



BPO Industry At A Glance



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One of the significant economic developments of the past decade has been the dramatic growth in the global demand for outsourcing and offshoring in the services sector. The Philippines has emerged as one of the major players in business process outsourcing and this industry is only expected to continue growing in the coming years. Certain inherent advantages have helped the country attain its current status in this field but it also appears clear that the Philippines must still take some steps to retain or even increase its share of this expanding market.

Industry profile

Business process outsourcing (BPO) is defined by the Department of Trade and Industry (DTI) as the “delegation of service-type business processes to a third-party service provider”. The BPO industry in the Philippines is generally divided into the following sectors: contact centers, back office services, data transcription, animation, software development, engineering development and game development.

At the end of 2008, there were a total of 618 BPO companies in the Philippines. The contact center sector represents 31 percent of the industry, with 191 companies. The contact center sector is consist of inbound and outbound voice operation services for sales, customer service and technical support, among others. Data transcription services (135 companies, 22%), and information technology services and software development (119 companies, 19%) were also well-represented. There were 81 companies offering back office services (sometimes referred to as knowledge process outsourcing or KPO), which refers to services related to finance, accounting and human resource administration, representing a 13 percent share.

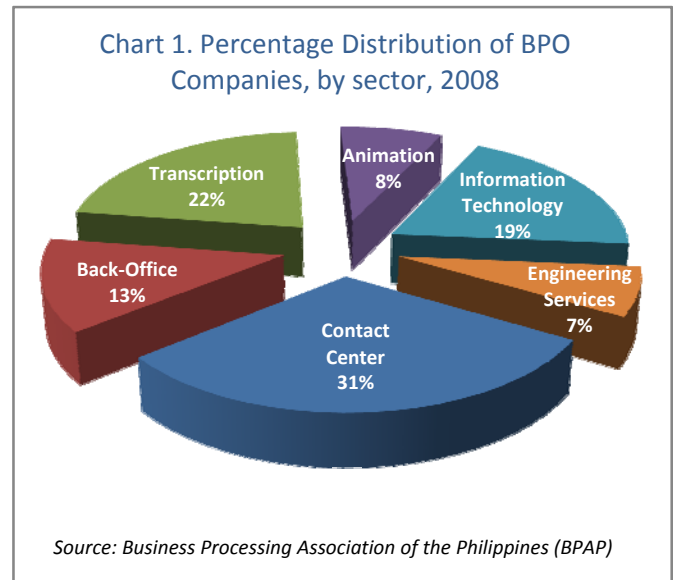


Table 1. BPO employment by sector, 2004-2008

	2004	2005	2006	2007	2008
Contact centers	64,000	112,000	160,000	198,000	227,000
Back office	15,000	22,500	36,000	40,156	68,927
Transcription	6,300	8,950	11,675	16,409	20,224
Animation	3,000	4,500	6,500	7,000	8,000
Information technology	10,000	12,000	16,000	29,188	35,314
Engineering Services	2,000	2,800	4,400	8,000	12,000
Digital content/ Game development	200	500	1,000	200	500
TOTAL	100,500	163,250	235,575	298,953	371,965

Source: BPAP

Note: Starting 2007, Digital Content was combined with Back Office and replaced in the row with Game Development

From only around 100,000 full-time employees in 2004, the BPO industry expanded rapidly to nearly 372,000 employees at the end of 2008. The bulk of BPO jobs are in the contact center sector, which employed around 227,000 people in 2008. The second largest sector in terms of employment in 2008 was the back office/KPO sector with nearly 69,000 employees. Total BPO employment grew by 24 percent between 2007 and 2008, whereas total employment in the country grew by only 1.6 percent during the same period.

Table 2. BPO Revenues by sector, 2004-2008

	2004	2005	2006	2007	2008
Contact Centers	1,024	1,792	2,360	3,600	4,100
Back Office	120	180	288	398	827
Transcription	72	70	109	137	182
Animation	52	74	97	105	120
Information Technology	170	204	272	423	601
Engineering Services	34	48	68	152	228
Digital Content/ GameDevelopment	3	7	13	1	3
TOTAL	1,475	2,420	3,257	4,875	6,061
Growth Rate		64.07%	34.59%	49.68%	24.33%

Source: BPAP

In terms of revenues, the BPO industry has also shown resiliency and steady growth amid the recent financial crisis. It is estimated that the industry generated around US\$6 billion in export revenues in 2008 from around only US\$1.5 billion in 2004. Contact centers had the biggest impact, bringing in US\$4.1 billion, while back office services generated US\$827 million in revenue. Preliminary industry estimates further indicate that revenues grew by 20 percent in 2009.

An input-output linkage analysis by the Asian Development Bank (2007) showed that the BPO industry in the country has very little interaction with the rest of the economy and may not necessarily stimulate production in other sectors. However, the same study showed that growth in the sector's revenues has a significant impact on compensation and employment. The ADB study further added that the higher-than-average compensation of BPO employees as well as the 24-hour nature of BPO activities can potentially increase personal consumption if the sector's workforce has a high propensity to consume.

Prospects

The Business Processing Association of the Philippines (BPAP) forecasts continued growth for the industry in the coming years. BPAP estimates that the industry will generate around US\$9.1 billion in revenues while employing some 560,000 persons in 2010. For 2011, expected revenue is around US\$11.6 billion while employment is expected to be at around 700,000.

Challenges

Over the past decade, the Philippines has emerged as a preferred outsourcing destination for a number of companies mainly due to the cheap cost of labor.

The 2007 A.T. Kearney Global Services Location Index (2007) ranked the Philippines at 7th place among the 50 top offshore destinations, with India and China at the top. The Philippines placed well in the survey, mainly due to its financial attractiveness, having the lowest telecom costs among the countries in the survey and having one of the lowest wage costs. However, the country scored rather poorly in terms of business environment, which factors in the overall quality of infrastructure, security risks and political, and investment environment.

A similar study by the McKinsey Global Institute (2005) compared the Philippines with 15 other offshoring locations. The Philippines emerged as an attractive destination based on several factors including labor costs (13% of average US wages), strong English proficiency and having a large pool of suitable labor at the entry level. The same study, however, noted that the Philippines scored poorly in other aspects, including the cost of electricity, high levels of corruption in the government and a "surfeit of bureaucracy" (red tape). The study further noted that while there was a vast amount of entry level talent in the country, there is a scarce supply of manpower with managerial capacity.

Table 3. A.T. Kearney Global Services Location Index (GSLI), 2007

Rank	Country	Financial Attractiveness	People and skills availability	Business Environment	Total # Score
1	India	3.13	2.48	1.30	6.91
2	China	2.59	2.33	1.37	6.29
3	Malaysia	2.76	1.24	1.97	5.98
4	Thailand	3.05	1.30	1.41	5.77
5	Indonesia	3.23	1.47	0.99	5.69
6	Egypt	3.07	1.20	1.37	5.64
7	Philippines	3.19	1.17	1.24	5.60
8	Chile	2.41	1.20	1.89	5.50
9	Jordan	2.99	0.91	1.59	5.49
10	Vietnam	3.21	1.02	1.24	5.47
11	Mexico	2.48	1.50	1.45	5.43
35	Singapore	0.72	1.55	2.62	4.90

Note: The weight distribution for the three categories is 40:30:30. Financial attractiveness is rated on a scale of 0 to 4 (with 4 being the highest), and the categories for people and skills availability and business environment are on a scale of 0 to 3 (with 3 being the highest).

Source: A.T. Kearney (2007)

Table 4. Selected infrastructure indicators for BPOs

	Electricity Costs for Industrial Clients, 2009 (US\$ per kWh)	Internet Costs for 20 hrs Dial-up 2006 (US\$ per month)	Office Rent Costs ,2007 (US \$ per sqm. per year)	Fixed Broadband Tariffs 2008 (monthly fee, residential, in US \$)	Corporate Tax. Rate on Profit, 2009 (in %)	Investment in Telecomm (as % of GDP)	Information technology skills index ^a	Infrastructure index rank, 2009 (previous rank in parenthesis)
Philippines	0.140	1.81	379	23.37	30.00	1.02	7.44	(48) 56
China Mainland	-	9.75	487	18.5	25.00	0.95	6.31	(31) 32
India	-	6.78	1301	6.07	33.99	0.55	8.59	(49) 57
Hong Kong	0.115	-	1144	25.41	16.50	0.41	8.13	(19) 19
Singapore	0.141	11.74	1102	21.89	18.00	0.33	8.59	(3) 8
Malaysia	0.060	7.39	-	20.46	25.00	0.83	7.58	(25) 26
Mexico	0.126	20.05	436	36.99	28.00	0.31	6.2	(54) 50
Indonesia	0.068	17.26	172	21.68	30.00	0.43	5.95	(53) 55
Thailand	0.078	6.95	259	17.95	30.00	0.39	6.36	(39) 42
Japan	0.116		1793	31.63	40.50	0.42	8.2	(4) 5
South Korea	0.060	10.49	835	20.2	22.00	0.74	7.3	(21) 20
Taiwan	0.067	8.45	446	10.3	25.00	0.45	7.91	(17) 23
USA	0.070	-	491	14.95	35.00	-	8.07	(1) 1

Source: World Competitiveness Yearbook (2009)

Note: a) Availability of IT skills, on a scale of 0-10 with 10 being the highest

Table 5. Selected governance indicators for BPOs

	Cyber Security, 2009 ^a	Bribing & Corruption, 2009 ^b	Transparency of Gov't Policy, 2009 ^c	Bureaucracy ^d 2009	Corruption Perception Index (CPI) Ranking, 2009 ^e
Philippines	5.22	0.76	1.46	1.3	139
China Mainland	4.96	1.23	3.1	1.6	79
India	5.56	1.58	3.68	2.54	84
Hong Kong	6.43	6.83	5.36	5.17	12
Singapore	7.46	8.02	7.09	5.83	3
Malaysia	6.3	3	3.94	3.37	56
Mexico	4.78	1.7	3.8	2	89
Indonesia	4.67	1.4	3.95	2.09	111
Thailand	5.28	1.91	3.97	2.9	84
Japan	6.55	6.26	3.02	2.8	17
South Korea	5.32	3.41	3.42	1.96	39
Taiwan	5.73	3.83	3.61	3.43	37
USA	6.11	4.94	4.2	2.74	19

Sources: a-d) World Competitiveness Yearbook (2009), e) Transparency International Notes:

a) Higher score indicates that corporations more adequately protect data and systems connected to the Internet

b) Higher index score indicates the lesser likelihood that bribery and corruption exist

c) Higher index score indicates more transparency in government policies

d) Higher index score indicates lesser likelihood that the bureaucracy hinders business activity

e) Ranking in the 2009 CPI, with 1 being the least corrupt and 180 being the most corrupt.

The latest results of the World Competitiveness Yearbook (2009) also showed the Philippines comparing favorably against other BPO destinations in terms of office rental costs, IT skills availability and telecom investments while comparing poorly in terms of electricity costs and overall infrastructure. The Philippines fared disappointingly in governance-related indicators as well. In fact, it scored the worst among its East Asian neighbors with regard to occurrences of bribery and corruption, bureaucracy and transparency of government policies.

In the 2009 edition of the Corruption Perception Index (CPI), a “survey of surveys” measuring the perceived level of public sector corruption in 180 countries, the Philippines performed poorly. It ranked as the 139th least corrupt country in the survey; although this is a slight improvement from its ranking of 141 in 2008.