BPO Trends in the Philippines

SPi

Agenda

- Philippine BPO Industry

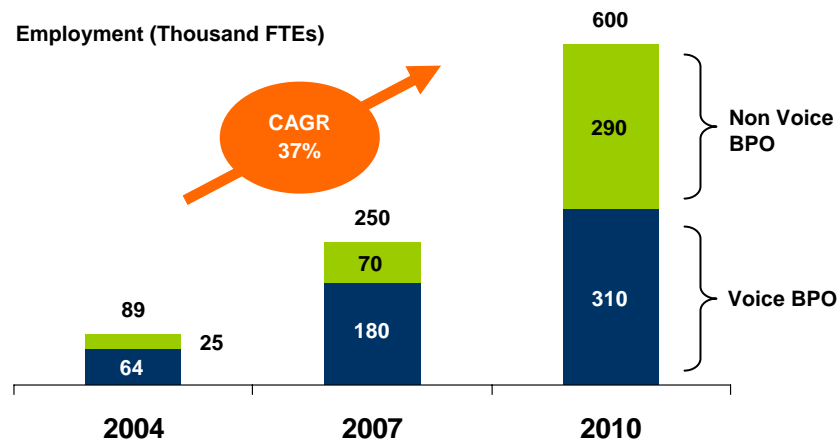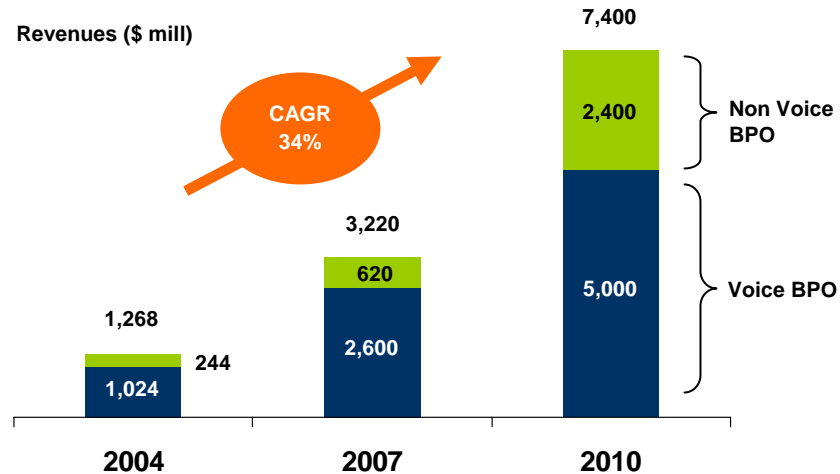- Trends

Philippine BPO Industry

Solutions. People. Innovation.

SPi

Evolution

The Pioneers →	MNC Shared Services →	Call Centers →	Indian Providers →	Large MNC Captives
1980's	1997-2000	2000-2003	2004-2006	2004-2007
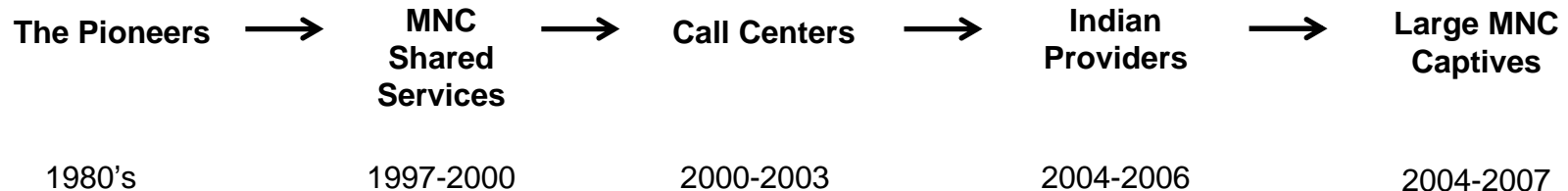
The Philippines is now considered as one of the Top 3 BPO destinations in the world and the market leader in Southeast Asia.

Philippine BPO Industry
Market Size

Revenues ($ mill)

CAGR 34%

- 2004: 1,268 (Non Voice BPO 244, Voice BPO 1,024)
- 2007: 3,220 (Non Voice BPO 620, Voice BPO 2,600)
- 2010: 7,400 (Non Voice BPO 2,400, Voice BPO 5,000)

Employment (Thousand FTEs)

CAGR 37%

- 2004: 89 (Non Voice BPO 25, Voice BPO 64)
- 2007: 250 (Non Voice BPO 70, Voice BPO 180)
- 2010: 600 (Non Voice BPO 290, Voice BPO 310)

- Voice services dominate and still continue to grow rapidly.

- Non-voice segment will contribute approximately one-third of BPO revenues by 2010. Growth in non-voice segment will be lead by captives with a focus on back office administrative services and F&A.

- Assuming supply of labor and other assumptions holds true, the Philippines is targeting a market share of 8%-10% of the global O&O market ($130 billion*) by 2010.

*Note: * - market size include ITO and BPO.*

Source: McKinsey, BPAP, Company estimates

19   Solutions. People. Innovation.

Voice vs. Non-Voice

VOICE		NON-VOICE	
CAPTIVES	**THIRD PARTY**	**CAPTIVES**	**THIRD PARTY**
• **Dell (2,500)** • **Siemens (750)** • **JP Morgan (850)** • **AIG (1,500)** • **HSBC (2,000)** • **IBM-Daksh (4,500)**	• **Sykes (11,000)** • **Convergys (13,000)** • **PeopleSupport (8,600)*** • **eTelecare (4,000)*** • **Teletech (6,000)** • **SITEL/ClientLogic(3,000)** • **Telus (6,500)** • **SPi Ventus (7,000)*** • **APAC (4,000)**	• **Shell (800)** • **HSBC (3,500)** • **P&G (700)** • **Citibank (800)** • **Deutsche Bank (1,500)** • **Caltex (600)** • **AIG (1,200)** • **Baker & McKenzie (300)**	• **Accenture (13,000)** • **SPi (7,500)*** • **Innodata (5,000)** • **American Data Exchange (3,000)** • **SVI Corp (2,000) *** • **E-Data Services (300) ***
Help desk, Order fulfillment, Telemarketing, Credit & Collections, Advisory & Research, Order Entry, Payment Authorizations		Finance & Accounting, Litigation Support, Payroll Processing, Claims Processing, Medical Transcription, Prepress Services, Animation, Engineering	

* Vendors with base operations in the Philippines.

- MNC's and large global vendors driving growth. Local vendors still in infancy and lack scale.
- Voice market more mature and established. Total capacity of approx 150,000 seats today. Over 100 credible players.
- In the non-voice segment, third party vendors are more established. Captives in this space usually focus on serving the Asia-Pacific market.

SPi

Offshore Locations

PHILIPPINES		INDIA
• Attractive due to low-cost, highly skilled English-speaking talent with strong affinity to US culture & systems, and a strong customer service orientation • 450K college graduates per year of which 90K qualify for BPO employment • FTE's in BPO in 2006 – est. 210,000+ • Labor Pool: 34.56 million	**Talent Pool**	• Attractive due to huge labor pool of low-cost, highly skilled English-speaking talent with superior service maturity • 2.5M college graduates per year of which 240K qualify for BPO employment • FTE's in BPO in 2006 – est. 1.5 million+ • Labor Pool: 472 million
• Salaries for entry-level : $2,000 to $4,000 p.a. • Salaries for 2-3 years exp: $3,500 to $8,000 p.a. • Salaries for mid level mgrs:$7,000 to $20,000 p.a. • Attrition rates are lower – 5%-50%	**Labor Cost**	• Salaries for entry-level : $2,000 to $3,000 p.a. • Salaries for 2-3 years exp: $5,500 to $7,000 p.a. • Salaries for mid level mgrs: $9,000 to $23,000 p.a. • Attrition rates are high – 10%-70%
Robust and scaleable infrastructure • Lease cost per sq ft in the CBD: $18-$24. • Leased cost for E1 line: $100K/p.a. • Electricity per kwh: $0.15	**Infrastructure**	Robust and scaleable infrastructure within I.T. parks. • Lease cost per sq ft in the CBD: $10-$14. • Leased cost for E1 line: $120K/p.a. • Electricity per kwh: $0.14
• Metro Manila, Cebu, Clarke/Subic, Dumaguete • Western-oriented environment. Expat friendly culture	**Locations**	• Bangalore, Chennai, Hyderabad, Delhi, Mumbai, Pune, Chandigarh
• Voice-based customer care • Captive shared services • Healthcare • F&A • Animation	**Distinctive Process Capabilities**	• Back office services • Captive shared services • F&A services • Engineering • Research and analytics

Source: BPAP, McKinsey, Company estimates

Going Forward

Challenges	Opportunities
• Lack of strong, concerted effort to market the Philippines overseas. However, there has been a larger commitment recently with private capital backing – BPAP. • Proliferation of entrants that lack the capital to expand their businesses in terms of infrastructure and scalability. • Rising cost of qualified labor for select processes as well as increasing difficulty in sourcing and retaining local management talent are key operational challenges. • FX – devaluation of US$. • Perception of lack of security and stability.	• The Philippines can provide distinctive value propositions to certain segments of the BPO market. Ex: Contact centers, healthcare, legal outsourcing and corporate shared services. • Government and Universities are very open to bring about structural changes to cater to the BPO market. • Build credibility as a 'location of choice' to mitigate geographical risk associated with India. • Collaborate with Indian vendors and agencies to co-market BPO in key markets. • Higher level work – going up the value chain: legal editorial, CAD/CAM, animation, KPO.

*Source: *McKinsey Global Institute: "The Philippines' Offshoring Opportunity, NeoIT, and Company research.*

SPi

BPO Trends in the Philippines

Solutions. People. Innovation.

SPi

BPO Trends in the Philippines - 2008

- Captives facing rising attrition, though not to the same levels as BPO vendors.

- Philippines is now widely considered as a 'better suited' destination as compared to India for voice based BPO services.

- Increasing expansion into Tier II cities and beyond. Manila facing maturity (12-18 months) as a destination for lower level, commodity type BPO work.

- Rising complexity of work being done by captives and service providers.

- Mature service providers beginning to offer a blend of voice and non-voice BPO services. A robust IT capability is also becoming increasingly important.

SPi