

WHERE IN THE WORLD?

BUSINESS PROCESS OUTSOURCING
AND SHARED SERVICE LOCATION
INDEX 2016



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WHERE IN THE WORLD?

CHALLENGES FACING THE BPO AND SHARED SERVICE SECTOR

The winds of economic and political change continue to challenge the global Business Process Outsourcing (BPO) industry, with Brexit as the latest obstacle for occupiers and investors alike. Following the somewhat unexpected outcome of the EU referendum in June 2016, focus has shifted as to how the leave vote will impact not only the UK, but the whole of Europe.

At a global level, the BPO and Shared Service market continues to expand at pace, but the shifting focus of investors continues to reflect the dynamics of the change in landscape. While some markets have seen significant increases in cost due to wage inflation, the LATAM countries have repositioned their offerings competitively in similar economic turmoil.


The sustained growth of the sector is driven by the need for businesses to continue to seek cost-cutting and operating efficiency initiatives. Many countries see the value of attracting BPO inward investment, as it provides opportunities for significant employment and the job profiles are becoming increasingly diverse and high value. In India alone – the world’s largest BPO market, more than three million people are employed within the sector; in the Philippines there are another million and rising. Based on robust demand it is estimated that the global BPO industry will grow by 6% every year over the next six years. With certain business sectors continuing to underpin activity levels we could witness growth on an even larger scale.


BANKS STRIVE TO ACHIEVE COST REDUCTION

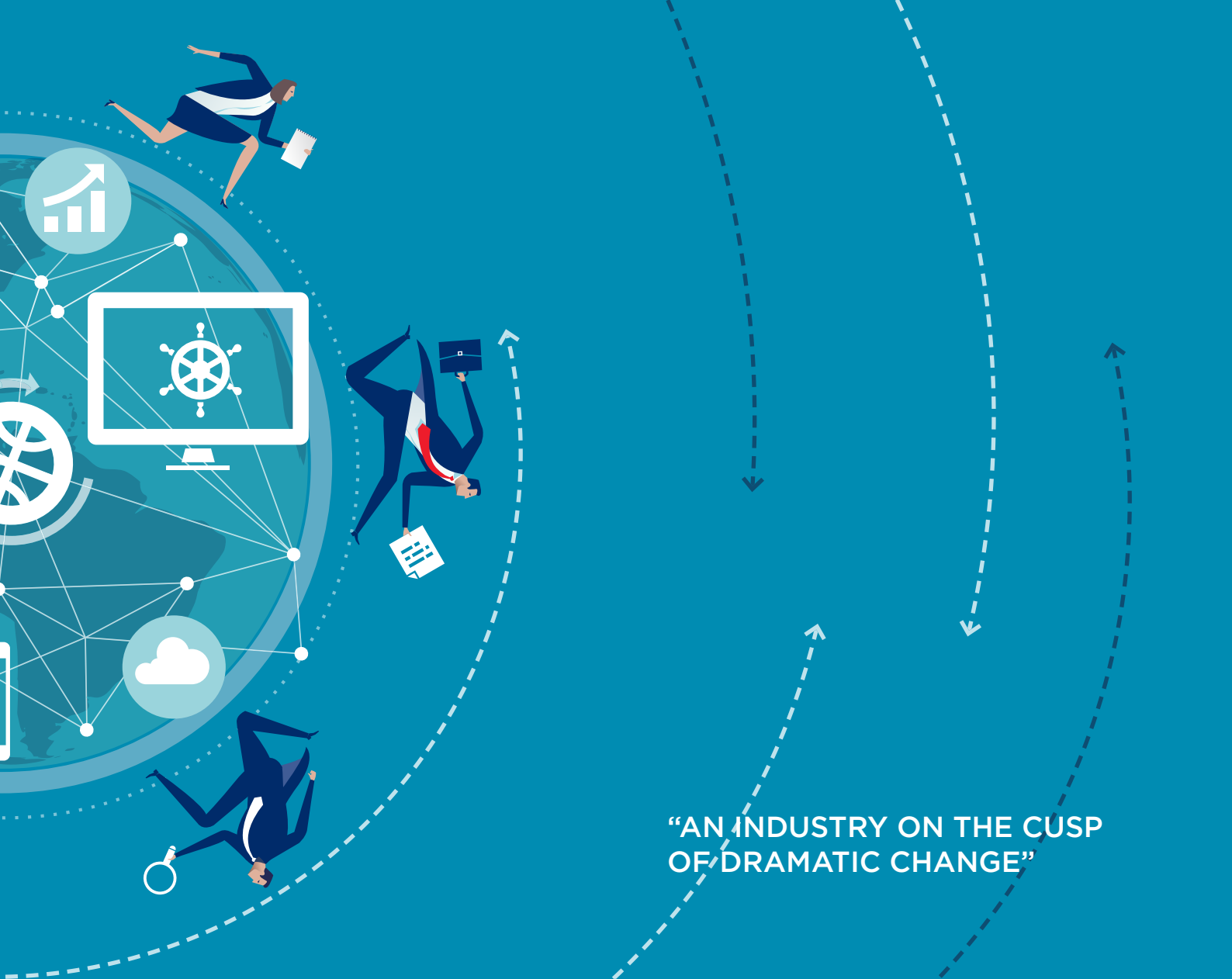
In the Banking sector, where cost pressures are particularly acute, shared service centres continue to be a strong area of expansion - encompassing financial payment processing, human resources and procurement. Banks have been on this path for many years, and post Lehman the trend has accelerated significantly. The financial centres of London, New York, Singapore and Hong Kong are focusing on the front office trading, investment banking and fund management activity, whilst back office and even mid-office functions are being moved to cheaper delivery locations to offset costs associated with front end markets. Some of these are near-shore locations like Manchester or, New Jersey, whilst others are off-shore to Eastern Europe, India or the Philippines.

At the same time we are now witnessing more specialist centres of excellence starting to develop within operations covering areas such as tech development, business analytics and/or market research, with the primary focus on higher-end processing or development functions. Big data analytics, cloud and Software-as-a-Service [SaaS] solutions are further driving demand. Furthermore, crowdsourcing has been added to the BPO service mix as operators strive to complete work affordably and effectively.



47% 
of today's jobs could
be automated in the
next two decades

 **85%**
of interactions could
become non-human
by 2020



“AN INDUSTRY ON THE CUSP OF DRAMATIC CHANGE”

CHALLENGES CONTINUE TO REDEFINE BUSINESS STRATEGIES

Despite the industries prosperity there are a number of major challenges to the BPO sector globally, all of which are expected to redefine business strategies.

AUTOMATION THROUGH ADVANCES IN TECHNOLOGY

As always tech trends have the potential to disrupt business models. Some commentators would even claim that the world of outsourcing is on the “cusp of dramatic change” with the advent of robotics and cognitive computing. Smart robots will increasingly operate in the cloud, and we will see a ‘labour-as-a-service’ approach emerge as clients and providers find that intelligent tools and virtual agents can be easily and flexibly hosted on cloud platforms.

Robotic Process Automation (RPA) is increasingly being seen as a lever to accelerate cost optimisation at a pace never seen before. According to KPMG, 47% of today’s jobs could be automated in the next two decades and 85% of interactions would become non-human by 2020. RPA is a potential competitor to any outsourcing deal that involves Business Process Outsourcing, particularly when one considers that a software robot would cost around one ninth of a Full Time Equivalent (FTE) person working in the UK or US, or a third of the cost of an FTE working off-shore in India.

RISING DEMAND FOR RE-SHORING - HEADLINES AND REALITIES

While businesses continue to place emphasis on customer service as a competitive differentiator, suggesting re-shoring strategies in many consumer-focused sectors such as telecoms and financial services may gain traction, the reality is more complex. While some outsourcing projects may fail or indeed lead to movement of services back to home environments, at present we are not witnessing the material volumes many headlines allude to.

Despite the expectance that the salary differential for off- shoring or near-shoring services is likely to continue to shrink over the next decade, in part due to projected real exchange rate movements, in reality for most locations the closing of this gap is anticipated to take decades to be realised and therefore well beyond the planning perspectives of any corporates seeking space and planning for strategies in the nearer term. By 2030, real wage levels in emerging locations like China, Poland, Turkey and Mexico, all of which have been major beneficiaries from off-shoring, yes may

be closer to the European and US donor markets. However, a significant cost advantage is expected to remain in the near term and any reduction is unlikely to come at the cost of the significant scale demand we have been witnessing and expect to witness over the next 5 to 10 year period in cost competitive near-shore and off-shore locations.

In Central Europe most economists show that salary convergence might take decades. With this in mind and besides even potential aggressive salary real growth rates of 4 to 5% per year in some CEE countries and 1 to 2% in Western Europe, the salary gap may only be expected to close from a 1/3 ratio today, to around 1/2 in 15 to 20 years' time. Additionally this does not take into account other factors and is prior to any exchange rate policy of CEE economies – where some delay Euro accession to allow currency weakening mechanisms, used to counter such cost inflation to a certain extent - retaining the competitive edge.

CONCERNS SURROUNDING THE TALENT AGENDA AND IMPACT OF MIGRATION

While the cost paradigm for some locations may not be a near term concern, other factors certainly are. For regional cities, especially those across Central and Eastern Europe, where BPO has been on the rise talent availability continues to be pressurized by migration to Western economies as well as low natality levels. In contrast the key capital regions

such as Prague, Budapest and also Warsaw continue to be supported by stronger net migration flows and subsequently a reduced threat to their labour pools. The ability of government to tackle migration & natality will have a major influence on talent availability and salary inflation going forward.



TRADITIONAL MARKETS AND INDIGENOUS DEMAND

In traditional market places such as India, Philippines, Latin America and Eastern Europe, indigenous BPO Operational requirements and market demand continues to emerge at pace, with BPO operators finding new opportunities to service their sizable indigenous marketplaces. General Electric, for example, established an

off-shore research and development facility in 2000 in Bangalore to service the multinational needs of the whole organisation. Over time, while staff met global development targets, management understood the potential to harness some of the group's local intellectual power for the market on their doorstep.

BUT TRADITIONAL MARKETS WILL CONTINUE TO BE CHALLENGED BY PIONEERING DESTINATIONS

Despite their size and status within the BPO industry the dynamics at play in the marketplace continue to be a challenge for traditional BPO locations. Firstly, as costs rise BPOs face increasing competition from new pioneering locations in less developed countries. The technological threat has meant that the traditional established markets have had to up-skill their labour base, requiring skills beyond language and literacy. An increasing demand for native language speakers to enhance customer service and empathy further enhances this trend.

Ireland and the UK have benefited from this trend, with their diverse populations of native language speakers from Europe and

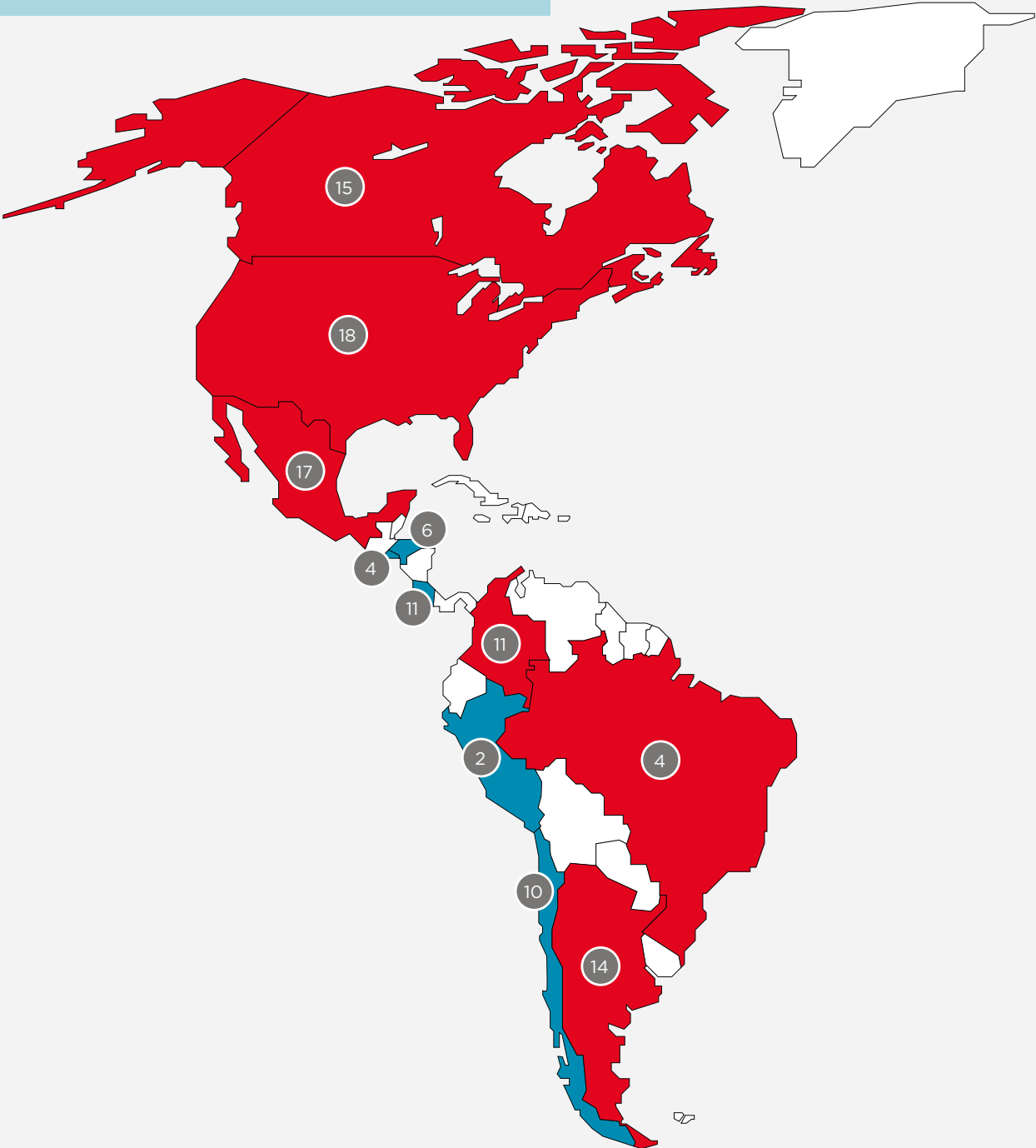
ability to provide pan-European customer service centers that benefit from economies of scale and deliver high quality service.

As this provides more opportunities and choices for BPO operators, location strategies will come under further review with the benefits of operating in well-established markets such as India and Philippines - where risks are known, but come at an increasing cost base - are assessed against the prospects of emerging pioneering markets. The BPO & Shared Service Location index is the first point of call in evaluating future opportunities in order to allow organisations to reap the rewards of new marketplaces, while managing risk accordingly.

THE BPO AND SHARED SERVICE LOCATION INDEX 2016

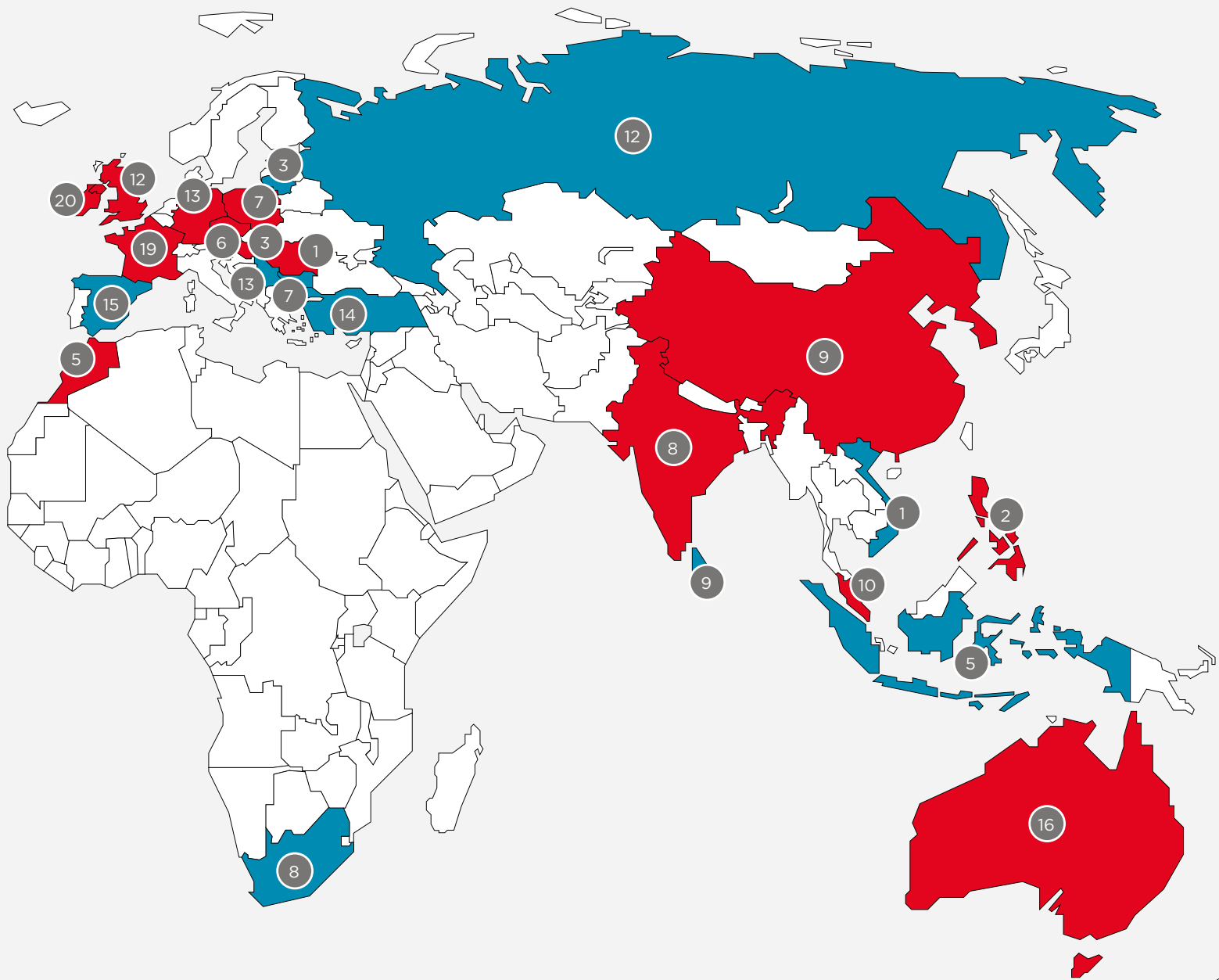
While it is always possible to find a cheaper location, risk will usually increase in parallel. The BPO and Shared Service Location Index enables corporations to determine their propensity for risk and provides a rigorous tool to select locations based on this profile.

(1 = most attractive)



The map highlights the countries within the BPO and Shared Service Location Index along with the 2016 associated market classification of Pioneering (Blue) or Mature (Red) and respective ranking relative to that market classification.

■ Pioneering ■ Mature ● Rank
(1 = most attractive)



* While the size of BPO market is used to determine country inclusion within the BPO Index, size of market carries no impact on a countries ranking

** The BPO & Shared Service Index indicates a markets ranking at country level. Analysis at city level may differ significantly and may not follow the classification

INDEX MAKE UP

2016 - A SHIFT TO MARKET SEGMENTATION & RANKING OF PIONEERING & MATURE MARKETS

From our chosen scenario, which is led predominantly by the Cost environment we have divided our locations into two respective categories.

These two rankings identify locations as **Pioneering** and more emerging in nature and those that have already established as a **Mature** location or are fast maturing as prominent BPO markets.

The segmentation is defined by the current scale of BPO operation - larger presence indicating a more mature market. This categorization is not definitive and will depend on the type of BPO operation assessed, but puts a markets characteristics in context among similar counterparts within our index.

BPO - PIONEERING LOCATIONS

	30%	20%	50%		
LOCATIONS	CONDITIONS	RISK	COST	2016 RANK	2015 RANK
VIETNAM	6	11	1	1	1
PERU	12	6	4	2	3
LITHUANIA	1	8	12	3	5
EL SALVADOR	15	13	3	4	4
INDONESIA	8	3	6	5	NEW
HONDURAS	13	15	2	6	8
BULGARIA	2	5	10	7	2
SOUTH AFRICA	14	2	7	8	9
SRI LANKA	11	12	5	9	6
CHILE	5	1	11	10	7
COSTA RICA	10	9	8	11	10
RUSSIA	4	7	13	12	11
SERBIA	9	14	9	13	13
TURKEY	7	10	14	14	12
SPAIN	3	4	15	15	14

(1 = Most attractive)

The Index provides an objective tool for corporations to reflect on their risk profile and selection criteria and determine the optimum location for their chosen BPO activity.

Different companies will have different profiles and subsequently varying criteria. Indeed the dynamics in the global marketplace mean that there is likely to be greater variety in the optimum solution for any individual corporate. During the site selection process additional criteria may be applied when assessing individual city characteristics.

BPO - MATURE LOCATIONS

	30%	20%	50%		
LOCATIONS	CONDITIONS	RISK	COST	2016 RANK	2015 RANK
ROMANIA	1	12	6	1	2
PHILIPPINES	19	20	1	2	1
HUNGARY	6	16	5	3	5
BRAZIL	20	18	3	4	4
MOROCCO	18	22	2	5	7
CZECH REPUBLIC	9	8	7	6	8
POLAND	10	9	8	7	9
INDIA	22	19	4	8	11
CHINA	12	10	9	9	6
MALAYSIA	17	7	10	10	3
COLOMBIA	16	11	11	11	10
UNITED KINGDOM	2	3	14	12	15
GERMANY	5	4	15	13	13
ARGENTINA	21	15	13	14	14
CANADA	11	1	18	15	17
AUSTRALIA	13	5	17	16	16
MEXICO	15	17	16	17	12
UNITED STATES	4	2	19	18	18
FRANCE	3	6	21	19	19
IRELAND	7	13	22	20	20

(1 = Most attractive)



LATIN AND CENTRAL AMERICA



Honduras government plans to add
60,000
new jobs in the BPO sector over next 5 years



Honduras has emerged as a rapidly growing pioneering location in Central America



Brazilian economy shrank by
3.8%
during 2015

With a return to political normalization in a number of countries, Central America has lured outsourcers from around the world—particularly the United States. Further, the economics in Central America has evolved strongly over the last several years with all parties working to keep taxes low, inflation low and to keep GDP growth constant and steady. Meanwhile, Brazil until very recently had been subject to political and economic dysfunction. While elsewhere in Latin America, the picture remained challenging. During 2015 the Brazilian economy shrank by 3.8% - the largest fall in over a decade primarily caused by high inflation and political instability. Higher taxation continued to lead to a poor score in operating conditions and had started to translate into some outsourcing volumes being lost to other countries in Central America such as Mexico and Columbia.

In Brazil, the new government is expected to implement key structural reforms to address fiscal imbalances in the economy, initiatives if successful carry potential to curb inflation and reduce interest rates, a boost to GDP which is anticipated to strengthen and stabilise closer to the country's fundamentals of approximately 3% in the longer run.

Despite its risk profile, Honduras has emerged as a rapidly growing pioneering location in Central America. While Costa Rica and to some extent El Salvador have been on the near-shore map for several years now, Honduras is relatively new to the market and benefits from lower labour costs and the country has several free trade agreements with different economies. The Government has also launched a free vocational program to prepare students to work in the BPO industry, focused on English language skills, IT support, management and customer service.

The BPO services and contact centre industry is a national priority and the government plans to add 5,000 new jobs in the BPO sector in 2016, and projects 60,000 jobs over the next five years.



EUROPE

Central & Eastern Europe (CEE) has been the beneficiary of banks and other corporate shifts to more cost effective locations for shared service or back office functions for many years. In particular, the high cost of banking in London has forced the development of mid-operations in near-shore cities such as Birmingham, Manchester, Glasgow, Belfast and Dublin, but the real labour arbitrage is achieved in the CEE markets as shown in the map. CEE cities such as Krakow and Prague are close to saturation point with 8% of the working population in Krakow now working in the sector, and some operators now looking to alternative markets.

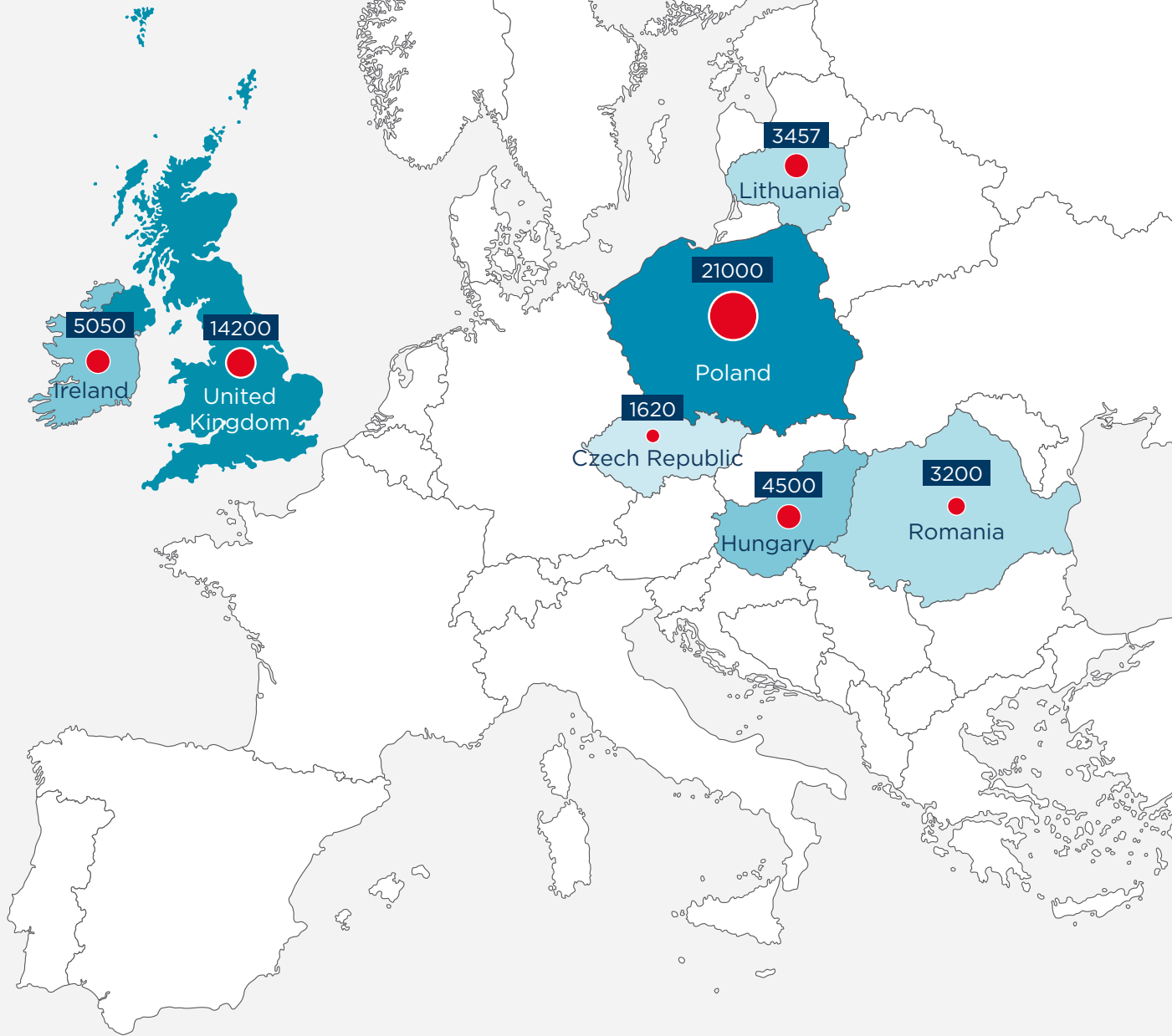
In Poland, which is considered a well-established low risk country for the sector, second and even third tier cities are the focal point, and further afield markets like Lithuania, Romania and Bulgaria are generating a lot of interest. Whilst CEE has established as a sophisticated BPO market capturing projects with higher value content, language or cultural proximity requirements it has to address the emigration flow of its younger talent and overall demographic imbalances.

It is anticipated that location decisions within Europe will slow down over the next six months until the details of Britain's exit from the EU are unveiled. However,

the cost pressure on the Banking sector in particular will not be reduced and the strategy for banks must inevitably continue to review the economics of London, Frankfurt, Paris, and Zurich. There is evidence that some banks have been reviewing not only back-office and mid-office functions, but also fund management operations and technology development centres.

Despite Brexit, London will not be the only city experiencing a net migration of jobs. Many of the banking operations in cities like Frankfurt, Paris and Zurich are behind the curve in their strategic workforce planning and as such their operational cost efficiencies.

Movement of Banking Facilities Outwards from London



No of Banking BPO's/SSC's



Headcount



COUNTRY	NO OF EMPLOYEES	NO OF BPO'S BY BANKS
LITHUANIA	3457	6
ROMANIA	3200	5
HUNGARY	4500	6
POLAND	21000	26
CZECH REPUBLIC	1620	4
UNITED KINGDOM	14200	8
IRELAND	5050	6



ASIA PACIFIC

Philippines corners

15%
of the global
BPO market



India set to retain
lead position

56%
worldwide
BPO market
share 2015





BPO has flourished in India and the Philippines, with the former remaining undisputed off-shore leader globally with a 56% share of the worldwide market in 2015. The challenge for India is to retain this lead position in off-shoring amid the rise of alternative marketplaces over the longer term.

The cost advantage of an Indian call centre over one in the U.S. has narrowed substantially, but in high-end information analysis, Indian workers are between a sixth and a seventh of the cost of those in the U.S. Additionally, the country has to make progress on a variety of areas including improving infrastructure to drive the next phase. Some companies are already bracing for a big disruption as technological advances in cloud computing have reduced the need for coders and technicians, undercutting India's low-cost-labour arbitrage. Industry experts estimate that up to 500,000 jobs could be vulnerable to automation in the next decade. Hence, major Indian outsourcing companies are making a push to innovate, developing capabilities in automation software, off-the-shelf software and analytics, big data and cloud computing solutions against a backdrop of shrinking values of outsourcing contracts.

Meanwhile, the Philippines corners 15% of the global BPO market, and BPO accounts for nearly 7% of the Philippines' GDP in 2015 compared with just 0.08% in 2000. This share is expected to keep rising. According to the World Bank, labour costs in the Philippines are 16% of those in the U.S, but it is not just about lower labour costs. The Philippines has a large pool of highly qualified, English-speaking labour, with an improving and welcoming policy and regulatory environment. There has even been a push into higher-value-added services, including health care management, and software development that is less susceptible to automation.

While these more mature markets continue to act as the prominent cornerstone to the BPO industry and are well positioned for future growth, we are also witnessing other pioneering destinations rising up the corporate agenda. These include Indonesia, and the less established market of Vietnam, both of which are gaining traction as global demand continues apace.

SPOTLIGHT

A SELECTION OF PIONEERING BPO LOCATIONS

WHERE NEXT?

With the increasing maturity of the outsourcing market, other key off-shoring locations (refer to our 2016 Pioneering Index) will continue to challenge the established destination leaders. In terms of scale these locations are often small, but growing rapidly and we place some of these in the spotlight as to why they are attractive.



Over the past 10 years, the Business Process Outsourcing industry has gathered pace in Vietnam. According to figures from the Vietnam Software and IT Services Association (VINASA), the industry has grown 20-35% annually over the 10-year period with last year's industry revenue reaching \$2 billion. Japan is the industry's main client, and an improving Japanese economy has garnered new orders from many outsourcing firms, particularly for outsourcing support in finance and accounting industries.

Vietnam is not only one of the fastest growing economies in South East Asia, but is also has a population of 92 million people, of which 65% are under the age of 35 and they have close affinity to Japanese culture. With growing political differences between China and Japan, as well as the proximity to access Japanese and Korean markets where India or South America have challenges with the time differences and culture gaps, Vietnam has positioned itself as a

very favorable destination. The cost of labor is approximately 50% lower than that of India or China or other South East Asian neighbours and the country also benefits from much lower attrition rates. In addition to the tax incentives offered to investors and the policies on human resource development, the government has mapped out a new master plan in for investment and development in the power sector to meet the goal of advancing industrial capacity. With this in mind, it is not surprising that Vietnam comes out on top of the Pioneering location Index, a ranking which is largely driven by its low cost environment, a perceived drop in political risk and strong GDP output per capita, forecasted to reach 6.8% in 2016.

\$2bn REVENUE 2015 

THE BPO INDUSTRY HAS GROWN 20-35% ANNUALLY OVER THE 10-YEAR PERIOD



Peru is also positioning itself well in the BPO market with an attractive low cost base for doing business and low risk environment. Contact centres remain the core of the industry, representing the fastest growing part of the sector and 42% of total turnover. Peru is mainly directed towards vertical sectors such as financial, telecommunications, consumer products, retail, transport, and tourism.

CONTACT CENTRES REMAIN THE CORNERSTONE FOR GROWTH ACCOUNTING FOR APPROXIMATELY

42%

OF TOTAL TURNOVER



THE COUNTRY NEEDS AN ADDITIONAL **10,000** PROGRAMMERS TO MEET DEMAND

Peru wants to grow further in the area of software development in which it has a strong base focused on financial, retail, mining, and telecommunications, but is currently hampered by a talent shortage. It is estimated that the country needs an additional 10,000 programmers to meet demand and although initiatives are in place, more needs to be done for its full potential is to be realised according to PromPeru (the Commission for the promotion of Peru for exports and tourism).



Lithuania, positioned third within the pioneering table continues to benefit from its favorable operating conditions. According to Invest Lithuania, over the last couple of years the complexity of operations performed in SSC/BPO centres have been on the rise. Finance and accounting operations, IT and HR services are still the leading types of functions consolidated. However, absolute majority of centres in Lithuania are multifunctional now. Centres that previously delivered single type of services have added new, more sophisticated ones. Significant share of centres here perform analytics, business transformation, anti-money laundering, R&D and other specialized, complex functions.

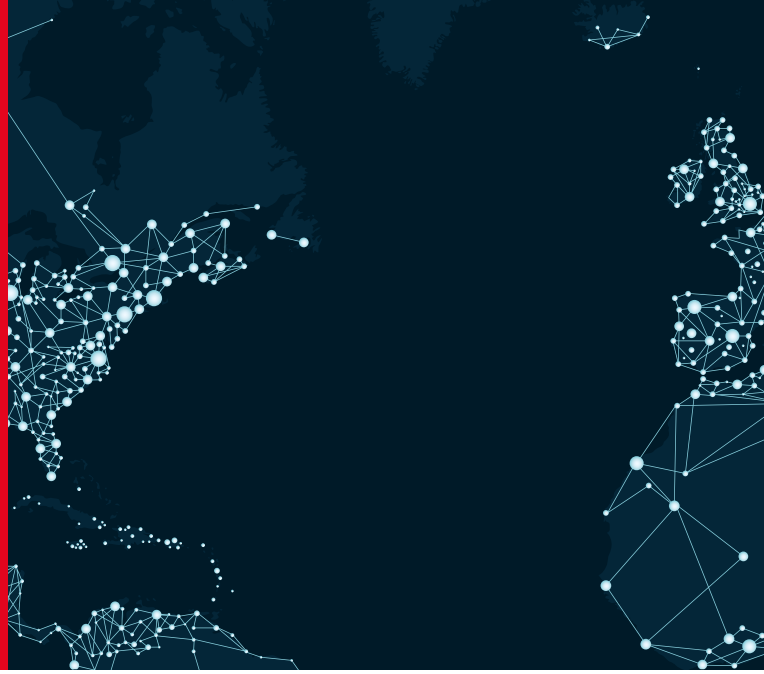
SSC/BPO centres remain the most desired place of employment in Lithuania. In 2015, Intermedix (SSC, Kaunas), Barclays (SSC, Vilnius) and Adform (BPO, Vilnius/Kaunas) centres have been named as the 3 top most desired employers (Verslo Zinios

Annual Survey, 2015). A chance to work in an international environment, opportunity for self-improvement and attention to the employee is what attracts top talent to SSC/BPO centres in the country. The centres not only easily attract talented specialists, but also retain them. Lithuania's attrition rate is one of the lowest in the region with almost half of the centres reporting it at 10% or below in 2015.

Vilnius, Lithuania's capital city, is certainly an established SSC/BPO location in the region, but additionally over the last year we have witnessed a significant increase in interest in Kaunas, Lithuania's second largest city. It has been named the best emerging city for shared service and outsourcing in the CEE in 2015 (Central and Eastern Europe Shared Services and Outsourcing Awards). Low level of saturation, progressive university community, and developing office real estate market are driving Kaunas' recent business services sector growth.

SPOTLIGHT

A SELECTION OF MATURE OR FAST MATURING BPO LOCATIONS



COSTA RICA

Costa Rica is an attractive and safe destination for foreign investment. With a stable political and regulatory environment, business friendly policies and sound macroeconomic fundamentals – Costa Rica is determined to keep its place as one of Latin America’s investment hotspots.

The key elements of Costa Rica’s value proposition include a highly skilled workforce, proximity to the United States, attractive tax incentives, low environmental risks, cultural affinity with the US and Canada, multilingual capabilities and close alignment between academia and the human capital requirements of the financial services sector. Outsourcing in Costa Rica is also enhanced by a shared Central Time Zone making the country more of a near shore outsourcing destination.

Costa Rica is also one of the most westernized, bi-lingual countries in all of Latin America. Culturally, Costa Rica has aligned itself with North American interests

through its business practices and dedication to science and technology education, as well as the pursuit of certifications valuable to North American organisations. The country’s development strategy has included sustained investment in education, continued political and economic stability, social progress and the promotion of an economy based on knowledge and high value-added products and services.

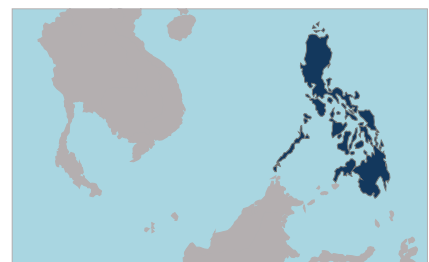


ROMANIA

Romania has matured from a pioneering market to a mature BPO location of choice. Despite annual salary inflation starting to tighten cost margins and erode its cost competitiveness its favourable operating conditions (ranked first place globally) and enhanced connectivity continue to attract investment.

The market provides a large and cost-competitive pool of young and motivated professionals with European values and a mastery of not only English, French, Italian as well as native German or Hungarian

spoken in many Transylvanian cities. Some 90% of employees from the outsourcing industry speak two foreign languages and in the average call centre or support centre in Bucharest more than 10 foreign tongues are spoken. In terms of connectivity, the number of flights connecting not only Bucharest but also most regional cities to the rest of Europe has risen significantly in recent years and office rents remain very low. Whilst business transparency continues to pose an issue it does not fundamentally affect BPO operations and a major push to clean political life has been undertaken through leadership of chief prosecutor Kövesi.



PHILIPPINES

Second only to India in BPO market share, the Philippines has been absorbing demand from India’s voice and call centre operations with the English dialect of the Filipino staff also remaining attractive to those outsourcing out of the United States. The BPO sector employs





more than one million people and is expected to generate \$24-25bn in revenues in 2016, up from just \$3.4bn in 2006. Despite this, the industry employs roughly 3% of the labour force as of end-2015 and the country has struggled to stem youth unemployment of 13.5% as of July 2016. The country's chief selling point is a large young and educated population that speaks English with a neutral accent and has a cultural affinity with the west. By 2022, the local BPO industry is estimated to create an additional one million jobs and growing its share of non-voice services to around 33%.

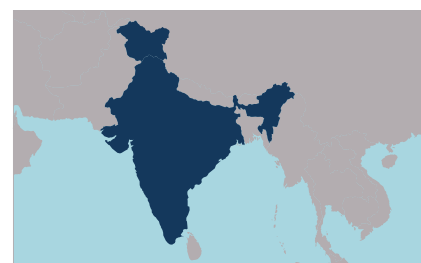


POLAND

Poland is the largest BPO market within the Central & Eastern European Region with over 16 sizeable cities where the outsourcing industry has been growing since 1995 at a growth rate of 20% per annum. Banks and professional services companies that have traditionally shipped

back-office work to Asia are keen to move more complex financial and legal tasks to Poland – attracted by time-zone proximity to Western capitals, EU membership and a better “cultural fit” with Western business practices. Poland also follows all European Union laws for copyright and IP (intellectual property) and in addition, they comply with United States standards in data security and IP protection.

The driving force behind Poland's success is the strength of its labour market. Nearly 500,000 students graduate each year and 39% of inhabitants aged between 25 and 34 have university degrees. Poland's highly revered universities have been willing to reshape their curriculum in order to produce graduates with the skills that match the requirements of the BPO sector. Despite Poland retaining its currency—the zloty, its international competitiveness has remained relatively stable over the last few years. Despite recent radical national and conservative political shifts – which may have alarmed some foreign investors—the Hungarian example shows BPO & SCC employers are unlikely to be impacted by policies that still strongly support job generating foreign direct investment.



INDIA

India retains its title as the largest BPO market by-far globally and remains unmatched in terms of scale of its vast pool of skilled and talented human resources.

The country has 90 million college educated workers and 462 million internet users and with the presence of a large English-speaking population, flexible pricing options, fast turnaround times, availability of infrastructure and technological capabilities, industry-friendly and attractive government policies, India continues to witness superior levels of demand than alternative markets like China and Mexico. However, the attrition rate in India remains a concern as does the steadily increasing labour cost base, fueled by an economy that is forecast to grow 7.7% in 2016.

Within India there are many second and third tier cities that are establishing themselves as much cheaper and more sustainable locations for BPO operations.





COST AND QUALITY TRADE OFF

A common dilemma for companies considering the relocation of BPO operations, is the trade-off between cost and quality. This demonstrates the usefulness of a weighted Index as an objective tool used to measure and balance those elements. Cost is a key driver for many BPO decisions and this is reflected in the Index; countries scoring well on a cost basis appear in the top half of the Index.

However, the traditionally cheaper countries have lost ground as the costs associated with high inflation rates, as well as the cost of buildings, outweighs their low cost labour supplies.

This has pushed some established BPO destinations further down the ranking.

INDEX COMPOSITION AND DRIVERS

Globally - The most attractive markets in terms of Conditions, Risks and Costs are ranked below - irrespective of their level of maturity.

The key criteria are illustrated below, along with the three top and bottom ranked countries.

THE MOST ATTRACTIVE MARKETS

IN TERMS OF CONDITIONS, RISKS AND COSTS

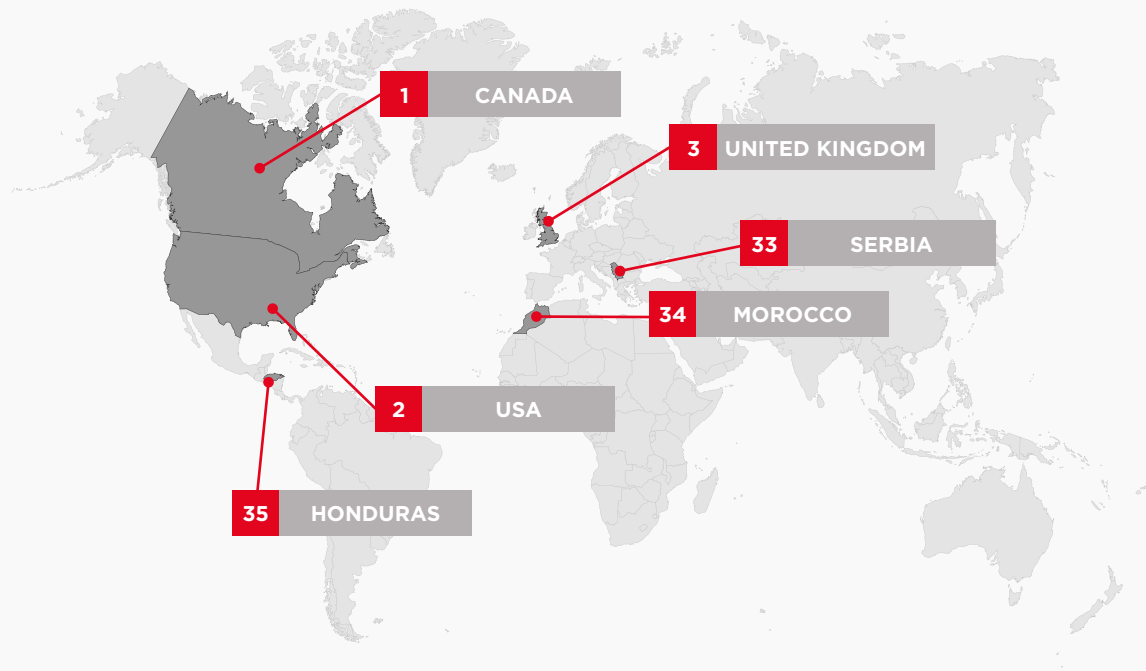
OPERATIONAL CONDITIONS (Index weighting 30%)

The top five positions in the Conditions category are occupied by European countries. English proficiency remains high on the agenda within the BPO sector as does IT infrastructure, with the top three ranked countries as well as fourth ranked Bulgaria also delivering strong connectivity.



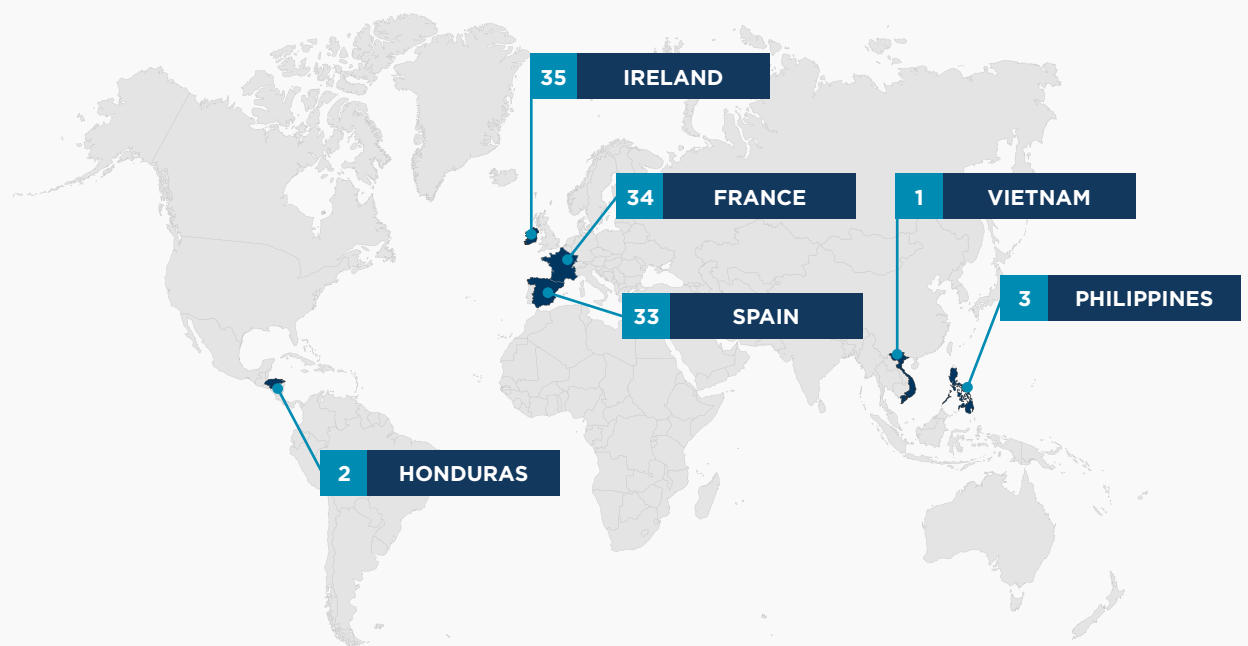
WHERE IS THE RISK? (Index weighting 20%)

The Index comprises the key high level factors that corporates consider when assessing the Risks associated with their operations. As such, political, economic structure and energy security risks are analysed in addition to corruption perceptions.



THE COST ENVIRONMENT (Index weighting 50%)

Due to its importance to BPO operators, the Cost category has the highest weighting in the Index. Hence, the top three scoring countries for this category rank as attractive locations overall within their respective categories. They all score well in terms of labour productivity, lower rental payments and building costs.



KEY DRIVERS OF LOCATION CHOICE

Driven by business volatility and the need for agility, the role of global business process operations is changing. Talent imbalances, technology innovation, and process advances are reshaping what's possible, making industrialised enterprise operations a viable alternative for a range of support processes.

While corporations focus predominantly on costs, increased market competitiveness is pushing those looking to outsource beyond solely supplying a cost effective foundation. Global operations will need to support the quest for new markets, emerging or local, and adjust to an ever-changing marketplace and evolving regulatory

requirements. Economic uncertainty continues to underpin this transformation, while rapidly pushing access to an available pool of skilled talent, technology, and energy security higher up the corporate agenda.

The imbalance between the demand and supply of BPO specific skills in particular locations is already influencing the ability to run specific support processes cost effectively. Dramatic changes in demographics and the evolution of job requirements means resourcing operations is far from straight forward. With recruitment of suitable talent becoming increasingly competitive, sourcing skilled labour while initially carrying a greater labour cost, can lead

to a substantial reduction in training overheads as the mix of roles within the BPO sector becomes increasingly varied.

Finding the right resources at the right time and in the right place is more challenging than ever before as corporations look to balance cost to quality ratios. In a push for improved customer service much of the demand for BPO services is still largely being driven by English-speaking industrialised nations, ensuring high levels of English proficiency still remain a prerequisite for those looking to off-shore. However, economies of scale are delivered from sourcing multi-lingual operators who can serve different market places.



METHODOLOGY AND CONSIDERATION

WHAT THE INDEX CAN AND CANNOT PROVIDE - REMEMBER “ONE SIZE DOES NOT FIT ALL”

Within the BPO sector, there are different types of companies operating in a variety of environments and with a host of differing requirements. Therefore, this Index is not designed as a 'one size fits all' for all types of BPO operators. Instead, it can be used as a guide to capture the complexity of the primary issues to be considered when making a location selection decision.

OUR CHOSEN SCENARIO

The current output is focused on a more cost-driven BPO function assuming the following:

- > Cost-driven business processes
- > Need for unskilled and cheap labour workforce
- > Ready to pioneer and move to new locations where operations can be set up without incurring delays relating to training etc.
- > Political risks are of reduced importance

However, with a change to the weightings and importance assigned to different categories, the outcome may differ for a particular company's needs. In this example, the key company requirements would be related to the cost of 'doing' business, emphasising labour and property costs, whereas foreign language skills and risks associated with political and economic stability are of relatively low importance.

INDEX CRITERIA AND WEIGHTINGS



IN THIS INDEX, THE FOLLOWING BPO FUNCTIONS HAVE BEEN CONSIDERED:



CUSTOMER CONTACT CENTRES



MARKETING



SHARED SERVICES CENTRES



TECHNICAL SUPPORT CENTRES



SALES



SUPPORT

A TOOL FOR LOCATION STRATEGY THE DEFINITION OF REQUIREMENTS IS KEY

In order to decide on the most suitable location the company should be engaged at each stage of the project, ensuring the correct issues are addressed and uncovered.

1

How important is the availability of labour?

3

Is political and economic stability important?

2

What are the key costs to consider?

4

What are the key risks for the business?

The Index looks at the initial stage of location analysis and the key macroeconomic factors, using published data from a range of data indicators and secondary sources. These individual data indicators have been scored, weighted and ranked using a strict methodology which varies from indicator-to-indicator and is based on the requirements of the specific BPO functions.

However, the most important criteria involved with site selection and location analysis are considered in more detail in the later stages of the analysis. Country level data is replaced by regional or city level

data that will not only reveal which region is most suitable, but will also highlight any potential issues that may arise as well as providing a useful means for subsequent scenario planning. For example, market conditions may change overnight due to the impact of a natural disaster or a rapid governmental change. On the other hand, changes can also happen at a slower pace, as is happening with the current uncertain economic situation in many global countries.

With the final level of analysis being undertaken on a site-by-site basis, the most suitable location can then be determined.

WHAT COUNTRIES ARE INCLUDED AND WHY?

In order to determine which countries to include in the Index, C&W has used the Foreign Direct Investment Markets (www.fdimarkets.com).

Based on this source, it was possible to determine the top 35 countries that had been the largest recipients of Foreign Direct Investment (FDI) in the BPO sector over the last five years up to Q2 2016, as well as where the creation of the greatest number of BPO-related jobs were observed.



Cushman & Wakefield's Strategic Consulting is dedicated to transform your Corporate Real Estate portfolio into a strategy enabler. We solve the complex challenges encountered at the intersection of real estate, business & talent. Our experts work together to create a comprehensive solution that incorporates all aspects of real estate and business alignment in the areas of:



BUSINESS LOCATION & INCENTIVES ADVISORY

Identify optimal locations based on employment, logistics, fiscal and key business drivers.



OCCUPIER DEVELOPMENT

Optimising the value crystallised from the under utilised or surplus assets that exist in almost every large real estate portfolio.



PORTFOLIO & METRO STRATEGY

Combining portfolio diagnostics with strategic business review to align Real Estate portfolio with operational requirements.



OCCUPIER FINANCE

Support the release of value and cash through recycling capital, eliminating surplus liabilities or restructuring existing arrangements.



WORKPLACE STRATEGY & CHANGE MANAGEMENT

Develop innovative organisation centric workplace strategies. Support clients in wider change management.



CENTRE OF EXCELLENCE FOR REAL ESTATE ANALYTICS

Providing CRE analytics and financial modelling supporting decision making in wide ranging situations.

ADVANTAGES

- > Ensuring your footprint is positioned to tap into the best talent pools at global and city level.
- > Providing the right workplace strategy to ensure talent engagement & productivity
- > Reducing operating expenses by rationalising your portfolio and increasing use efficiency
- > Increasing flexibility of operations by ensuring innovative occupancy solutions tailored to each business need
- > Unlocking hidden value from underutilised assets, lease liabilities or off loading property risks
- > Speeding up decision making process by world class analytics.

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