Overview

- Off-shoring Call Center
- Latin American Region
  - Mexico
- Is it cost effective?
- What are the considerations?
  - Labor Supply, IR Climate, Labor Constraints, Cultural Differences
  - Advantages and Disadvantages
- Recommendation

Cost & Quality of Labor

<table>
<thead>
<tr>
<th>United States</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age distribution</td>
<td>Age distribution</td>
</tr>
<tr>
<td>67% 15-64 yrs., 49.9% male</td>
<td>65% 15-64 yrs., 48.4% male</td>
</tr>
<tr>
<td>Median age 36 years</td>
<td>Median age 24.6 years</td>
</tr>
<tr>
<td>Labor Force</td>
<td>Labor Force</td>
</tr>
<tr>
<td>147.4 million</td>
<td>34.1 million</td>
</tr>
<tr>
<td>Participation Rate: 50.3%</td>
<td>Participation Rate: 32.5%</td>
</tr>
<tr>
<td>Women 59.5%</td>
<td>Women 52.8%</td>
</tr>
<tr>
<td>Unemployment rate: 5.2%</td>
<td>Unemployment rate: 3.3%</td>
</tr>
<tr>
<td>GDP per capita $37,800</td>
<td>GDP per capita $9,000</td>
</tr>
<tr>
<td>Cost index 100 (U.S.=100)</td>
<td>Cost index 11 (U.S.=100)</td>
</tr>
<tr>
<td>Avg. rising labor cost 3.9% ('98-'03)</td>
<td>Avg. rising labor cost 10.1% ('98-'03)</td>
</tr>
</tbody>
</table>
Cost & Quality of Labor

**United States**
- Literacy rate 97.0%
- Average yrs. education 12.8
- Avg. Labor productivity growth 3.8% / year ('93-02)
- Minimum wage $5.15/hour (most states)
- Telecommunications industry $2,650 / month
- Hourly compensation $21.97
- Average rates

**Mexico**
- Literacy rate 92.2%
- Average yrs. education 7.2
- Avg. Labor productivity growth 4.9% / year ('94-'02)
- National Minimum Wage Commission $4.50/day
- Telecommunications industry $360 / month (4003 pesos)
- Hourly compensation $2.48
- Average rates

Industrial Relations Environment

- Ministry of Labor and Social Welfare (STPS)
  - Monitors compliance and implementation of FLL
  - Deals with employment and social protections of workers, conditions of employment, and labor relations
  - Social Security Policy
  - ILO

Mexico is highly Unionized
- With about 20% of the workforce
- The Unionization rate is nearly twice as high
**Industrial Relations Environment**

- Congress of Labor (CT)
  - CTM (Confederation of Mexican Workers) - claims to have 5.5 million members, but realistically about 4 to 4.5 million
  - CROC (Revolutionary Workers and Peasants Confederation) - claims 2 to 4 million members, but in actuality 1 to 1.5 million
- National Union of Workers (UNT)
  - Alternative to the CT

- Many other small federations and unions within the country
- Corruption still occurs

**Anti-Discrimination**

- Employers cannot discriminate on the basis of race, sex, age, religious or political beliefs, or social standing
**Safety and Health**

- Employer responsibility to have hire labor inspectors to make sure hazard regulations are complied with.
- Employee entitled to all necessary medical care, regardless of fault.
- Employers obligated to modify work place for the safety and health of their employees.

**Overtime**

- Standard work week is six-days/48 hours.
- Overtime that is paid for first 9 hours over 48, for working on a legal holiday, Saturday, or Sunday is twice the hourly wage.
- Overtime for beyond 9 hours over 48 is triple the hourly wage.

**Child Labor**

- Minimum legal working age is 16, but only with parental consent and a permit from the Secretary of Labor and Social Welfare.
- Minors (under 18) are not allowed to work in areas of potential health risk, after 10:00 pm, or any overtime.
Minimum Wage
- About $4.50/day
- Set annually by The National Minimum Wage Commission
- Varies by region and sometimes industry
- It is supposed to be able to sustain a person with a basic standard of living
- Many employers pay above the minimum wage

Enforcement of Labor Laws
- Laws are supposedly more strictly enforced than in the U.S.
- Constitution and the Federal Labor Law (FFL) favor unionization

Cultural Issues To Consider
* Is there a cultural fit?
  - Large cities in Mexico have similar infrastructure as large cities in the United States
  - Many large cities in Mexico have become “Americanized”
  - Large spread of income distribution among Mexican citizens
Composition of Workforce

* The call center will employ English-speaking Mexican workers
  - English is a valuable skill, thus employees with this skill will be compensated higher
  - Inability to take advantage of cheap labor
* Call center employees will be mostly part-time workers
  - Students
  - Rotation of workers
  - High turnover

Cost-Benefit Analysis

* Costs
  - Minimum wage rate set each year nationally, may vary by regions
  - Minimum wage currently set at $4.50/day in Mexico versus $5.15/hr in US
  - Standard work week in Mexico is 48 hours versus 40 hours in US
* Associated Benefits
  - Ability to take advantage of lower wage rates
  - Costs of employing workers is less due to lower Minimum Wage
  - Reduction in costs of overtime pay

Offshore Call Center in Mexico

* Advantages
  - NBH will realize cost savings
  - Similar infrastructure
  - Cultural fit
  - Americanization of large Mexican cities
  - NAFTA
  - Government incentives due to job creation
  - Enforcement of labor laws
  - are they really enforced?
* Disadvantages
  - Possible language barriers
  - US customers do not like dealing with offshore call center representatives
  - Inability to take advantage of cheap labor due to required skill set
Off-shore Call Center
Recommendation and Decision

- Off-shore call center in a large Mexican city
- Take advantage of cheaper labor and government incentives
- Recruit and select qualified English speaking candidates