

IAOP Shanghai Chapter Meeting

China Outsourcing - Opportunities and Challenges

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ADVISORY





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Key Outsourcing Trends in China (1/2)



- **BPO a Key Driver of industry**
 - While IT Outsourcing will continue to grow, we believe BPO will demonstrate a much bigger growth as compared to ITO
- **BFSI and Manufacturing Driving Sourcing Demand**
 - BFSI and Manufacturing will continue to be leaders in the mid term, although 2008 – 2009 was a difficult year due to demand variation
- **Growth of Knowledge Processes**
 - KPO is expected to take off in China, accounting for 5% share of industry revenue in 2012

Key Outsourcing Trends in China (2/2)



▪ Emergence of Tier II and Western Cities

- Outsourcers and leading captives continue to explore tier II cities in order to drive down costs. (e.g. several leading captives have been established directly in western Tier II cities)

▪ Captive vs Outsourcing

- While there have been several recent examples of captive monetization, the captive model remains popular, with a number of companies establishing new captives

▪ Pricing Renegotiations in the Downturn

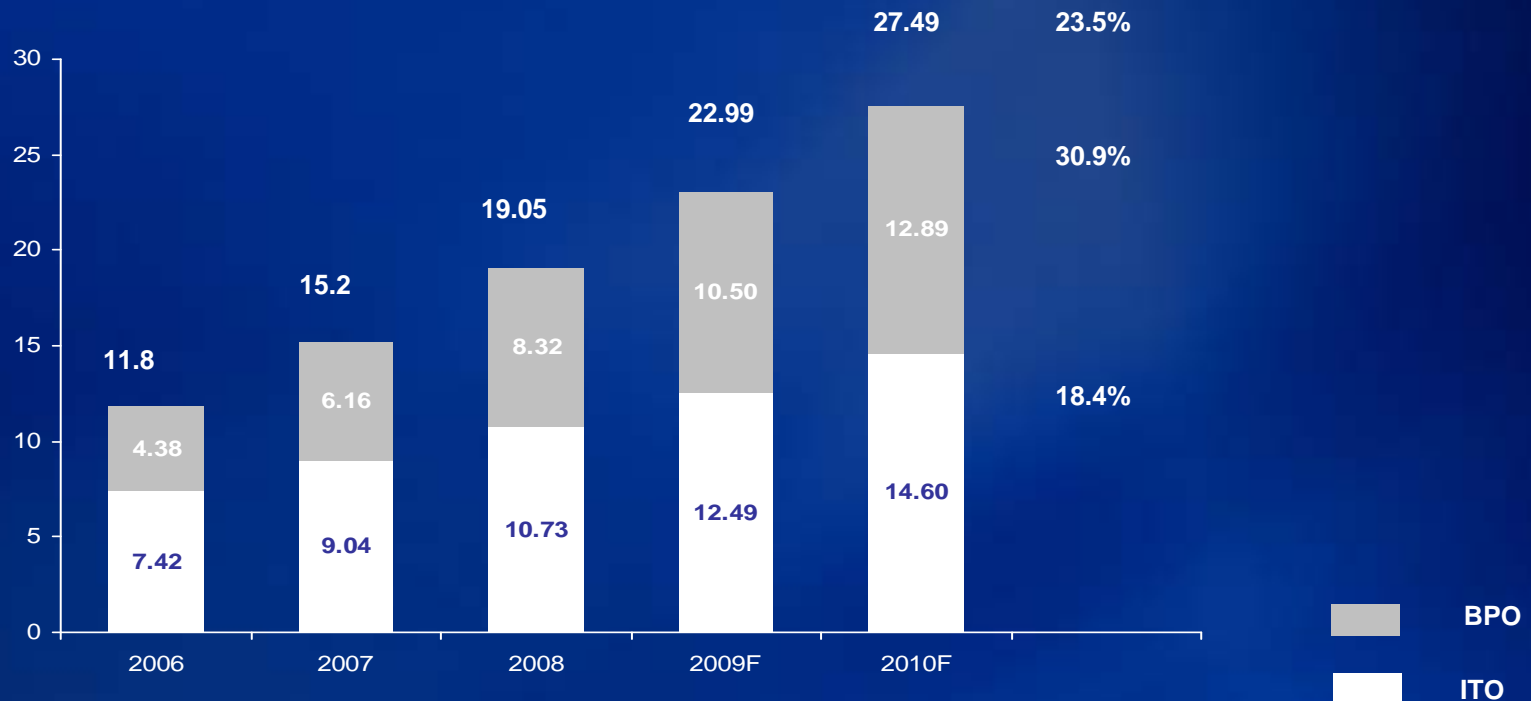
- Several customers negotiated discounts from their Service Providers (~ 8 – 10 % of Annual Contract Value) whereas some others negotiated lower volumes at the previous prices

China outsourcing industry is experiencing rapid growth



Overall, the industry CAGR is 23.5%. ITO is maintaining stable growth, BPO is growing rapidly

China's service outsourcing market size and forecast, 2006 – 2010 (USD Billion) CAGR (06-10)

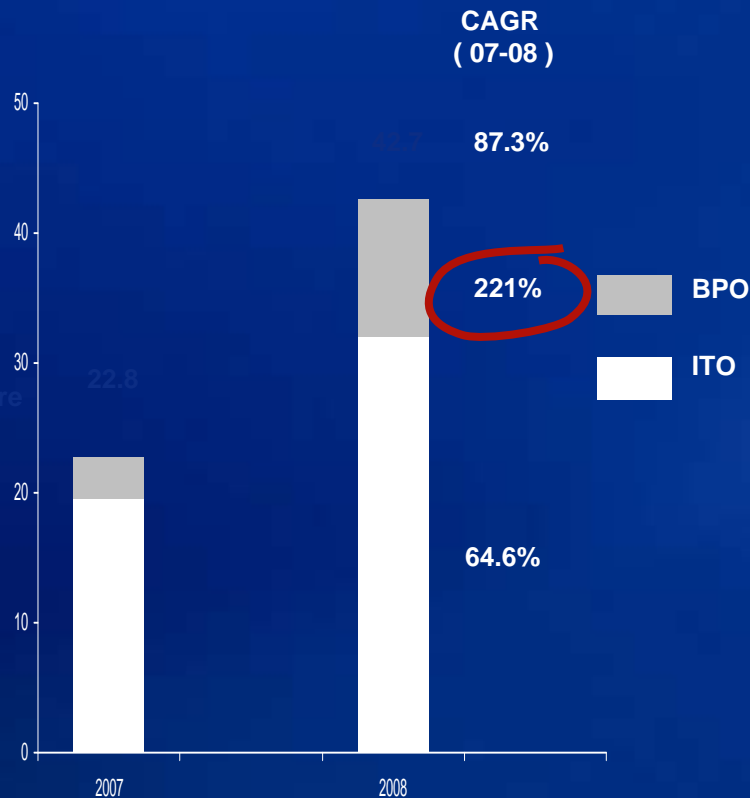


Source: Frost & Sullivan

However, China has yet to reach its potential in global outsourcing by capturing industry trends...



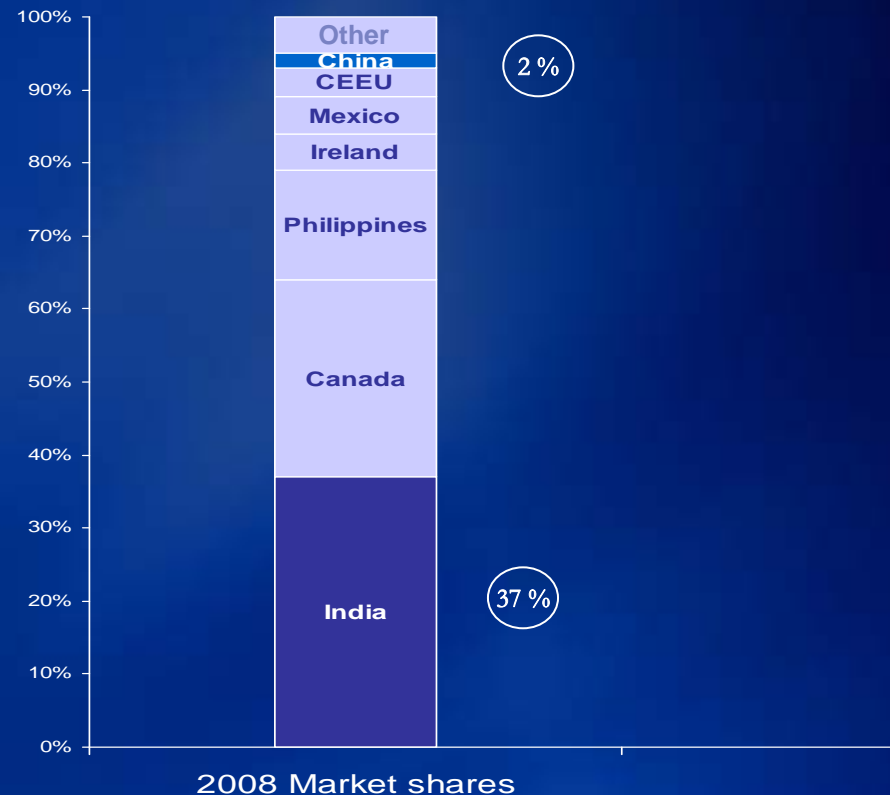
Offshore BPO has still considerable room to grow



Source: MOFCOM; Frost & Sullivan

The market share of China in global offshore BPO is much less than that of India

The market share of the main offshore BPO service receiving countries in 2008

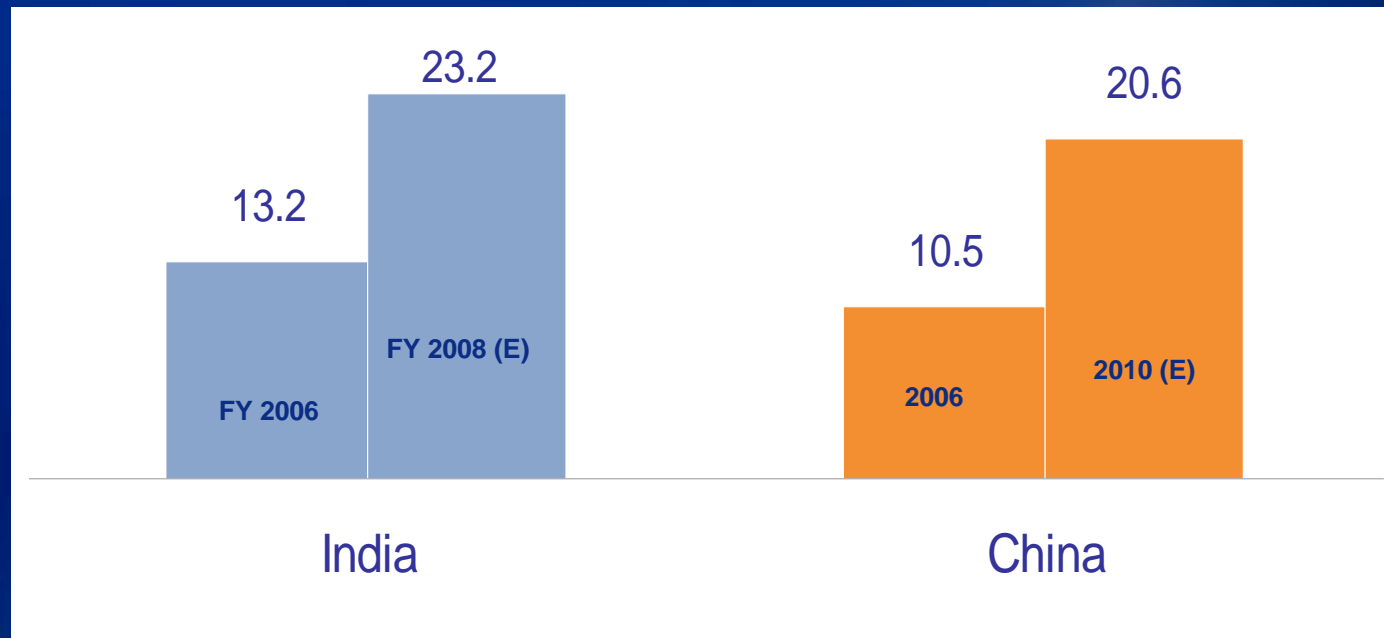


... and on the domestic front, demand for outsourcing in China is on the rise



Large opportunity for local suppliers to develop their capabilities

Domestic market opportunity – India & China (USD Billion)



Local demand is giving rise to a huge potential for supplier companies, and providing a launching pad for the global market with relatively lower risks

Source: IDC, NASSCOM Strategic Review 2008

Source: Nasscom 2008; Gartner; IDC

Outsourcing with Chinese Characteristics



- Moving up the value chain – low-end to high-end services
- Market breadth – domestic, regional, global
- Considerable domestic market
- Consolidation of China's young sourcing industry
- Ability to support and penetrate the Asian markets



China's Challenges



- Marketing a “China outsourcing” brand with clear positioning to the international community
- Ability to communicate success stories
- Market fragmentation – internal competition
- Perception of relatively poor intellectual property rights protection and data security
- Compete or collaborate with India



KPMG Global Presence of Sourcing Advisory



KPMG's Sourcing advisory is mature practice present worldwide



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