The IT-BPO and global in-house center industry in the Philippines has grown at an annual rate of 30 percent over a decade, faster than the growth of the global offshore services market. As it has grown, the industry has diversified significantly in breadth, scale, and maturity of services.
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Began emerging in 2000

638,000+ direct employees by 2011

1.6 million indirect employees

20+ sectors

#1 in voice BPO
#2 in non-voice, complex services

US$11 billion in revenues

Serving
North America, Asia, EU

Over 700 IT-BPO companies and Global In-house Centers
Executive Summary

The IT-BPO and global in-house center industry in the Philippines has grown at an annual rate of 30 percent over a decade, faster than the growth of the global offshore services market. As it has grown, the industry has diversified significantly in breadth, scale, and maturity of services.

Number one in voice, number two in non-voice
In 2010, the Philippines emerged as the number one provider of voice IT-BPO services in the world, and in the ensuing period its leadership in this segment has been broadly acknowledged. There has been less visibility for the Philippines’ non-voice, complex services capability, and the contribution of global in-house centers (GICs).

These services are delivered in a wide range of functional and vertical areas, and include engineering, health care, legal, financial, creative, and software services—among many others—for the energy, banking, investment, insurance, shipping, and other industries.

Collectively, the industry provides services for a wide range of prominent FORTUNE 1000 firms in North America, Asia, and EU. IT-BPOs and GICs include small firms with less than 500 employees, mid-size companies with several thousand employees, and large to very larger multinationals with 10,000 to more than 20,000 full-time agents and knowledge workers. In 2012, the industry employed
approximately 638,000 Filipinos and was expected to expand at least 20 percent before yearend.

A number of suppliers and captives have grown to reach globally dominant sizes and Philippines is a key part of their global delivery portfolio.

The IT-BPO and GIC industry is the Philippines’ most important generator of jobs. Its contribution to gross domestic product (GDP) is approximately five percent in 2011, and it is the Philippines’ third-largest net foreign exchange earner after tourism and remittances from an estimated 10 million overseas workers. Its contribution to economic development is centered in the nation’s National Capital Region—referred to as Metro Manila—but also in other highly urbanized areas throughout the country, or Next Wave Cities™. Employment in these cities was estimated at 150,000 at the end of 2011.
The industry has also spread beyond NCR with the rise of a credible number of Tier-2/3 destinations

**Distribution of FTEs by delivery location**

<table>
<thead>
<tr>
<th>Location</th>
<th>2007 FTEs</th>
<th>2010 FTEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro Manila</td>
<td>~297K</td>
<td>~530K</td>
</tr>
<tr>
<td>Metro Cebu</td>
<td>~16K</td>
<td>~34K</td>
</tr>
<tr>
<td>Metro Clark</td>
<td>~7K</td>
<td>~15K</td>
</tr>
<tr>
<td>Bacolod</td>
<td>~3K</td>
<td>~12K</td>
</tr>
<tr>
<td>Sta Rosa</td>
<td>~4K</td>
<td>~12K</td>
</tr>
<tr>
<td><em>Others</em></td>
<td>~22K</td>
<td>~63K</td>
</tr>
</tbody>
</table>

* Others includes inter-alia the cities of Cavite, Baguio, Cagayan de Oro, Davao, Dumaguete, Iloilo, Lipa and Malolos

**Key takeaways**

- Expansion into Next Wave Cities and towns has increased with ~130,000 FTEs spread across Tier-2/3 towns across the country
- Rapid growth in employability across Next Wave Cities has increased pool of talent supply in the Philippines

Globally, the Philippines is competitively positioned in terms of talent, costs, and risks relative to established and emerging offshore destinations. This augurs well for broad-based growth for the IT-BPO and GIC industry, and provides opportunities for the Philippines to continue its expansion outside established services segments. More precisely, the Philippines is well-positioned for growth in the non-voice, complex services segments of the industry.

The Philippines is a Top 3 location for talent according to analysts, both at the aggregate graduate pool level as well as among professionals in the finance and accounting areas and in other non-voice, complex services. From a cost perspective, the Philippines is competitively placed to provide the required arbitrage that new and mature buyers of IT-BPO services require. The industry also benefits from an enabling policy environment with impressive government and private-sector support for investors.

**Sources:** BPAP, Everest analysis
Suppliers and captives service a range of verticals and globally prominent logos

Wide range of industry-verticals serviced
Supplier presence across industry verticals

<table>
<thead>
<tr>
<th>Industry Vertical</th>
<th># FTEs Servicing (’000s)</th>
<th># Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>BFSI</td>
<td>190-195</td>
<td>75+</td>
</tr>
<tr>
<td>MDR</td>
<td>150-155</td>
<td>50+</td>
</tr>
<tr>
<td>Health care</td>
<td>45-50</td>
<td>40+</td>
</tr>
<tr>
<td>Telecom</td>
<td>35-40</td>
<td>40+</td>
</tr>
<tr>
<td>Travel</td>
<td>30-35</td>
<td>25+</td>
</tr>
<tr>
<td>Energy</td>
<td>10-15</td>
<td>15+</td>
</tr>
<tr>
<td>Media</td>
<td>8-13</td>
<td>25+</td>
</tr>
</tbody>
</table>

Captives of 60+ Fortune 1000 firms

- Banking and Financial Services
  - HSBC
  - Manulife Financial

- MDR and healthcare
  - Citi
  - Thomson Reuters

- Telecom, travel, energy and media
  - Microsoft
  - Siemens
  - Fujitsu

BFSI = banking, financial services, insurance
MDR = manufacturing, distribution, retail

1Per Everest-O2P survey of ~200 firms across the Philippines IT-BPO industry

Sources: BPAP database; BPAP-OUTsource2Philippines survey results
State of the Philippine IT-BPO and Global In-house Center Industry

The IT-BPO and global in-house center industry in the Philippines is characterized by its strong voice sector; rapidly expanding non-voice, complex services sectors; a large and talented English-speaking labor pool; and strong affinity for Western culture and business processes.

Sectors
Over 20 voice and non-voice, complex services sectors comprise the Philippine IT-BPO and global in-house center (GIC) industry according to the results of quarterly industry surveys conducted by the Business Processing Association of the Philippines (BPAP) and Outsource2Philippines (O2P). The results of a series of surveys conducted between March 2010 and July 2011 illustrated the expanding range of IT-BPO and GIC services delivered from the Philippines.
The results of the surveys confirm early but encouraging signs of a maturing shift identified in the IT-BPO Road Map 2011–2016 from rapid growth primarily in voice services—in which the Philippines is the acknowledged number-one provider globally—to faster growth in non-voice, complex services. This development is in response to a number of factors, including satisfaction with the quality of voice services, market demand as firms worldwide seek to outsource a range of processes to increase competitiveness, and the attractiveness overall of the Philippine labor pool.

The BPAP-O2P surveys also show consistent confidence among existing IT-BPO services providers and GICs in terms of prospects for growth. A July 2011 survey revealed that 85 percent of respondents expected to increase their workforce in the next 12 months, with the majority anticipating growth between 6 percent and 50 percent. High confidence levels were apparent among executives in both very large (10,000+) and smaller firms.
Most companies projected growth going into 2012

- 85% of all IT-BPO expect to increase their workforce in the next 12 months
- All but 3 of 32 respondents with >1K project growth, most 6% to 50%
- 56% of all IT-BPO project growth from 6% to 50%

Sources: BPAP, Outsource2Philippines
People

“We are able to hire true professionals in the Philippines,” Stream Global Services vice president and Philippine country manager Jared Morrison has said. “The people are wonderful,” TELUS International Philippines country manager Jeffrey Uthoff said in a published report in January 2012. Both executives have long histories in the IT-BPO and GIC industry in the Philippines particularly, and have watched it expand. In 2006, the industry directly employed only 236,000 employees. In three years, direct employment rose to 423,000. Growth was consistent, recording 525,000 and 638,000 in 2010 and 2011, respectively.
High regard for the Filipino workforce would matter little to investors, however, if they were in short supply. Fortunately for the Philippines and investors alike, the Philippines has a large, highly educated, English-speaking workforce. Data provided in the IT-BPO Road Map 2011–2016 shows the Philippines has the third-largest talent availability among the world’s top IT-BPO service centers, after India and China, and leading Poland, Mexico, Egypt, and Malaysia in annual tertiary graduates.

<table>
<thead>
<tr>
<th>Annual tertiary graduate pool 2010, '000s</th>
<th>Annual supply of F&amp;A/business graduates 2010, '000s</th>
<th>Annual supply of technical talent for IT 2010, '000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>India 3,500</td>
<td>India 560</td>
<td>China 634</td>
</tr>
<tr>
<td>China 2,000</td>
<td>China 127</td>
<td>India 510</td>
</tr>
<tr>
<td>Philippines ~500</td>
<td>Philippines 107</td>
<td>Philippines 85</td>
</tr>
<tr>
<td>Poland ~500</td>
<td>Poland 107</td>
<td>Malaysia 68</td>
</tr>
<tr>
<td>Mexico 371</td>
<td>Mexico 68</td>
<td>Poland 53</td>
</tr>
<tr>
<td>Egypt 330</td>
<td>Egypt 66</td>
<td>Mexico 50</td>
</tr>
<tr>
<td>Malaysia 131</td>
<td>Romania 33</td>
<td>Egypt 39</td>
</tr>
</tbody>
</table>

F&A = finance and accounting

Sources: Commission on Higher Education; global industry data; Everest analysis

**Culture**

A talent index developed by O2P and Everest Group for the IT-BPO Road Map 2011–2016 shows that the Philippines is well-positioned among global IT-BPO services providers in four key human resource indicators. Among these indicators, the Philippines is number one globally in terms of quality of English and cultural affinity with the United States. The culture is highly service-oriented. The Philippines has also embraced the Internet and social networking, and is Facebook’s eighth-largest market, according to socialbakers, which tracks social activity.
Combined with broader talent pool indicators, Philippines is well positioned among global locations.

Key takeaways:
- Top-3 global location in graduate pool size
- Third-largest talent pool in delivery of voice, finance and accounting, and IT services
- Among the largest experienced talent pools globally

Sources: BPAP, Everest analysis

Professional and business practices are closely aligned with best practice in the United States. As a result, voice and non-voice IT-BPO services providers and GIC workers seamlessly integrate with Western project and development teams without the hurdles normally associated with cross-cultural management. When a North American client’s customer makes a reference to the New York Knicks, Lady Gaga, or upcoming national elections, the Filipino knowledge worker always relates.
Select quotes from interviewers conducted for the IT-BPO Road Map 2011–2016

The quotes provided below were obtained in the course of an extensive series of interviews in 2010 of IT-BPO and GIC executives in conjunction with the development of the IT-BPO Road Map 2011–2016. Interviews were conducted by Everest Group and Outsource2Philippines consultants.

Mid- and long-term growth potential in the view of industry executives
• Year-to-date growth rate of 20%–25%, growth until yearend expected to be higher
• Huge opportunity from new buyers and existing ones. Growth rates likely to range in the high 20% for voice BPO
• Plan to significantly double existing headcount
• Plan to bring in new non-voice services, finance and accounting and HR services
• The Philippines will be one of two global delivery centers supporting the Japanese geography
• Huge engineering talent pool. Expect to increase headcount from 800+ to 1,200+ by mid-year 2011

Projections from industry analysts and market experts
• Strong destination for voice and back-office finance and accounting services
• Top 2–3 destinations in our location selection research for clients
• #1 in the world for voice
• #2 location across geographies after India
• Betters India in strong quality of infrastructure facilities and incentives for the industry
Global industry
The global offshore services marketing is growing at a healthy pace, despite the lingering impact of the global financial crisis that began in 2009. Demand for IT-BPO and global in-house center (GIC) services is expected to more than double by 2016 to approximately US$270 billion. As the market grows, its composition is expected to evolve dramatically, with non-voice, complex services the fastest-developing segments.
The global offshore services market is growing at a healthy pace and will more than double by 2016

As non-voice, complex services assume the role of principal engine of growth for the industry, demand for industry-specific services is expected to increase. As it does, industry-specific services will grow into a larger percentage of the non-voice market by 2016. Prominent industry verticals will include banking, health care, media, engineering, and creative services compared with traditional non-voice services such as finance and accounting and human resource services.
Industry-specific services are expected to constitute a larger percentage of the non-voice market by 2016

- Voice work is likely to grow; however non-voice is likely to become increasingly significant.
- Within non-voice, the opportunity is likely to shift towards more complex and vertical-specific work (e.g., insurance claims processing, credit underwriting).

The Philippine forecast

If the global forecast for the industry holds, accompanied by a nurturing investment environment in the Philippines and improved educational support from the Philippine government as well as the private sector, the Philippine IT-BPO and GIC industry can expand to $25 billion in annual revenues. If that goal is attained, the industry will employ more than 1.3 million direct employees, and contribute almost 10 percent of GDP, becoming the second-largest source of foreign exchange for the country.

Source: Everest analysis
Concerted industry effort and continued government support can get sector to US$20 billion by 2016; a strengthened public-private partnership can increase this to US$25 billion

Philippines IT-BPO industry
US$ billion

2006 2009 2010 2011 Road Map 2016

CAGR: ~20%
CAGR: 30%
CAGR: 25%
CAGR: 20%

The Next Wave Cities™
To reach this size, the industry would need to build and sustain a workforce of 1.3 million. In the first wave of growth of the Philippine IT-BPO industry, from the late 1990s to 2010, three major hubs emerged: Metro Manila, Metro Cebu, and Metro Clark. It is clear, however, that the next wave of growth must necessarily involve alternative locations. The best of such locations, or what the BPAP calls Next Wave Cities™ (NWC), for 2010–2011 are, by rank: Davao City, Santa Rosa City (Laguna), Bacolod City, Iloilo City, Metro Cavite (Bacoor, Dasmariñas City, Imus), Lipa City, Cagayan de Oro City, Malolos City, Baguio City, and Dumaguete City.

Sources: BPAP data; Everest analysis
The Next Wave Cities™

Sources: BPAP, DOST-ICTO
Number one in voice; number two in non-voice, complex services

“Non-voice is where the value is being created,” Medicall president Jeff Williams said in a late 2011 interview. A resident of the Philippines for close to a decade, Williams and Medicall pioneered the healthcare services industry in the Philippines. His firm employs medical professionals almost exclusively, including both nurses and doctors. Medicall’s principal clients are insurance companies that rely on Medicall to provide a wide range of healthcare services to their policy holders and other customers.

Medicall is a good example of the evolution of the Philippine IT-BPO and GIC industry in the Philippines. As the growth of non-voice, complex services outpaces growth in voice services, the Philippines will build a more visible presence in emerging segments. In fact, the IT-BPO and GIC industry first sprang up as a non-voice industry when multinational firms such as Caltex, Shell, and Fluor set up facilities in the Philippines to deliver services to their global operations.

Philippines is now well established as a mature Tier-1 destination in a competitive global landscape

Sources: Everest analysis; BPAP analysis for Philippines
In recent years, dramatic growth in voice services has captured the attention of both industry executives and analysts. But throughout the dramatic voice growth of the last decade, non-voice services segments in industry-specific verticals have grown steadily in the banking, shipping, civil engineering, software, media, and legal industries. Executives in one multinational bank with more than 10,000 employees in the Philippines serving global operations have said that 90 percent of their work is non-voice.

As a percentage of total IT-BPO and GIC industry revenues, complex non-voice BPO services expanded from 15 percent to 20 percent (estimated) in 2010. IT-related services remained constant, but BPAP-O2P surveys show the number of services providers consistently growing throughout 2011. As the pace of differentiation accelerates, the industry is also becoming less reliant on the US market—although it remains by far the most important—and is beginning to capitalize on new business opportunities arising in the UK, EU, and Asia Pacific.

The industry has also started to diversify its services focus and graphic base

![Philippine IT-BPO service segments](image)

<table>
<thead>
<tr>
<th>Philippine IT-BPO service segments</th>
<th>US$ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT/ESO</td>
<td>3.2</td>
</tr>
<tr>
<td>Non-voice BPO</td>
<td>9.0</td>
</tr>
</tbody>
</table>

![Philippine IT-BPO service segments](image)

<table>
<thead>
<tr>
<th>Philippine IT-BPO service segments</th>
<th>US$ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>3.2</td>
</tr>
<tr>
<td>APAC</td>
<td>1.0</td>
</tr>
<tr>
<td>UK/EU</td>
<td>1.0</td>
</tr>
<tr>
<td>U.S.</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Note: 2006 split per ICT Survey of IT and IT-Enabled Services of the Bangko Sentral ng Pilipinas; 2010 estimates from a Everest-O2P survey

Sources: BPAP, Bangko Sentral ng Pilipinas, Everest-O2P survey
Investing in the Philippines

The Philippine government offers a welcoming environment to foreign investors including generous incentives, while the private sector provides assistance to enable investors to setup and begin operations in the Philippines rapidly and cost effectively.

Talent
The Philippines graduates approximately 450,000 tertiary graduates annually, and is among the top-three IT-BPO and global in-house center (GIC) locations in the world, after India and China in terms of number of graduates. Industry executives and analysts agree that although the Philippines must continually enhance educational and training infrastructure to ensure a reliable supply of highly qualified talent, the Philippines is among the most stable IT-BPO and GIC providers in the world.
Philippines is a stable location with a highly qualified labor pool

Elementary, high school, and tertiary education is aligned with the educational system in the United States, and is shifting from a 10-year system with elementary and high school to a 12-year program with the addition of two years of junior high school or optional vocational training. According to industry executives such as Stream Global Services vice president and Philippines country manager Jared Morrison, Filipinos typically view the IT-BPO and GIC industry as a career opportunity, particularly in vertical-specific, complex, non-voice services.

Industry Public-Private Partnership
To sustain this perspective, BPAP works closely with the Philippine government under its Industry Public-Private Partnership initiative and private educational institutions to design and administer curricula that are aligned with the requirements of the IT-BPO and GIC industry. The Philippine government also provides substantial funding for “near-hire” training for prospective employees who require remedial training to qualify for employment in a wide range of voice and non-voice services.
sectors. BPAP, allied sector associations, and the industry are working aggressively to implement certification initiatives to facilitate hiring.

**Cost of doing business**
The Philippines is among the lowest-cost IT-BPO and GIC locations in the world for all kinds of service: voice; complex, non-voice services; and IT-related services. Entry-level salaries are typically in the $400/month range. Supervisors and middle managers generally earn $1,000/month–$2,000/month, depending on experience and the work assigned. Low real estate costs, investment incentives, and attractive labor rates make the Philippines an ideal investment location.

The Philippines is among the most cost-competitive destinations for provision of voice BPO services

**Direct operating cost** per FTE for English voice work

| 2010; US$ '000 per annum per FTE |

| MARKET AVERAGES |
| ENGLISH LANGUAGE VOICE EXAMPLE |

- **Reflective market averages. Range could vary depending upon**
  - Tier-1 vs. Tier-2 cities
  - Suppliers vs. captives
  - Scaled operations vs. mid-size operations

**Note:** Exchange rates for local currencies with respect to the U.S. dollar have been averaged for 12 months from October 1, 2009, to September 30, 2010

**Source:** Everest analysis
Operating costs vary around the Philippines, as described in detail in the BPAP-DOST-ICTO publication, *Next Wave Cities™ 2010–2011*. The comparative graph below shows costs for non-agricultural minimum wage, rental rates, and power rates for three major IT-BPO and GIC hubs in the Philippines, Metro Cebu, Metro Manila, and Davao City. Commercial telecom rates are among the lowest in Asia, and continue to be subject to considerable downward pressure.

### Cost of business among major hubs

<table>
<thead>
<tr>
<th></th>
<th>Metro Cebu</th>
<th>Metro Manila</th>
<th>Davao City</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Monthly Non-Agriculture Minimum Wage (₱)</strong></td>
<td>5,000</td>
<td>6,500</td>
<td>5,380</td>
</tr>
<tr>
<td><strong>Monthly Average Rental Rate (₱/10 sq m)</strong></td>
<td>4,250</td>
<td>5,390</td>
<td>4,250</td>
</tr>
<tr>
<td><strong>Monthly Average Power Rate (₱/1,000 kWh)</strong></td>
<td>6,180</td>
<td>7,560</td>
<td>5,380</td>
</tr>
</tbody>
</table>

Source: *BPAP Next Wave Cities™ 2010-2011*
**Investment models**

A wide range of investment models are available to investors in the Philippine IT-BPO and GIC industry. They include capital conservation opportunities, including full turnkey build-to-suit opportunities for facilities, hosted and managed technology services, and facilities management services. These models provide the opportunity for investors to contract facility development to their unique specifications—including technology—for very low capital outlay.

Multinational investors such as Lexis-Nexis, ADP, and TeleTech have found these investment models to be an effective, fast way to expand operations in the Philippines—so effective that their expansion plans also include leveraging these capital conservation opportunities. But capital conservation is just one of the benefits these models provide. Just as important, they provide investors the relative luxury of focusing on their core businesses instead of real estate and technology concerns. Because a number of BPAP members provide these services, investors have a healthy set of alternative partners to evaluate and choose from.

**Infrastructure**

There are 11 international gateway operators in the Philippines and 13 submarine cables with landing points in the country. The IT-BPO and GIC industry is primarily served directly by two major domestic telecom firms, PLDT and Globe Telecom, providing business-continuity assurance. They offer the industry independent, nationwide data networks. PLDT and Globe have announced significant new investments in infrastructure to support domestic demand—primarily mobile voice and data services—as well as commercial requirements.

Telecom infrastructure is available through the archipelago. The PLDT, Globe—and a smaller third-party provider, BayanTel—nationwide, high-speed networks are illustrated below, along with landing stations for international submarine cables.
The Philippines offers state-of-the-art voice and data infrastructure throughout the archipelago and redundant international gateways

Source: Industry data

AAG: Asia-America Gateway
APCN2: Asia-Pacific Cable Network
C2C: City-to-City
TGN-IA: TGN-Intra Asia
According to socialbakers, the Philippines has close to 30 million—equivalent to about one third of the population—Internet subscribers, almost all of whom use a variety of social networks, especially Facebook and YouTube. The Philippines is also the fastest-growing market in Asia for Twitter. Philippine penetration for Facebook is number one in the world (and the eighth-largest market globally); for Twitter, the Philippines is the eighth-largest market by penetration among Internet users.

**Investment climate**
The Philippine government has identified the IT-BPO and GIC industry is among the Philippine government's top priority investment areas. Its contribution to job creation and GDP is acknowledged and valued by the government, as evidenced in a generous and highly competitive investment incentives program. A strong partnership between the government and BPAP, representing industry players, ensures that government interventions are aligned with industry priorities, such as talent development and country promotion.
### Comparative Incentives

<table>
<thead>
<tr>
<th>AREA</th>
<th>Philippines</th>
<th>India</th>
<th>China</th>
<th>Egypt</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>Import duty waiver for capital equip.</td>
<td>Concessional 3.09% customs duty on import of capital goods</td>
<td>Varies</td>
<td>Capex subsidies up to 100%</td>
<td>Import duty waiver - multimedia equip.</td>
</tr>
<tr>
<td></td>
<td>VAT, customs duty waiver</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td>Training grants for finishing schools (TESDA vouchers)</td>
<td>Training charges tax exempt up to 8% of payroll</td>
<td>Training subsidy</td>
<td>Training subsidy 20%-40%</td>
<td></td>
</tr>
<tr>
<td>Other input cost linked</td>
<td>Exemptions on local taxes and permits VAT exempt inputs</td>
<td>Services, sales tax exemption; 50% exemption on stamp duty</td>
<td>Telecom discount; Rental discount</td>
<td>Subsidy on telecom, rentals and utilities</td>
<td></td>
</tr>
<tr>
<td>Tax linked</td>
<td>6-year tax holiday, extendable to maximum of 8 years (or) 4 years extendable to a maximum of 6 years</td>
<td>5-year income-tax holiday only in SEZs; plus 50% exemption for 2 successive 5-year blocks subject to reinvestment</td>
<td>Preferential corporate tax: 15%</td>
<td>Personal tax rate cuts</td>
<td>10-year corporate tax holiday</td>
</tr>
<tr>
<td></td>
<td>Post-tax holiday, payment at 5% rate on gross income</td>
<td>100% depr. on capital goods for 5 years</td>
<td>Business tax exemption</td>
<td>Corporate tax rate cuts</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Philippine Economic Zone Authority, Board of Investments, media articles, Everest analysis

The effect of incentives is to provide cost savings to investors. The Philippines provides a notable and expanding competitive advantage, on the average nine percent of each full-time employee cost, compared with India at three percent to eight percent.
As a result, investing in the Philippines is considered by most IT-BPO and GIC executives in the Philippines to be less risky or much less risky than investing in India according to regular surveys conducted by BPAP and O2P. Over one third consider the Philippines at par with India in terms of investment risk, as illustrated in the graph provided below. Every major India-based IT-BPO services provider is present in the Philippines, alongside EU and North American investors.
One a scale of 1-5 with 1 indicating “Much More Risky” and 5 indicating “Much Less Risky,” how does the Philippines compare in terms of risk with India?

![Bar chart showing percent of respondents](chart.png)

Source: BPAP-O2P Periodic Survey March 2012

Investment incentives are granted by the Philippine Economic Zone Authority (PEZA) and the Board of Investments (BOI), both agencies are attached to the Department of Trade and Industry (DTI). Because PEZA is primarily concerned with export incentives, the majority of IT-BPO and GIC investors apply for incentives with this agency. The high level of professionalism and transparency that characterizes PEZA’s operations is appreciated by investors and a grant of incentives is almost always made within two to four weeks after application and submission of all required documentation.

Other agencies involved in setting up a business in the Philippines are DTI and the Securities and Exchange Commission (SEC). DTI handles registration of sole proprietorships, while the SEC oversees incorporation of all commercial enterprises in the Philippines. PEZA registers and grants incentives to facilitate the business operations of investors in both manufacturing and service facilities. Firms
specializing in investor services for the IT-BPO and GIC industry can coordinate on behalf of investors with each of these agencies to ensure fast, seamless setup of business operations.

**Country brand**
The Philippine country brand is made up of core and extended identity attributes. At its core, the Philippines is a world-class provider of IT-BPO and GIC services, delivering low-cost structures, a scalable English-speaking talent pool, low risk, and a large market. Its extended identity attributes offer a rich brand texture and include hard-to-emulate qualities such as cultural affinity with the US, a service-oriented culture, high productivity, an instruction-taking mindset, exotic leisure opportunities, advanced language and analytics skills, a superior quality of life, and loyalty.

At the International Outsourcing Summit in 2010, BPAP chairman Fred Ayala said of the Philippine country brand, “We serve the world, and the world is better for it.”

**Extended identity**
(Drivers of competitive advantage: difficult to replicate)

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Quality of life and leisure opportunities
In HSBC’s 2011 expatriate quality of life survey, the Philippines ranked eighth, compared with India at 22. To experience the appreciation expatriate investors have for the Philippines and the quality of life it offers, it’s useful to attend meetings of the various foreign chambers of commerce. Whether it is the American Chamber of Commerce, the Canadian Chamber of Commerce, or the European Chamber of Commerce, visitors will meet a significant number of members who are former expatriate executives. Most will have established their own entrepreneurial business ventures in the Philippines.
It’s More Fun in the Philippines
In 2012, the Philippine Department of Tourism launched a global branding campaign, the first Southeast Asian country to do so almost exclusively on social networks and the Internet. The slogan epitomizes the Philippine experience: It’s fun.

The Philippines and its service-oriented culture offers an almost unparalleled quality of life for investors. From glittering world-class entertainment and hospitality centers to the finest beaches in the world, the Philippines offers leisure opportunities very nearly as rich as its diverse natural environment—and all at some of the world’s lowest prices. Want to spend the weekend on a pristine Palawan beach? It’s a 25-minute flight away, followed by a short land and water ride.

Shopping for South Sea Pearls? You’ve come to the right place. In the mood for a rock concert? New modern entertainment centers dot one of the world’s most expansive urban areas. And the Philippines is fast emerging as an important regional and international meeting place for organizations and associations, with state-of-the-art meeting facilities in all of its five major central business districts welcoming convention delegates and exhibit visitors from around the world.
Transportation and educational infrastructure are also world-class and constantly improving. Modern highways link many IT-BPO and GIC hubs. A commuter rail network whisks consumers and workers across town efficiently, quickly, and safely. Government programs to rehabilitate airport facilities will provide two renovated international airports serving Metro Manila, one to the north in the Clark Freeport and Terminal 1 at the Ninoy Aquino International Airport in the south.

The Philippines offers a vibrant night life, including theater, jazz clubs, wine bars, and clubs. For the avant-garde, bustling Makati and Bonifacio Global City provide modern sights and sounds. For the bohemian crowd, Malate is the draw. Quezon City boasts some of Metro Manila's best restaurants, bars, and comedy clubs. The young-at-heart gather all hours of the day in Eastwood City, one of the Philippines' original IT-BPO and GIC hubs in Metro Manila.
\begin{itemize}
\item \textbf{The world’s most respected firms do business in the Philippines}\n\item A select list of these companies is provided below.
\end{itemize}

\textbf{Top-12 Providers:}

\begin{tabular}{lll}
Accenture & Sitel & Sykes Asia \\
Aegis & SPI Global Services & Teleperformance \\
Convergys & Stream Global Services & TeleTech \\
IBM & Sutherland Global Services & TELUS \\
\end{tabular}

\textbf{Top-10 GICs:}

\begin{tabular}{lll}
Bechtel & HP & Manulife \\
Dell & JP Morgan Chase Bank & Shell \\
Emerson Finanical & Maersk & Thomson Reuters \\
HSBC & & \\
\end{tabular}
Case Studies

Two case studies show how and why multinational brands have made the Philippines the base of their IT-BPO and Global In-house Center operations.

Stream Global Services

When Stream Global Services, a leading global business process outsourcing (BPO) provider, looked to expand its delivery capacity in Asia in 2008, it quickly identified eTelecare as an attractive partner. eTelecare helped pioneer the BPO industry in the Philippines, and was one of the most visible companies in the industry with 7,000 full-time employees. It worked with the Philippine government and educational institutions to provide funding for BPO services training, lending its own training framework to strengthen capacity to train college undergraduates.

Stream Global Services had invested heavily in developing sales, pipeline, process tools, enabling technology, and organizational structure, making it one of the world’s fastest-growing, most efficient and productive BPO
services providers in the world. As the Philippines’ stature in the global BPO industry rose, clients looked to Stream to provide its services from what was emerging as the world’s most important provider of high-quality voice and non-voice services, the Philippines.

The Objective
In response to market demand and to develop vertical income streams, Stream Global Services was intent on rapidly increasing its presence in the Philippines. Organic growth would not provide the momentum to achieve Stream’s objectives, however. A merger with a well-established, respected Philippine provider that had achieved critical mass looked much more promising. As a result, Stream and eTelecare agreed to merge in August 2009, with each bringing important strategic competitive advantages to the merged company.

The Challenges
Stream vice president and country manager for the Philippines Jared Morrison knew that the merger would provide important benefits for both Stream and eTelecare. As country manager of eTelecare, Morrison saw eTelecare’s principal strength as an intimate understanding of operating a BPO provider in the Philippines. eTelecare’s culture was heavily oriented toward Philippine corporate cultural practices, where relationships are nurtured as a means to build strong, productive teams.

Morrison also understood that Stream brought significant value to the combined company, especially in the area of global best practices and competitive cultures. His challenge—and the challenge of the larger firm—was to manage a harmonious merger of those strengths, while focusing resources on the priorities of providing an expanded delivery platform for clients, and strengthening relationships within the industry verticals the two companies nurtured prior to their merger.

Results
“I’m thrilled with the end product,” Morrison recently said of the merger, and the efforts to seamlessly integrate two companies both alike and very different in many ways. “It was important for those of us
in the Philippines to open our minds to the possibility that there might be a better way to do some things in terms of process,” he explained, “and for our counterparts elsewhere to see that the Philippines has a uniquely collegial and committed way of doing business.”

At the time of the merger, eTelecare had 7,000 employees in the Philippines and Stream had 2,000. None of the five sites operating at the time were closed in part because the two companies had very little client overlap, but primarily because the combined company continued to expand at a rapid rate. Today, Stream has more than 13,000 employees in the Philippines—about one third of total employment in Stream globally—and in 2012 expects to grow its employee base another 20%.

Stream’s operations in the Philippines deliver close to 70% of the company’s total English services, and are at the core of the company’s expansion strategy, according to Morrison. “Employment as a percentage of total employment will continue to grow for many reasons, but in part because we are able to hire such wonderfully professional people here,” he said. Morrison said that unlike in many countries, young professionals look at BPO as a career in the Philippines.

And it is. “People who used to work for me are running four sites for us in the Philippines,” he said. Morrison, whose experience in the industry began as a part-time agent for a multinational global in-house center, said this perspective accounts in large measure for why Stream’s global clients want to send business to the Philippines. “They are sending more and more business here,” he said, “and the reason is that they find value in the quality of the work.

“The Philippines’ advantage is that it is able to provide quality for value better than most other global delivery centers,” Morrison explained. “That makes our clients and their customers happy, and happy clients equal continuing revenue and growth.”
Shell Shared Services

In 2003, Shell’s chief financial officer had before him a proposal to set up an office in India to provide affordable, highly capable financial support services for the global company’s US operations. The proposal was solid, and based on careful research and sensitivity analyses. Yet the executive sensed that there were other opportunities that could impact this important strategic decision. For example, the Philippines was a significant market for Shell in Asia, and in many ways is culturally aligned with the US.

Edgar Chua, chairman of the Shell Companies in the Philippines, was asked to help facilitate a feasibility study to determine the country’s suitability for the offshore facility. He was excited at the prospect. The Philippines was just beginning to emerge as an attractive IT-BPO services hub. Chua set up meetings with the Philippines’ secretaries of Trade and Industry and Finance—Manuel A. Roxas II and Cesar Purisima, respectively—and his colleagues were impressed. They were also impressed with the Philippines’ investor-friendly policies and incentives.

As a result, when the Shell offshore strategy was approved in 2004 the company was headed for the Philippines. The decision to closely examine all investment opportunities paid off for both Shell and the Philippines.

The Objective
At the time Shell made the decision to invest in the development of a financial services support facility in the Philippines, the Finance Leadership Team was working on a shared vision for global finance “to become a world-class finance function” built around five principles:
rebalance our role, rebuild the foundations, reduce complexity and cost, become one global finance, build professionalism and leadership. The initiative "highlighted significant opportunities for efficiency and quality improvements of the finance function," according to Shell executives. The Philippines was to play an integral role in implementing those principles.

The Challenges
Although Shell was a global company with significant operations throughout the world and Asia, including the Philippines, its US operations had never outsourced or offshored business functions. The company’s managers understood how to manage complex processes, but running the finance function like a global supply chain was a new challenge. It had to be learned. And as with any significant change—despite the promise of significant benefits—interfacing with team members halfway around the world would take some getting used to.

Finance executives also didn’t have a good feel for Philippine capabilities. Ultimately, they decided to offshore two processes, one reasonably simple and the other complex. The simple assignment was accounts payable. However, the executives soon learned that managing accounts payable for US operations in a global shared services facility wasn’t quite as simple as they first thought. The complex process on the other hand—managing supply activity for fuel movement in the US—went far more smoothly than anticipated.

Results
“The resiliency of the people made the difference,” Noel Paraso, Global FO Data Operations Manager and Country Finance Lead, says when explaining how the offshore initiative grew from 150 full-time employees (FTEs) in 2004 to 3,000 in 2011. “Our expatriate managers are very vocal on this point,” he says to emphasize the contribution Filipinos make to ensuring world-class delivery of a range of finance and other support processes and services.

Paraso smiles when he recalls the process of delivering accounts payable and supply management processes early on. “It turned out that we were much faster at reaching our goals for supply
management,” he chuckles. “The hard stuff was a snap, relatively speaking.” But Paraso says the Manila Center soon grew accustomed to the “simpler” accounts payable process as well. “Thanks to the great support we got from our US colleagues, accounts payable processes were soon being delivered smoothly.”

From 150 FTEs the company expanded to 400 in 2005, the first year of full operations. It has grown steadily since then. According to Paraso, the Manila Center is ranked in the top quartile when compared with industry peers. It is the largest of five global Shell service centers in the areas of business processes and data management. The Manila Center has close to 2,000 FTEs performing financial process, and 1,000 involved in human resource, customer relationship management, order to delivery, IT, and other support processes.

Although the Philippines has had to contend with a degree of political uncertainty and a series of natural calamities, in terms of business continuity these things have been “non-events,” Paraso says to illustrate the reliable character of the Filipino team. Although he says there is strong competition for capable people in Manila, the Shell brand is so well known that it is a powerful incentive for prospective employees to apply for jobs. “There’s quite a lot of prestige associated with working at Shell,” he says.

Paraso says Shell also increases the market value of people who work for the company, which is a compelling factor when evaluating job offers. “There is great competition for our people, which demonstrates the value of working here, and it is testimony to the quality of our delivery of processes,” he says. “We also provide key employees the opportunity to take on an international assignment, which further broadens their experience, perspective, and capabilities.”

As he looks to the future, Paraso sees a number of exciting developments ahead, including a transition from transactional processes to more complex analytic and collaborative work. “We’ve demonstrated that we can deliver these processes capably and dependably,” he explains. “Moving those processes here enables our colleagues around the world to concentrate on their work and
delivering value wherever they are assigned.”

Process innovation is also becoming an important goal. “We work to continually improve processes to yield even better efficiency and productivity,” he explains. “And as we deliver greater value, we’re creating value in people: people who will lead Shell here and around the world.”
About BPAP

The Business Processing Association of the Philippines (BPAP) is the umbrella organization for the IT-BPO and GIC (Global In-House Center) industry in the Philippines. BPAP currently has approximately 250 members, consisting of industry players, enablers, and five associations, namely the Animation Council of the Philippines, Inc., Contact Center Association of the Philippines, Game Developers Association of the Philippines, Healthcare Information Management Outsourcing Association of the Philippines, and Philippine Software Industry Association.

BPAP plays a pivotal role in achieving the potential growth of the IT-BPO and GIC industry in the Philippines, based on its IT-BPO Road Map 2011-2016 data. BPAP works to ensure an enduring supply of high-quality talent, supporting service innovation, providing country visibility, and conducting dialogues with government for policy directions. BPAP also serves as the one-stop information and advocacy gateway for the industry.
About DOST-ICTO

The Information and Communications Technology Office (ICTO) is a government agency under the policy, technical and administrative supervision of the Department of Science and Technology (DOST). It is tasked to lead and harmonize initiatives on ICT using a multi-stakeholder approach. Its primary thrusts include ICT Industry Development, eGovernment, ICT policy development, Internet for all and Cybersecurity.

In the area of ICT industry development, the ICTO is tasked to formulate, recommend and implement an appropriate policy and program framework that will promote the rapid development and improved global competitiveness of the country’s information and communications technology (ICT) industry, including the IT-BPO industry. Towards this end, the ICTO implements and coordinates strategic and targeted programs in the areas of industry capability development; marketing and research; and workforce development for said industry. The programs will also support the national government’s objectives of sustained economic development through the generation of investments and creation of jobs from the ICT industry.
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