



Philippines: The New Outsourcing Hub

A debrief on the
International Outsourcing Summit
26–27 October 2010



Preface



The global outsourcing industry is one of a handful of industries that has thrived in the uncertain economic environment of the recent past years. From annual 2008 global revenues of US\$106 billion the industry grew to achieve US\$110 billion in 2009 despite most industries showing smaller growth during the same period. And this is not surprising. Indeed, one of the main drivers of growth was and will continue to be cost optimization. An even more important driver is the global hunt for talent and excellence.

The Philippines has become one of the top outsourcing destinations in the world due to its cost-competitive labor and infrastructure offerings, a large and available pool of college educated and English-speaking talent, strong government support, and a hospitable and customer-centric culture. For a lot of businesses, the Philippines offers a host of opportunities to achieve cost efficiency.

The International Outsourcing Summit is an annual event held by the Business Processing Association of the Philippines (BPAP)-the umbrella organization for information technology

and business process outsourcing (IT-BPO) in the Philippines- to discuss the latest trends and issues in the fast-growing IT-BPO industry in the Philippines. The most recent was a two-day affair held in the Sofitel Philippine Plaza, Manila last 26–27 October 2010. The Summit gathered over 300 executives and participants from various business sectors globally.

This publication, “Philippines: The New Outsourcing Hub,” provides an overview of the topics and issues tackled in the summit. It highlights some of the developments, trends, challenges, opportunities, emerging capabilities, and outlook for outsourcing as discussed by top-level speakers. This material was developed by Manabat Sanagustin & Co., CPAs, a member firm of KPMG International Cooperative, in partnership with BPAP and TeamAsia.

I am confident that our publication will provide you with fresh insights that will help you manage your organization’s cost-optimization efforts, strengthen its bottom line, and grow with a young and dynamic international workforce.

Emmanuel P. Bonoan

Chief Operating Officer and
Vice Chair for Tax
Manabat Sanagustin & Co., CPAs

Foreword



In the short period since the International Outsourcing Summit (IOS) was conceptualized, the Philippines has transitioned from an important and fast-growing center for outsourced services to the world's leading—and still growing—provider of voice-based business process outsourcing (BPO) services. A decade ago, the industry was composed of a handful of sectors, dominated by call centers. Today, approximately 25 different sectors are represented in the Philippine information technology (IT)–BPO and shared services industry, and impressive inroads have been made in the delivery of knowledge-based, non-voice services.

This document was developed to help tell that story. It is a collaborative effort between the Business Processing Association of the Philippines (BPAP), Manabat Sanagustin & Co., CPAs, the Philippine member firm of KPMG International Cooperative ('KPMG International'), and TeamAsia. BPAP serves as the umbrella trade association for the IT-BPO and shared services industry in the Philippines, and member firms of KPMG International provide global advisory services to the industry as well as its clients. TeamAsia is an award-winning marketing communications firm and organizes the IOS for BPAP.

IOS 2010 featured two days of plenary and breakout discussions led by respected industry executives. C-level executives, expert analysts, respected academics, and high-level government officials participated in the sessions. The exchanges were always stimulating and enlightening. But rather than outline them by session, we have instead chosen to provide a glimpse at the most compelling moments of the IOS and their implications for the industry.

It is our hope that you share our enthusiasm for this approach to this summary of IOS 2010 and that you will find it as useful as we have. It is structured in a manner that lends itself to reading between meetings or on the way to them. Readers are encouraged to scan the document and first begin a closer reading on the topics that best reflect their current concerns and interests. We believe each section provides useful insights and urge you to take time to read each of them.

We look forward to receiving your feedback on this document and the IOS, and to seeing you at the next summit in October 2011.

Gillian Joyce G. Virata
Senior Executive Director
Business Processing Association
of the Philippines

Introduction

Delegates and speakers from 20 countries on five continents were represented at the International Outsourcing Summit



The International Outsourcing Summit (IOS) is a landmark IT-BPO and global business services event, providing a global podium for the discussion of core issues likely to determine the shape of the outsourcing industry and its role as an integral partner in growing free-market economies. The summit is attended by senior industry executives, respected analysts, and domain experts who provide insights into a fast-emerging, new age of offshore outsourcing characterized by expanding opportunities and new, complex challenges.

Approximately 300 senior executives in the IT-BPO and shared services industry from almost 20 countries met in Manila 26–27 October 2010, as industry influencers, analysts, and allied sector managers discussed the next decade of BPO and challenges to growth. These discussions covered emergent issues such as the shift to value-driven and complex services, academic realignment with the industry and talent pool development, emerging technology, new media, and vertical expansion and development.

The second annual IOS: Global Market Leaders Addressing Global Issues was organized by the Business Processing Association of the Philippines (BPAP).

BPAP executives leveraged the success of these high-level summits to demonstrate the Philippines' increasingly important role in global outsourcing and offshoring. During the summit, media around the world reported that the Philippines had become the largest global provider of voice-based BPO services.

"We have seen phenomenal growth of the industry for over a decade, although its resilience was tested during the global downturn in 2009. We not only made impressive headway during the uncertainty, outsourcing has returned to the high-growth rates we saw in previous years. The challenge now is to consider how to extend our success. It is exciting to discuss prospects and possibilities with our counterparts from around the world and to share insights into the direction outsourcing will take in its next decade," said Oscar Sañez, former president and CEO of BPAP, on the eve of IOS 2010.

Among the leading IT-BPO and shared services firms represented at IOS were Accenture, Aegis PeopleSupport, a subsidiary company of Aegis Limited, Chevron Holdings, Convergys, Dell International Service Philippines Inc., Deutsche Knowledge Services, HSBC Global Resourcing, IBM, Infosys BPO, JP Morgan Chase Bank, Manulife

Business Processing Services, Procter & Gamble Business Services, SPi Global, Sykes Asia, TeleTech, TELUS International Philippines, Thomson Reuters, and StarTek.

Top outsourcing executives, allied industry leaders, and prominent analysts shared their insights on key issues and opportunities for the industry. Principal speakers included Alfredo Ayala, CEO, LiveIT; Maulik Parekh, CEO, SPi Global; Jack Jones, Global Solutions Head, JP Morgan Chase & Co.; Aparup Sengupta, Managing Director & Global CEO, Aegis Limited; Nikhil Rajpal, Principal, Everest Group; Oscar Sañez, President & CEO, BPAP; Raju Bhatnagar, VP for BPO Initiatives, NASSCOM; and Swaminathan Dandapani, CEO & Managing Director, Infosys BPO Ltd.

"We were honored to host a distinguished roster of delegates and speakers for the summit and our success in holding this second summit demonstrates the Philippines' role as an investment and services leader in global outsourcing. We aim to incorporate the insights we gained from our delegates, panelists, and presenters into a strategic vision that will help ensure that we sustain and extend our leadership position notwithstanding the evolution of the industry, leadership, and the global economy," said Ayala, who is also chairman of BPAP.



Chairman's message

In a decade, our industry in the Philippines has created 500,000 direct jobs. In 2010, IT-BPO generated about US\$9 billion in revenues in the Philippines. In the previous year—despite the effects of a global financial meltdown—we also increased revenues by almost 20% from US\$7.2 billion in 2009. Globally, the industry likewise expanded under challenging conditions, generating more than US\$110 billion in revenues in 2009 and employing close to four million professionals.

Other issues include:

- perception of the industry among prospective employees, influencers, and even those currently employed in the industry and elsewhere
- external perception of global outsourcing locations and their capabilities
- regulatory environments
- increasing costs of doing business
- increasing competition

There is more to come, as we saw in the presentations and discussions during the International Outsourcing Summit and in a preliminary look at the Philippine IT-BPO Road Map 2011–2016. Worldwide revenue just short of US\$300 billion is an increasingly realistic forecast for the industry, with almost eight million employed. Here at home, we agreed on an aggressive goal of US\$25 billion in annual revenue by 2016, increasing our direct workforce to 1.3 million.

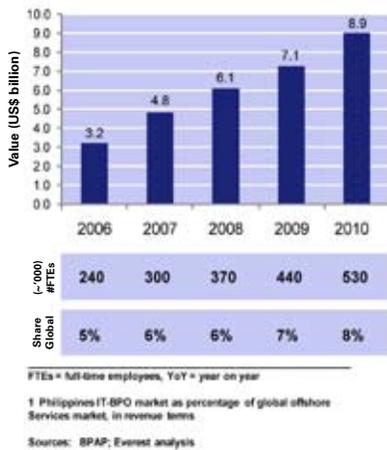
As the industry has demonstrated over the last decade, we can effectively address these challenges and capitalize on the opportunities that lie ahead so long as we don't take the outcome for granted. We must also be consistently professional and ethical in our approach to business. In doing so, we will see that our world is increasingly interconnected and interdependent. While we may always call what we do *outsourcing* or *offshoring*, we perform tasks that are intrinsically at the core of the organizations we serve and the value propositions we support.

But there are challenges. Those challenges range from politically inspired protectionism in key markets to the prospect of demand outstripping labor supply in IT-BPO and global in-house centers. There is an urgent need to develop supervisors and middle managers and to respond to increasing market demand for an array of knowledge-based, complex services.

We serve the world. And the world is better off for it. The International Outsourcing Summit is an important contribution to ensuring this continues to be the case as we work to achieve our new goal of US\$25 billion in revenues in 2016.

Fred Ayala
Chairman
Business Processing Association
of the Philippines

Philippine IT-BPO industry size 2006-2010



Philippine IT-BPO: Double-digit growth during the global financial crisis

Sector	2009 Employment (FTEs)	% change vs YA
Contact center (voice BPO)	280,000	23
Back-office/KPO (non-voice BPO)	86,000	25
IT outsourcing	35,300	0
ESO and design process delivery	12,000	0
Transcription (non-voice BPO)	20,224	0
Animation	8,000	0
Game development	640	28
TOTAL Philippine IT-BPO (export)	442,164	19

Source: BPAP, ACPI, CCAP, GDAP, MTI-API, PSIA

Philippine IT-BPO industry can grow to US\$25 billion, 1.3 million jobs by 2016

The Philippine IT-BPO Road Map 2016 says potential future gains depend on a stronger public-private partnership and accelerated talent development

Philippine IT-BPO annual revenues could more than double to US\$25 billion—equivalent to a 10 percent share of the global market—by 2016, according to an industry road map released by the Business Processing Association of the Philippines (BPAP). However, the road map's authors said the industry must accelerate its talent development initiatives and obtain stronger government support to meet that goal. If it does, the IT-BPO industry could employ up to 1.3 million Filipinos and account for nine percent of GDP.

Dubbed, "Philippine IT-BPO Road Map 2011–2016: Driving Global Leadership," the road map was developed by a joint venture between Everest Group and

Outsource2Philippines in conjunction with the BPAP and its partner associations and members. Funding was provided by the Philippine government through the Commission on Information and Communications Technology (CICT). Work on the road map began in August 2010 and was supported by extensive interviews from numerous industry stakeholders, a survey of over 200 outsourcing companies, including primary and secondary research.

"The study found that the industry can grow from US\$9 billion in annual revenues and approximately 500,000 direct employees today to US\$20 billion and 900,000 employees by 2016 if current conditions are sustained and

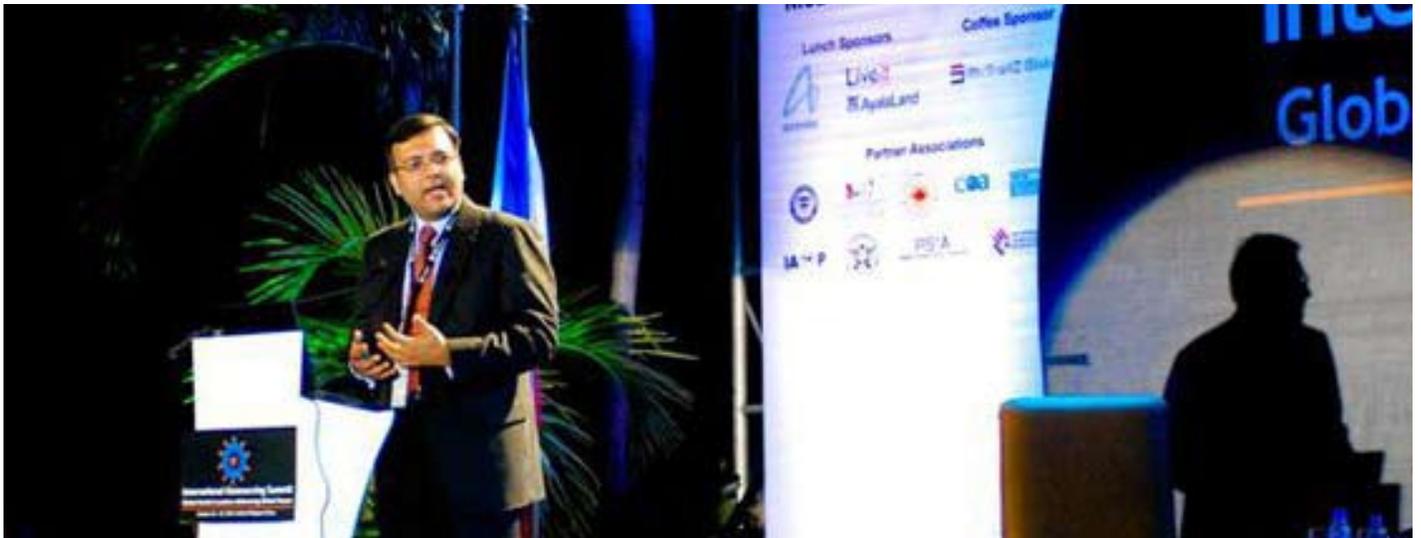
with a lot of hard work," Oscar Sañez, then BPAP president and CEO said. "But the study indicates that we can grow at an even faster rate and achieve US\$25 billion in revenue and 1.3 million employees by 2016 if we can significantly strengthen our partnership with the government and improve both the quantity and quality of our talent supply," Sañez ended.

According to Gaurav Gupta, Everest Group's Managing Partner (India), the Philippine IT-BPO sector is benefiting from strong global demand and numerous competitive advantages, but the industry and government can dramatically enhance the Philippines' value proposition by working together more closely in key areas. "This includes initiatives in the area of educational and training incentives and reforms, enhanced visibility of the Philippine country brand internationally, and better appreciation among Filipinos of the opportunities available in the IT-BPO industry and the kinds of jobs that are being created," Gupta said.

"The study found that the industry can grow from US\$9 billion in annual revenues and approximately 500,000 direct employees today to US\$20 billion and 900,000 employees by 2016 if current conditions are sustained and with a lot of hard work."

**- Oscar Sañez,
Former President and CEO, BPAP
2007–2011**





He also said that increased international visibility is necessary to enhance awareness of the range of non-voice, complex services delivered from the Philippines, and drive investment. Because the range of jobs being created by the industry is broad—and includes complex legal, financial, analytical, and other high-level work—more Filipinos will consider career opportunities in the industry. “While traditional voice and IT services will continue to grow at a healthy pace, we believe that we will see even stronger growth in non-voice services,” Gupta concluded.

To support the expansion and development of the industry, the road map identified five priority activities for BPAP, according to its Senior Executive Director, Gillian Joyce G. Virata.

“Priorities include driving standards and accreditation to ensure a better match between the skills of graduates with the requirements of industry; more aggressive internal marketing of the industry to the local talent pool; strengthening awareness of the Philippine value proposition in IT, voice, and non-voice BPO services in existing and new markets; advocating high-impact public policies; and strengthening our partnership with the government to fund key programs such as study-to-work training programs,” Virata said.

The road map was developed in consultation with BPAP’s partner associations, including the Animation Council of the Philippines, the Game Developers Association of the Philippines, the Philippine Software

Industry Association, and the Healthcare Information Management Outsourcing Association of the Philippines, as well as many of the leading contact center companies who are members of BPAP and the Contact Center Association of the Philippines.

Executives representing enabling sectors such as telecom, training and recruitment, and real estate management, as well as key government officials, also participated in the development of the road map, according to Gupta.

“While traditional voice and IT services will continue to grow at a healthy pace, we believe that we will see even stronger growth in non-voice services.”

—Gaurav Gupta
 Managing Partner,
 Everest Group

IT-BPO undergoing a paradigm shift from optimization to transformation

The Philippines must increase global awareness of its capabilities.

After a decade of fast growth, the IT-BPO and global business services industry is undergoing a paradigm shift that is redefining the business model for many of the industry's leading services providers. Although IT-BPO is expected to continue to demonstrate robust expansion, executives are finding that their clients view optimization of business processes as a requisite to engagement. The capacity to contribute to transformation of their businesses is the most compelling advantage for outsourcing business processes.

Infosys BPO CEO and managing director Swaminathan Dandapani told delegates of the International Outsourcing Summit (IOS) that the IT-BPO industry is undergoing a “paradigm shift from optimization to transformation,” suggesting that clients expect the companies to which they outsource business processes to take responsibility for enhancing processes, identifying new opportunities as they do so, and capitalizing on them to improve revenues and profitability.

Doing that, Dandapani said, requires an intimate knowledge of clients' businesses. “I feel like I'm running 92 different businesses rather than merely a large BPO services provider,” he said. The executive advised delegates to continually ask themselves if what they are doing is increasing their clients' profits as well as revenues, providing a hint of the complexity of the services IT-BPO firms are expected to deliver. Accountability, in Dandapani's view, extends to the bottom line.

The Philippines appears well positioned to leverage the opportunity the paradigm shift is creating. Aegis Limited managing



director and CEO Aparup Sengupta said, “Doing business in the Philippines has been a wonderful experience for us. The business-friendly regulatory environment, excellent infrastructure, and large talent pool are major positives and our clients have also endorsed our faith in the Philippines.” JPMorgan Chase & Co. senior country operations officer Karen Batungbacal de Venecia agreed.

“We are not just monitoring dashboards. We are improving processes, devising new products, and expanding our relationships with our clients and our clients' clients,” she said. Sengupta coined a new term to describe this work, “experience process outsourcing,” or XPO.

However, if the Philippines is to achieve its potential as an IT-BPO hub in the next five years, it must increase awareness of its capacity to deliver increasingly complex services that can transform the way businesses operate. Everest Group (India) managing partner Gaurav Gupta said that extensive interviews and research into the Philippines' IT-BPO and global in-house services industry

revealed a surprising level of complex service work being undertaken here in a broad spectrum of industries.

“The problem is that awareness of the Philippines' capacity to deliver these services is low. Companies view the Philippines as the world leader in voice BPO. What they don't realize is that it is also a significant provider of non-voice, complex services.” Gupta believes that the industry—through the Business Processing Association of the Philippines—and the government should work together to market the Philippines as a center for transformative business processes.

Paul Kukubo, CEO of Kenya's ICT Board, agreed that government must play a central role in generating visibility for national IT-BPO initiatives. “Country marketing should not be a private-sector initiative,” he said. “Let government handle this.”



The Philippines as No. 1

To attain its potential, the Philippines must quickly and significantly increase the labor pool

Analysts' reports on the attractiveness of the Philippines' IT-BPO industry—including the IBM Global Location Trends Report and the Philippine IT-BPO Road Map 2011–2016 developed by Everest Group (Everest) and Outsource2Philippines (O2P)—ranks the Philippines very high in the number of IT-BPO jobs created and the attractiveness of its people skills.

IBM reports that, “the Philippines has taken over the lead in the global ranking from India (for jobs created in business support and in-house services in 2009), having challenged the top position for several years.” Everest and O2P forecast in late 2009 that the Philippines would take the lead in BPO from India in 2010, with more workers directly engaged in the industry. In December 2010, Everest said that the Philippines would reach \$5.7 billion in voice-BPO revenues for the year compared with India's \$5.5 billion. The Contact Center

Association of the Philippines reported that the country actually earned US\$6.1 billion revenues in 2010.

Among recognized offshore outsourcing centers, the Philippines is number three in annual tertiary graduates after India and China. It is also number three in the number of finance and accounting and business degrees—and is only slightly behind China—graduated annually. The Philippines is the number three producer of IT and technical talent. It has almost as many certified public accountants as India.

Everest ranks the Philippines number two after India in cumulative talent competitiveness (scalability, experience, quality of English, and size of graduate pool). India and the Philippines are at par on Everest's risk index for English BPO. The Philippine IT-BPO Road Map also shows that while the Philippines is the emerging leader in voice-based IT-BPO, it has become an important center for knowledge-based services in a wide range of sectors for both IT-BPO services providers and global in-house centers. More than one-third of total industry employment is engaged in delivering complex services.

India and China understand the overall attractiveness of the Philippines to outsourcers. The Philippines ranks number three for investment from these countries after the United States and the United Kingdom. Every major Indian BPO services provider operates a facility in

the Philippines, some more than one. With an estimated 530,000 people employed in the industry at the end of 2010, the Philippines far outranks all other emerging locations for IT-BPO and global in-house services.

That doesn't mean that the Philippines isn't realistically at risk of losing its number-one rank in the view of analysts and investors. Although the Philippines has an adequate supply of annual graduates to expand the industry at a robust rate, to achieve its potential it must expand its available labor pool from about 100,000 annually to more than 130,000 by next year. That's a 30% jump and, by 2016, the industry will need more than 180,000 new workers annually.

China also is expected to emerge as a significant competitor in complex, non-voice BPO services. English is rigorously taught at all levels in China and many complex services don't require the spoken English skills that call centers require. Demand for complex services is expected to grow faster than demand for voice-based customer process services. While there is likely to be plenty of business for many players, no country can take industry leadership for granted.

“Our position in the industry is not a God-given right,” JP Morgan Chase senior country operations officer Karen Batungbacal de Venecia told IOS delegates. “We have to work hard” as an industry.



“We have to work hard as an industry.”

—Karen Batungbacal-de Venecia,
Senior Country Operations Officer,
JP Morgan Chase & Co.

Ideas, imagination, and meritocracy



IT-BPOs and global in-house centers in the Philippines and elsewhere are showing that there are no limits to what can be outsourced

As the International Outsourcing Summit (IOS) was taking place in Manila in October 2010, Pulitzer Prize-winning *The New York Times* columnist Thomas L. Friedman wrote, “America seems at times to be running away from the world it invented.” That’s a world that India and other emerging economies—including the Philippines—are struggling to emulate. Reporting from India, Friedman noted that this giant South Asian economy has flourished since it threw off protectionist yokes in favor of free markets.

Saurabh Srivastava, co-founder of the National Association of Software and Services Companies—otherwise known as NASSCOM—spoke with Friedman. He told the columnist that the U.S.’s leadership “was never because you had more arms. It was because of ideas, imagination, and meritocracy.” Srivastava is worried that the U.S. is running from its values because of a crisis of confidence brought about by the global financial crisis.

That prospect alarms Srivastava because, “There is nobody else to take that leadership,” and the alternative is stark. “Do we want China as the world’s moral leader?” he asked Friedman.

“No. We desperately want America to succeed.” The alarm that Srivastava describes was heightened by U.S. midterm campaign rhetoric that rejected the basic elements required for an economic culture that fosters ideas, imagination, and meritocracy.

Those basic elements include the capacity and openness to attract the world’s greatest minds, freedom of enterprise to develop and implement competitive business practices, and the willingness to compete. Yet limiting immigration, forcing companies to embrace uncompetitive processes by penalizing outsourcing, and closing U.S. markets to protect the uncompetitive firms that result have become popular political rally cries in the U.S. and other developed economies since the onset of the global economic crisis.

Just as worrisome is the prospect of economic managers in emerging economies around the world citing U.S. backsliding to preserve existing economic orders that have benefited a wealthy few while keeping majority of their people mired in poverty. As India and other Asian economies from Taiwan to Malaysia have demonstrated, protectionism, closed

societies, and uncompetitive enterprises do not create vibrant economies and broad prosperity. Learning to deal with the risks and opportunities free markets create does.

While Srivastava was wringing his hands in India, IOS delegates in the Philippines were celebrating the success of the IT-BPO and global in-house services industry, predicting that the prospects for the industry are extremely bright. A decade in the Philippines, the industry has gone from close to zero to \$9 billion in estimated revenue in 2010 and more than half a million high-paying jobs. Emerging IT-BPO centers such as Egypt, Jordan, Poland, Indonesia, Thailand, and Vietnam also report robust growth in recent years.

Of the many reasons IT-BPO has prospered in the Philippines and in the world’s traditional leader for IT-BPO services, India, access to great minds is most compelling—not cost arbitrage as many mistakenly assume. NASSCOM vice president Ragu Bhatnagar described the evolution of IT-BPO this way: “1.0, cost arbitrage; 2.0, end-to-end processing; and, 3.0, business transformation,” to illustrate the IP value-added expected by clients today. For years, U.S. companies have complained that U.S. immigration policies make it too difficult to recruit talent that can do this level of work. Outsourcing is primarily a strategy for recruiting smart, motivated people wherever they live and work.

Many U.S. companies seem to be saying, “If we can’t import the brains, we’ll export the jobs to remain competitive,” said Oscar Sañez, then president and CEO of the Business Processing Association of the Philippines. “To illustrate the impact of ideas, imagination, and meritocracy, we can point to the rapid growth of outsourcing. We bring new ideas to the table, transform processes, and reward performance. IT-BPO and global in-house services continue to grow because we live by these principles.”

IT-BPO challenges

Talent, visibility, and business environment are key to industry success

For the Philippine IT-BPO industry to attain its goal of US\$25 billion in annual revenues and 1.3 million direct jobs in 2016, a number of challenges must be successfully addressed. Three of the challenges loom largest. Few disagree that, globally, talent pool supply is the number one challenge for the industry. Educational institutions and agencies, and training schools that strive to fill the enormous demand of the IT-BPO industry for people.

First, consider the talent supply issue. As early as a year after the 2010 International Outsourcing Summit, talent demand in the Philippines will significantly outpace talent supply unless the industry, government, and the educational sectors move quickly and dramatically to address the shortfall. If they fail to do so, by the end of 2012, the industry could be short by tens of thousands of full-time employees. Those jobs must go somewhere and they are likely to find a home in other emerging IT-BPO locations.

The second issue is brand visibility of the industry, both internally and externally. The attractiveness of the industry to the domestic populace has direct implications for the Philippines' capacity to address the talent pool issue. External perception of the Philippine brand, on the other hand, is an important factor determining how and how fast the industry evolves and expands. Both perspectives are raised and addressed in the Philippine IT-BPO Road Map 2011–2016: Driving to Global Leadership (Road Map 2016) report commissioned by the Business Processing Association of the Philippines (BPAP).

Third, while the Philippines offers an investor-friendly regulatory environment, there are moves in the Philippine Congress that threaten to have a negative impact on the Philippines' attractiveness to IT-BPO investors and global in-house services organizations. They include pending bills that will make it more difficult to dismiss errant employees—already a difficult undertaking—while encouraging them

to unionize. Investment incentives have also been questioned. These three issues must be addressed by all emerging IT-BPO geographies.

Road Map 2016 developed by Everest Group and Outsource2Philippines suggests that successfully addressing the talent supply issue will require concerted action across six areas which every emerging IT-BPO center should heed. The first is internal marketing to stakeholders, which explains in part the concern with visibility. Although the Philippines graduates over 400,000 students from tertiary institutions annually, only 50,000 to 60,000 consider a job in IT-BPO.

Most graduates have non-relevant backgrounds or lack the skills necessary to be employed in the industry, which aside from English, include critical thinking and logic and leadership skills. Internal brand visibility can play a role in increasing supply in two ways. First, by encouraging more students—and their parents—who are considering a non-relevant course of study to also consider a career in the IT-BPO industry and to take an appropriate course of study.

Internal branding can also have an effect on the career choices of graduates in seemingly unrelated majors, encouraging them to contemplate working in the IT-BPO industry. Nurses and workers in retail sectors, for example, are increasingly sought after by the industry, where they can work and leverage the knowledge and skills they acquired in school. Medical administrative and monitoring processes are a fast-growing sector of the IT-BPO industry.



To address the skills gap, Everest-O2P recommend strong partnerships with the academe and relaxing the regulatory environment; standards and accreditation to facilitate recruitment revising educational programs to reflect the fast-evolving nature of the industry; removing regulatory barriers to investment in education; and increasing funding for research and information, such as the work BPAP is doing to increase awareness of talent pools outside major tier-one urban environments. Visibility will play a major role in the success of these efforts.

A look at how the industry is evolving shows why international visibility is important. Although voice BPO services will continue to be an important component of the industry, growing 10–15 percent annually, non-voice BPO will grow faster, at 20–25 percent, surpassing voice BPO in total revenues by 2016 by at least US\$10 billion globally. For the global outsourcing industry to capitalize on this demand, it must increase awareness of its capability to deliver these services.

To sustain the Philippines' industry-friendly environment, BPAP is actively lobbying Congress to address the threat of regressive labor legislation and is arguing that liberalization of the Philippines' archaic labor laws will work in the best interest of employees and the industry. That argument seems to be gaining some traction. In the meantime, two key government secretaries, Gregory Domingo of the Department of Trade and Industry and Cesar Purisima of the Department of Finance, have vowed that incentives such as the income-tax holiday for exporters will be maintained.

Setting up operations in the Philippines

The Philippines has two main incentive regimes that a qualified participant in the IT-BPO industry may avail of. These are: incentives which are granted by the Board of Investments (BOI); and incentives under the law creating the Philippine Export Zones Authority (PEZA)

BOI incentives include

1. Income-tax holiday (ITH) for a period of six years from commercial operations of pioneer enterprises and four years for non-pioneer, with possible extension of two years but not to exceed eight years.
2. Employment of foreign nationals under Article 39(h) of Executive Order (EO) No. 226, otherwise known as the Omnibus Investments Code Article 39(h) allows a registered enterprise, subject to the provisions of the Immigration Act, to employ foreign nationals in supervisory, technical, or advisory position for a period not exceeding five years from its registration, extendible for limited periods at the discretion of the BOI, provided that when the majority of the capital stock of a registered enterprise is owned by foreign investors, the positions of the president, treasurer, and general manager or their equivalents may be retained by foreign nationals beyond the five-year period. Moreover, Article 39(h) provides that foreign nationals under employment contract, their spouses, and unmarried children under 21 years of age shall be permitted to enter and reside in the Philippines during the period of employment.



3. Additional deduction on labor expense—Article 39(b) of EO 226 provides that for the first five years from registration, a registered enterprise be allowed an additional deduction from the taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers if the project meets the prescribed ratio of capital equipment to number of workers set by the BOI.
4. Unrestricted use of consigned equipment.

PEZA incentives include

- ITH for four years for non-pioneer IT enterprises, or six years for pioneer IT enterprises.
- After the ITH period, the option to pay a special 5% tax on gross income earned, in lieu of all national and local taxes.
- Exemption from payment of import duties and taxes on imported machinery and equipment and raw materials.

- Additional deduction equivalent to 50% of training expenses, chargeable against the three percent share of the national government in the special five percent tax on gross income.
- Permanent resident status for foreign investors with initial investments of US\$150,000 or more.
- Employment of non resident aliens required in the operation of the IT enterprise.
- Other incentives, as may be determined by the PEZA Board.

To discuss this article further, please contact Emmanuel Bonoan at ebonoan@kpmg.com or get in touch with your Manabat Sanagustin & Co., CPAs contact.

Effective IT services underpin success

An effective, well-managed IT system is one of the most valuable business advantages an organization can secure. The right technology, implemented properly, appropriately managed and monitored, can lead to significant gains in growth and efficiency. It is essential to get sound business advice to ensure technology risks are managed. IT is challenging to get right and expensive to get wrong—not only in terms of dollars spent, but also in lost efficiency and potential regulatory infringements.

How KPMG's IT Advisory department can help

We work with clients to analyze business technology issues within their businesses. Our assistance includes:

- developing an appropriate IT strategy—we work with clients to develop a clear IT strategy that fully supports their business objectives;
- sourcing—we offer guidance on the most appropriate strategies for outsourcing or shared services IT services, and ensure that effective controls are implemented;
- cost optimization – we work with clients to help identify the most effective ways to take costs out of a business;
- logistics and supply chain issues—we examine various aspects of processes and technology, and make recommendations for helping to optimize efficiency. This is one of the areas where IT can have the greatest impact;
- regulatory and compliance—we are well placed to assist organizations with regulatory and compliance needs. We have a great deal of experience in identifying and controlling financial and operational risks embedded in business systems.

We focus on the business impact of technology rather than systems implementation, and we are not tied to any hardware or software suppliers. As a result, our advice is independent and geared to the specific needs of each client.

To discuss any of the above or any other IT-related matters, please contact:

Vic Sarza
vsarza@kpmg.com

Henry Antonio
hantonio@kpmg.com

Joan Cariño
jcarino@kpmg.com

How KPMG Transactions & Restructuring (T&R) department can help

In addition to advising on mergers & acquisitions, conducting financial due diligence and valuation services, the T&R department can help assist with vendor-selection decisions. Our assistance includes:

- examining vendors' capability to service your needs—to help support your decision to enter into a relationship with a service provider;
- sourcing—we offer guidance on the criteria to consider prior to selecting any outsourcing service providers including an analysis of the vendors' financial capabilities;
- investigate the performance of your existing outsourcing service provider—to help support your decision to continue (or discontinue) a vendor sourcing relationship.

To discuss any of the above or any transactions-related matters, please contact:

Mike Guarin
mguarin@kpmg.com

Jerome Garcia
jharcia@kpmg.com

Aaron Lim
alim3@kpmg.com

Summary: Why the Philippines?

Ten reasons to consider the Philippines as an outsourcing destination:

Global leader in voice BPO (over 340,000 employees)

No. 2 destination for non-voice IT-BPO services (over 200,000 employees)

Low infrastructure and labor costs (up to 80% less than in developed countries)

Large pool of college graduates each year (over 400,000 graduates)

Good English-speaking skills (over 70% of college graduates speak English)

Young and fresh talent pool (one of the youngest and fastest growing workforces in the world)

Large developed Central Business Districts and suitable for BPOs (2 million square kilometers leased to BPOs)

Customer-centric, warm, and hospitable culture (positive customer feedback)

Strong government and academe support (training and curriculum support)

Various investment incentives available (4 to 8 year income-tax holiday)

Source: Business Processing Association of the Philippines



Source: BPAP

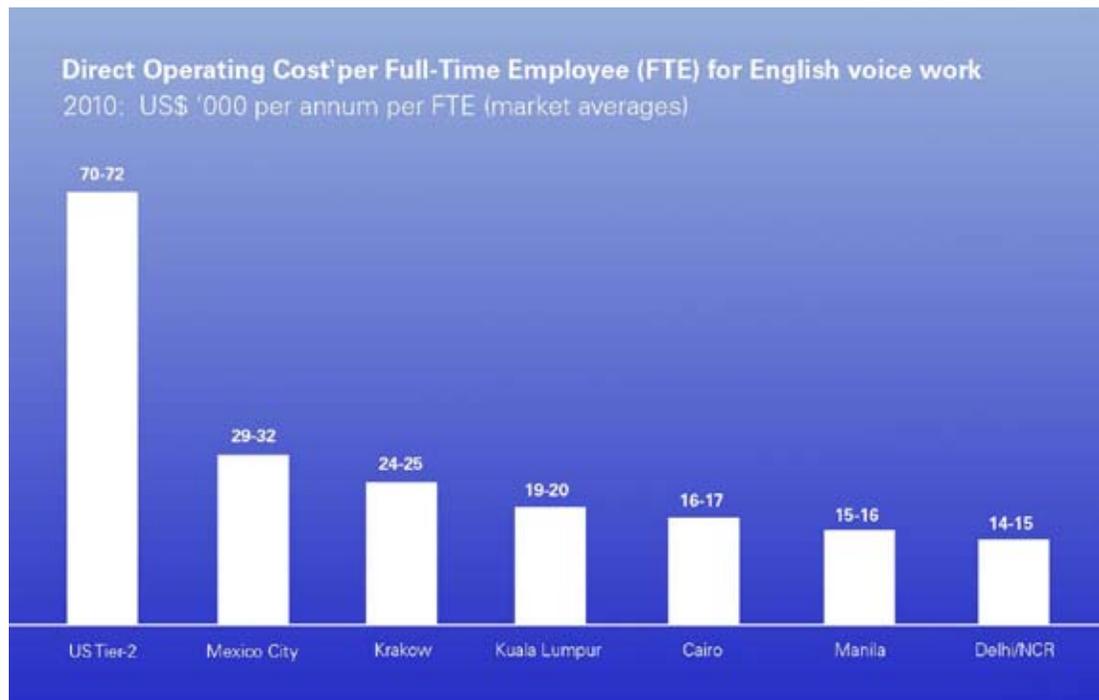
An analysis by the Business Processing Association of the Philippines (BPAP), Everest Global, and Outsource2Philippines for 2010, shows that the Philippines, with the largest number of voice-BPO employees in the world, has established itself as a mature tier-1 destination globally. The country has become a location of choice for companies outsourcing operational processes such as human resources, information technology support, and finance and accounting ranging—from the transactional to the complex, from rules-based processes to knowledge-based processes.

The Philippines’ attractiveness as an outsourcing destination can be attributed to a number of factors including strong English-speaking capabilities, low infrastructure and labor costs, large base of fresh graduates and talent availability, as well as strong government support. These factors have driven, over the last five years, the remarkable growth and resiliency of the Philippine outsourcing industry despite the challenging economic landscape.

A road map, the *Philippine IT-BPO Road Map 2011-2016: Driving to Global Leadership*, has been drawn

by BPAP to guide the industry to even greater expansion in the next decade. More aggressive government- and industry-led initiatives are lined up to develop and strengthen the country’s value position and proposition to the market to spark rapid and sustainable growth in the Philippine IT-BPO industry.

Philippine IT-BPO Industry Performance in 2010 (January 1 to December 31)				
Sector	Employment (FTES)	Growth from 2009	Revenue (US\$ million)	Growth from 2009
Voice BPO	344,000	23%	6,100	21%
Non-voice BPO and KPO	101,750	16%	1,628	30%
IT outsourcing	44,962	27%	725	28%
Transcription	14,000	8%	102	11%
Engineering services outsourcing	10,600	-12%	201	-12%
Animation	8,640	8%	142	18%
Game development	1,230	92%	9	100%
TOTAL	525,182	24%	8,907	26%



¹Ongoing costs only; excludes margins/mark-ups, centralized corporate overheads, initial investment, set-up costs, and travel costs

Source: BPAP

About

Manabat Sanagustin & Co., CPAs, BPAP and TeamAsia

Manabat Sanagustin & Co., CPAs

Manabat Sanagustin & Co., CPAs is a Philippine partnership and a member firm of the network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity. KPMG is a global network of professional services firms providing audit, tax and advisory services operating in 150 countries with over 138,000 people worldwide.

Business Processing Association of the Philippines

The Business Processing Association of the Philippines (BPAP) is the umbrella organization for the fastest-growing industry in the Philippines: Information Technology and Business Process Outsourcing (IT-BPO). BPAP serves as the one-stop information and advocacy gateway for the country's key Outsourcing & Offshoring services sector and has over 200 company members, including 5 association members.

BPAP's thrust is to promote the competitive advantages and the growth potential of the Philippines in existing and new areas of outsourcing and supports the industry in areas such as offshore marketing, education and training, security and privacy, legislation and public policy, among others. It aims to create a supportive environment for the Philippine O&O industry and strengthen the Philippine case to be the preferred IT-BPO destination by the end of the decade.

TeamAsia

TeamAsia is an award-winning strategic marketing communications firm that develops place, corporate, and personal brand strategies, creative concepts, and marketing communications programs and campaigns incorporating events, public relations, and Web 2.0 tools for its clients. Its core businesses include design services; public relations, editorial, copywriting, and SEO services; media relations; event management; social marketing and digital campaign management; and web development.

Contact us

Emmanuel P. Bonoan

**Chief Operating Officer and
Vice-Chair for Tax**

T: + 63 (2) 885-7000 loc. 200

E: ebonoan@kpmg.com

Vic Sarza

Principal, Head of Advisory Services

T: + 63 (2) 885-7000 loc. 220

E: vsarza@kpmg.com

Henry Antonio

**Partner, Advisory Services–
Head of Risk and Compliance**

T: + 63 (2) 885-7000 loc. 387

E: hantonio@kpmg.com

Mike Guarin

**Partner, Advisory Services–
Head of Transactions and Restructuring**

T: + 63 (2) 885-7000 loc. 347

E: mguarin@kpmg.com

Joan Carino

**Partner, Advisory Services–
Performance and Technology**

T: + 63 (2) 885-7000 loc. 207

E: jcarino@kpmg.com

Jerome Garcia

**Principal, Advisory Services–
Transactions and Restructuring**

T: + 63 (2) 885-7000 loc. 386

E: jhgarcia@kpmg.com

Sharon G. Dayoan

**Partner, Administrative Head for
Financial Services Audit**

T: + 63 (2) 885-7000 loc. 222

E: sdayoan@kpmg.com

Jay M. Ogabang

Partner, Financial Services Audit

T: + 63 (2) 885-7000 loc. 229

E: jogabang@kpmg.com

Aaron Lim

**Director, Advisory Services–
Transactions and Restructuring**

T: + 63 (2) 885-7000 loc. 305

E: alim3@kpmg.com

Visit our website: www.kpmg.com.ph

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