

SOURCING DESTINATION SNAPSHOT

The Emerging Philippine Value Proposition

In designing sourcing models, IT and BPO decision-makers literally have a “world” to choose from when it comes to competitive country locations. The unique needs of a business will clearly drive managers to seek out sites capable of satisfying a range of those complex demands. With that said, informed professionals know that the Republic of the Philippines is a world-class delivery-center destination that should be closely evaluated as an option in any sourcing exercise.

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Overview

“The Philippines offers many opportunities as an offshore sourcing destination as well as being well positioned as a regional hub for Asia Pacific.”

*Ralph Schonenbach
CEO, Trestle Group*

The Republic of the Philippines is an archipelago located in Southeastern Asia consisting of over 7,000 islands with a current population of approximately 92 million people.¹ The islands were discovered by the western world in the 16th century when explorer Ferdinand Magellan declared the region to be a Spanish colony. For centuries, the Spanish remained the leading power in the islands influencing the culture and religious landscape through language, trade, and its dedication to Christianity. Following the Spanish-American War in 1898, the United States replaced Spain as the local power broker. With the exception of the

Japanese occupation during World War II, the United States maintained a heavy presence and influence in the Philippines through political, economic and military relationships. As a consequence, widespread use of the English language and an admiration of western culture and practices came about naturally in these islands.

Furthermore, through development and growth, the Filipino people have established a government that is a representative democracy closely modeled after the U.S. system. The president holds similar powers in that he or she is head of state, government and commander-in-chief of the armed forces. The legislature and judiciary mirror the familiar Senate, House of Representatives and Supreme Court of the United States.²

This government structure has provided stability and understanding for businesses operating in the Philippines as most organizations already have exposure to a U.S.-styled governance model and therefore feel at ease in this environment.



¹ Source: CIA World Factbook

² Source: U.S. Department of State website: Background note: Philippines

Sourcing

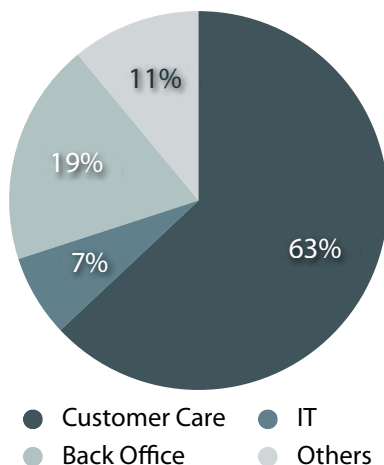
From a sourcing perspective, the Philippines is one of the global titans. Ranked 2nd after India as a business process offshoring market by destination, the Philippines has emerged as a power-player that has aggressively taken advantage of the outsourcing trends over the past decade. In 2009, IT and BPO revenues totaled \$7.2 billion and the Philippines represented 21% of the total offshore BPO market.³

Clearly, with a large pool of English-speaking talent and 92.6% literacy rate, the scale and skills required for both voice and non-voice BPO are present. Currently, the nation has over 600 IT & BPO companies present with labor force totaling approximately 400,000. In regards to growth, on average the offshore market in the Philippines has expanded 46% annually since 2004.⁴ Specifically, the country witnessed incredible growth from 2007 to 2008 as the back office and KPO sector more than doubled from \$400 million to \$830 million.⁵

This expansion has not stopped. During the financial crisis alone, the Philippines bucked the negative global trend and demonstrated a 19% growth rate in IT / BPO revenues.⁶ With this level of operational tempo and expansion, not only is talent available across the Philippines, it is also now proven.

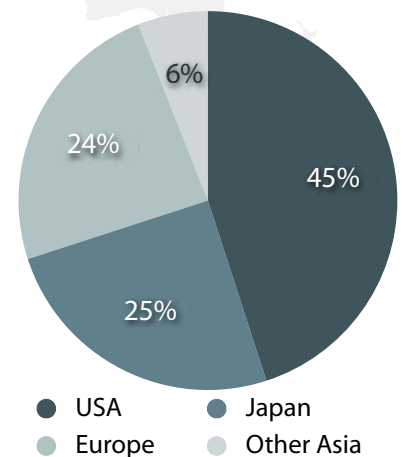
Several examples of the types of companies that conduct operations in the Philippines include global energy, financial services, retail, manufacturing, technology and media. These companies operate voice and non-voice business processes in various segments including:

Philippine Offshore Services Exports



- ▶ Finance & Accounting
- ▶ Transaction Processing
- ▶ Data Management
- ▶ Transcription
- ▶ Human Resources
- ▶ Legal Services
- ▶ Procurement
- ▶ IT AD&M
- ▶ Medical
- ▶ Logistics
- ▶ Publishing
- ▶ Market Research
- ▶ Customer Mgmt.

Geographical Origin



³ Source: Business Processing Association of the Philippines, BPAP

⁴ Source: Everest Research Institute, 2009

⁵ Source: BPAP

⁶ Source: BPAP

Combined with the available accent-neutral English-speaking workforce is the cost competitiveness that has driven major players to this location. In contrasting direct operating cost per FTE for transactional finance & accounting work between the U.S. and the Philippines, the savings can be as high as 75%.⁷ For many companies, this translates into an imperative as they seek out operating efficiencies.

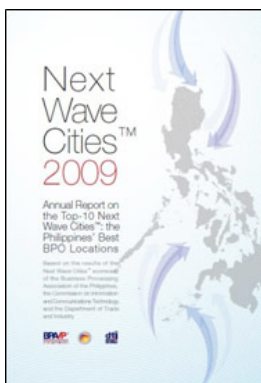
With the fundamentals highlighted above, the Philippines is presently well-postured for the future. Already looking forward, the World Bank is forecasting GDP growth in the Philippines to be 3.1% in 2010 and Filipino offshore industry is targeting growth levels of 26% for 2010.⁸

Philippine Sourcing Locations

The primary location for IT and BPO activities in the Philippines is in and around the greater metro Manila area. Major metropolitan sites in this region that may sound familiar include Makati City, Pasig City,



Muntinlupa City, and Taguig City. With 80% of all BPO activities within the Philippines occurring in this zone⁹, there are strong, experienced, and skilled talent pools that are familiar with the offshoring industry and practices. Furthermore, due to the heavy concentration of BPO activity in Metro Manila, IT- and BPO-specific infrastructure has been a driving emphasis and is exhibited in the numerous technology parks designed and dedicated to meet industry requirements.



Real estate companies have been actively building world-class BPO structures in major locations. This targeted infrastructure approach allows firms to more efficiently conduct operations and scale to meet the flexible demands of their clients. From a connectivity perspective, the cost of bandwidth has declined by 85% in the last 5 years and the telecom industry now operates competitively in a deregulated environment. This structure is conducive to the volumes of data companies transmit in and out of the country through the redundant international broadband cable. (Capacity 125 Gbps) Overall, the telecom network, transportation, connectivity, and power services enable firms to deliver quality and performance.¹⁰

⁷ Source: Everest Research Institute, 2008

⁸ Source: BPAP

⁹ Source: Everest Research Institute, 2009

¹⁰ Source: BPAP

Still, due to the increasing demand and growth of the Philippines as an offshoring destination, “Next Wave” cities have now emerged to provide fresh talent and the opportunity for expansion. Several attractive cities in this category include Cebu, Bacolod, Clark/Angeles, Cavite, Davao, Iloilo, and Sta. Rosa. These locations have emerged as alternatives to Manila as talent pool pressures have turned service providers to look for ways to compliment or expand operations initially conducted in the capital. Major players including Accenture, Convergys, TeleTech, Teleperformance, Telus, Sitel, Stream, Sutherland, and Sykes have all made moves to establish operations in Tier 2 cities to take advantage of lower salary rates and additional resources. While these locations provide advantages, the downside is that they are limited in scale and have a less developed infrastructure environment.

Industry and Government Support

The Business Processing Association of the Philippines (BPAP) clearly plays a leading role in supporting the local offshoring industry and has together with relevant stakeholders developed and acted on a comprehensive action plan designed to grow and improve the Philippines’ value proposition and competitive position. This “blueprint” plan was first conceived in 2006 and was eventually named “Roadmap 2010” as it incorporated goals and specific action items that needed to be executed in order to obtain success. Areas of focus within this plan included talent management and development, “Next Wave Cities,” and the business environment. Over the past four years, BPAP has aggressively worked with stakeholders to obtain outstanding results that have improved the Philippines’ market position as a leading offshore location.

In the sphere of talent management, BPAP has launched programs covering industry-specific training, career awareness, education funding, alternative labor-pools, and curriculum improvement all to maintain a professional human capital component. Secondly, “Next Wave Cities” have been provided with tools through BPAP that help both investors and local governments assess readiness and the development of working capacities. Lastly, BPAP’s efforts to establish a favorable business environment have found it presenting industry priorities to legislators and policy makers. The association communicates to the government the need for continued fiscal incentives, the passage of data privacy protection laws, labor code amendments, and a range of other topics. Relationships with government leaders and agencies are a key component of the BPAP strategy and game plan.¹¹

BPAP further strengthens the industry by partnering investors upon arrival with set-up representatives from fields ranging from infrastructure and legal to government and sourcing and staffing advisors. These teams guide investors through all the necessary processes so that they can rapidly establish operations and achieve results.

¹¹ Source: Roadmap 2010, BPAP

The Filipino government has established incentives over the years that aid the Philippines in maintaining an attractive offer to the offshoring market. Several of these incentives follow:

- ▶ 4- to 8-year income tax holiday (ITH)
- ▶ Special 5% tax rate on gross income after the lapse of the ITH
- ▶ Tax and duty exemption on imported capital equipment (for IT Park/Ecozone locators)
- ▶ Exemption from 12% input VAT on allowable local purchase of goods and services (example: communication charges)
- ▶ Exemption from wharfage dues
- ▶ Planned public upgrades to transport infrastructure

Recognizing these incentives and wanting to harvest the benefits the Philippines has to offer, the following firms are examples¹² that set out early on to establish operations at this destination:

- ▶ JP Morgan Chase
- ▶ Procter & Gamble
- ▶ McKinsey
- ▶ Emerson Financial Services
- ▶ Ericsson
- ▶ Hewitt Associates
- ▶ Maersk Global Service Centers
- ▶ Lexmark
- ▶ Nestle
- ▶ HSBC
- ▶ Chevron
- ▶ Citibank

Going forward, BPAP is once again creating a blueprint (Roadmap 2016) to guide it as the industry evolves and trends lead toward a more industry-specific and a non-voice BPO focus. Already, the organization is acting upon lessons derived from the Roadmap 2010 experience and communicating this knowledge across the local market ensure all stakeholders are best postured to deliver quality and sustain growth.

In summary, over the past several years, the Philippines has demonstrated capable initiative by seizing the opportunity to become a renowned and respected outsourcing destination. The country's performance is proven as it consistently attracts global players to its shores in what is clearly competitive space. With its expanded location offerings, detailed human capital plan, and business-friendly environment, the Philippines should certainly be considered closely as a strong component of any decision-maker's multisourcing strategy.

¹² Source: BPAP

About Trestle Group

Trestle Group is a leading and independent sourcing advisory firm. Utilizing experienced practitioners, we guide organizations through the sourcing life cycle. Deep knowledge combined with pragmatic approaches allow our experts to deliver value to our clients.

Trestle Group teams stay current on outsourcing trends, market locations, and competitive service providers. Through white papers and other thought-leadership publications, we strive to keep industry decision-makers informed and aware of continuously changing markets and the options that are available to them.

Whether an organization is considering establishing a captive center in Asia, outsourcing to Eastern Europe, or implementing a multisourcing strategy, we get sourcing done.

To learn more about Trestle Group, visit our website: www.trestlegroup.com.

About the Author

Daniel Rivette is a senior consultant at Trestle Group. His broad international experience in complex government and business projects has made him an intellectually agile asset for Trestle Group clients and internal research activities.

From overseeing the transfer of onshore European business operations to a captive center in India to supporting major vendor selection processes in the financial services industry he has developed a valuable professional lens that allows him to clearly identify and evaluate sourcing risks and opportunities. Daniel is a graduate of West Point and has obtained an MBA from EM Lyon Business School in France. He is currently based in Zurich, Switzerland.

TRESTLE GROUP

Trestle Group is an international firm providing services solely focused on global sourcing. Through our diverse and complementary set of services, clients benefit from support ranging from strategy through to implementation. Whether you are interested in setting up operations in Eastern Europe, outsourcing to India or ready to make the world a better place through our Foundation, Trestle Group is a solid partner. We welcome you to experience Trestle Group today.

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