

## Andean Outpost

By JOEL RUSSELL - 9/3/2007

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North South Studios might seem like just another Hollywood-based media company, except that 92 percent of its employees live in Lima, Peru.

The company creates Web sites, distance learning courses, electronic toys and books for customers such as Walt Disney Co., Leapfrog Toys, MGA Entertainment and Knowledge Adventure. Its bi-national strategy came about when the founders' previous product design company collided headlong with the global economy.

"It was 2003 when our biggest client told us that we had lost out on a bid to a company in Costa Rica. Later that year, the same thing happened, only that time it was Argentina," co-founder Bill Newell said.

After selling their company, the partners discovered former clients wanted them to continue developing new products. Although U.S.-born, Newell had spent much of his youth in Peru. Better yet, he had maintained contacts in the creative and business community there.

According to co-founder and chief executive Sarina Simon, finding talent in Peru wasn't a problem. Today, the company, a California LLC, has four employees in Hollywood and about 50 in Lima.

"In the beginning, all of our new marketing was by Rolodex – calling up people and saying, 'Here's what I'm doing now,'" Simon said. "When you say 'Lima, Peru' it's an interesting calling card. People are intrigued."

Peru was in the news recently due to a massive 8.0 earthquake that struck Aug. 15. The quake killed more than 500 people.

But at North South, "it has not had any effect at all," said Simon. "Our facility is 100 miles from the epicenter; we had little to no damage."

The uncle of one employee's boyfriend died in the disaster, and in response the company will donate to recovery efforts. Employees are taking collections.

The business was affected more significantly last winter when sustained rains knocked out the company's phone in Hollywood for 15 days. Clients joked that the office was located in "the People's Republic of Hollywood," but luckily the Peruvian operation kept functioning.

To compete in the global economy, small companies like North South "have limited resources and small budgets, so they compensate by drawing on personal experience and contacts," said Usha Haley, author of five books on offshoring and a director of the Global Business Center at the University of New Haven in Connecticut. "The reason they chose Peru was opportunistic, because they already had some information

about it. ... This is one way to defray risk in the supply chain. You go where you have personal experience.”

The production process starts with every project getting a U.S.-based point person, Simon said. “That creates a relationship with the client that makes working in Peru absolutely seamless,” she explained.

The staff in Lima includes university-trained engineers and designers, most of whom speak some English. Simon allows clients to decide whether to interact with the Peruvians directly or through the U.S. account manager, depending on their comfort level.

“Young Peruvians have grown up on American culture – MTV, “Law and Order,” SpongeBob. We found that there were few, if any, of the communication issues that sometimes arise in outsourcing arrangements,” Newell said.

Peru offers some practical advantages over the big offshoring sites of China and India. Lima is in the Eastern or Central U.S. time zones, depending on the time of year, so making phone calls is much easier. Peruvians speak Spanish, a more commonly known language in the U.S. than Chinese.

As for price, North South can offer customers a 30 percent to 40 percent savings over U.S. costs for a comparable job. Nevertheless, “we know we aren’t the cheapest alternative,” says Simon. “India is cheaper. But we believe we deliver the best value for the price.”

However, “getting into an emerging market is an expensive and risky proposition,” Haley warned. “What you don’t know can impact your business more than what you know. There is lack of certainty, a lack of information and a political risk associated with these ventures.”

### **Bureaucracy burden**

For entrepreneurs, political risk includes navigating an unfamiliar regulatory system. Peru holds a special honor for opponents of bloated bureaucracy: In 1989, economist Hernando de Soto published “The Other Path,” a book that described how Peru’s government strangled entrepreneurial development by requiring hundreds of pages of forms and authorizations.

Simon confirms the country’s multi-layered bureaucracy, but North South came prepared to deal with it. “If you’re going to build a business in another country, you need someone who knows the culture,” she said. “And you need to know business won’t be done the same way it is here. But that doesn’t mean it can’t be done. I’ve learned to be humble about criticizing other people’s systems, because America has its share of peculiarities, too.”

When an entrepreneurial venture like North South shows up in Peru, highly educated workers gravitate to it. Simon talks about engineers who forego driving a taxi to work for the company.

“It isn’t just that we have a lower-cost labor pool,” she said. “We have a highly educated and professional labor pool that couldn’t find opportunity in their country.”

Eventually, Simon believes her company could employ as many as 500 people in Peru. In the short-term,

the company plans to take advantage of what Haley calls “cultural proximity to the United States.” As Simon sees it, the U.S. has a growing Spanish-speaking demographic, and her company has a talented bilingual work force.

Already the company has landed a contract to produce English-language courses for Spanish-speaking construction workers in the U.S. “We should really be grateful to the Costa Ricans and the Argentineans,” Newell joked. “Without them, we wouldn’t have taken this very positive step.”

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