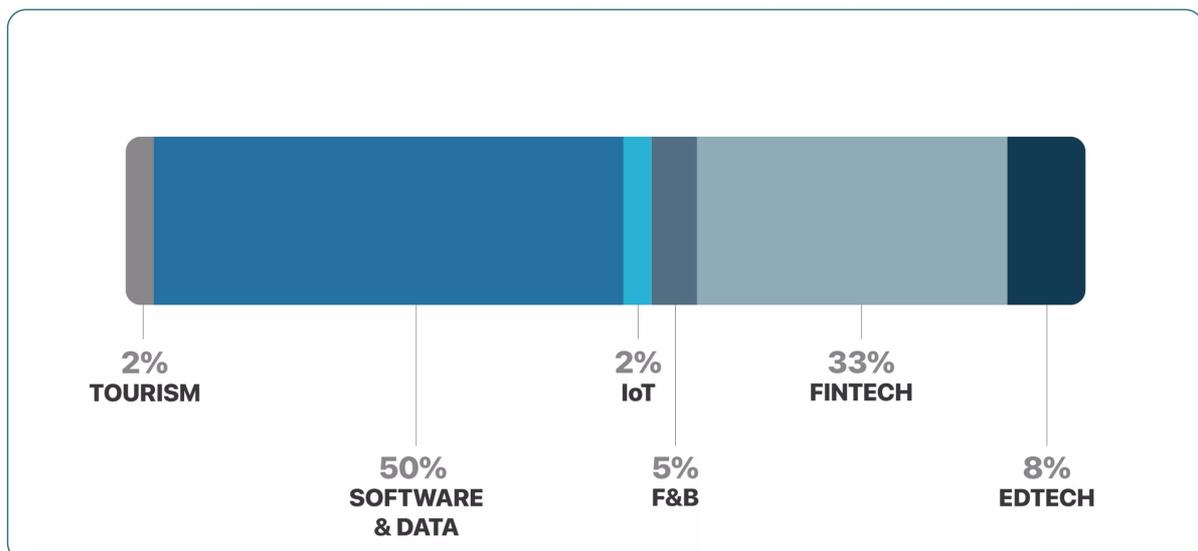


Source: Zinnov

• Start-up Ecosystem

Mexico has **300+ Technology start-ups** with focus areas on EdTech, FinTech, Tourism, Software & Data, Internet of Things (IoT), and Food&Beverage (F&B) verticals. In fact, the **Venture Capital (VC) spending on Mexican start-ups has reached USD 1.2 Bn, as of 2020**. However, there are no unicorns witnessed from Mexico yet. But start-ups like Bitso (exchange platform for cryptocurrencies – recent funding USD 81 Mn), Justo (platform for ordering groceries - recent funding USD 100 Mn), Dev.f (EdTech company – recent funding USD 1.4 Mn), among others, have the potential to be unicorns soon.

SECTOR-WISE BREAK UP OF START-UPS IN MEXICO



Source: Zinnov

• High Presence of Technology SPs

Coding languages like C++ and Java are part of the education curriculum from the start and most students are inclined towards engineering traditionally. This upskilling talent imperative has helped create a steady talent pipeline, to meet the needs of customers, and rapidly bolster innovation. The latest business trends indicate a high demand for engineering SPs to help with implementations, consultancy, integration, etc., and improve revenue generation from customers. Mexican SPs are committed, highly motivated, and have a decent continuous personal development (CPD) at place. Additionally, the **presence of top SP companies like IBM, HP, EPAM, etc. has made the country a potential SP hive**. These factors shall help enterprises not only enhance product capabilities but also attract skilled talent, by forming a comprehensive brand portfolio.

4. Ease of Doing Business Index

Zinnov's analysis suggests Mexico has a good Ease of Doing Business ranking based on its large tech talent pool, cost arbitrage, SDE maturity, geopolitical stability, connectivity, and English capability lens.

Zinnov's Ease of Doing Business analysis is calculated across geographical stability, IP and data privacy and spoken English proficiency. Mexico ranks 10th out of the 13 countries.

Here are some key components:

• Language

English, Spanish, and French are the top languages spoken in Mexico. So, enterprises can clearly interact with their employees, with a reduced scope of miscommunication.

• Connectivity

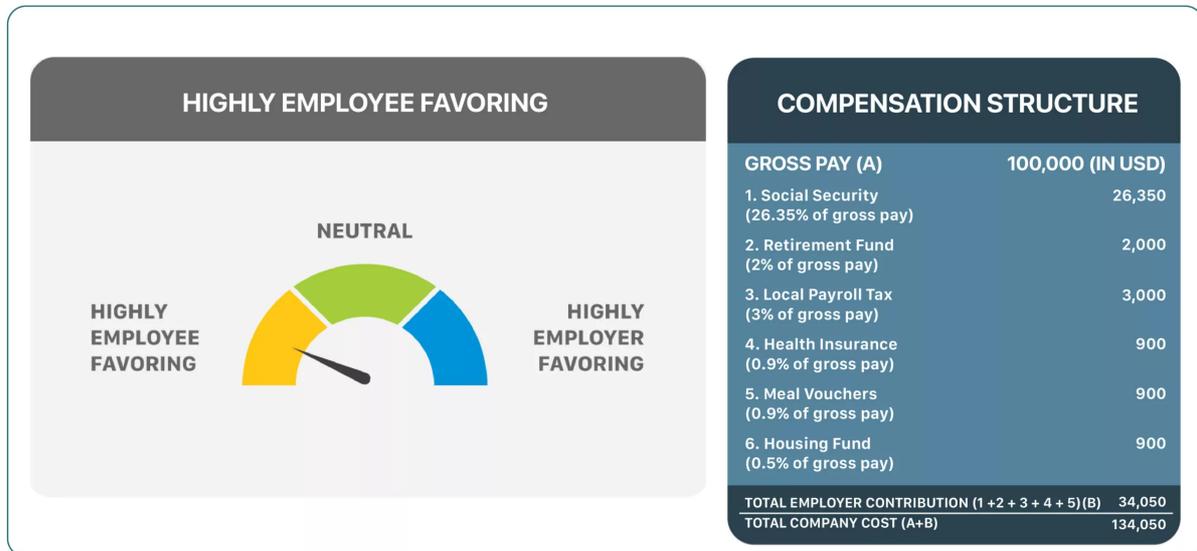
Developing a nearshore COE in Mexico has helped leaders be up to date with project developments due to its close proximity to the U.S. There are over 200 flights available, which helps nearshored teams to physically meet each other without experiencing a long travel time. Also, since the time zones are similar, digital collaboration is nearly on a real-time basis.

• Geopolitical stability

Mexico City, Guadalajara, Tijuana, and Monterrey are the top cities of Mexico having high technology inclination. These cities have a business-friendly environment with reduced corruption and instability due to Mafia limits.

• Employee Laws

Employee Laws in Mexico are highly employee favoring, with the government implementing multiple measures in terms of compensation structure, termination, taxation, and more, to support Mexican employees.



Source: Zinnov

Compensation Structure

An employer must contribute to social security, health insurance, pension, housing, local payroll tax, and meal vouchers.

Termination

- Upon termination of employment without 'Just Cause,' employees are entitled to severance pay calculated at 3 months' salary plus 20 days of pay for every year the employee was employed, plus a seniority bonus
- Dismissals are justified only if the worker in the course of his employment is guilty of a dishonest or dishonorable act, and date wise proofs of the committed act are required
- A written notice with a specific reason as outlined in the labor code is required for termination

Notice Period

The average notice period ranges from 2-12 weeks, depending on the duration of the employment. A written notice with a specific reason outlined in the labor code is required for terminating an employee.

• Taxation Laws

In 2018, Mexico passed a Fintech law, the first of its kind in LATAM, aimed at providing Fintech companies licenses to operate as financial institutions. Also, if a COE is built in a special economic zone (SEZ), income tax will be exempted for the first 10 years, and an additional discount of 50% on income tax will be provided for the next five years. Also, nil value-added tax (VAT) will be charged for services to the investor and those who acquire goods to use in the SEZ. Lastly, the **USMCA (United States-Mexico-Canada) deal**, 2020, has helped unionize the Mexican workforce and boost business in some verticals, such as Automotive.

Why Expand in Mexico?



Mexico is a thriving Center of Excellence hub with a competitive and strong labor force. It is low on the cost index, offers good technology infrastructure, and is business friendly. Leaders who are agile, have a higher sense of purpose and desire better performance should act in accordance to derive exponential value. Quick decision-making is imperative to accelerate immunity in the next normal.

It's integral for organizations to have an outside-in perspective on talent, ecosystem maturity, and costs when outlining a strategy to circumvent the ongoing talent wars. Drop a note at info@zinnov.com to speak to our consultants and access the full report on Global COE hotspots.