

INTRODUCTION

The offshore call centre industry started in the Philippines in 1999 when Cyber City set up an outsourcing facility at the former USAF base in Clark and has been followed by many more. The agents at these call centres handle inbound or outbound traffic via the telephone and other available channels. Today, the Philippines is an important offshore player driven by several factors such as the following: increasing government support on IT investment, large pool of graduates with English communication skills and knowledge in ICT far superior to India which has led many companies to close down Indian operations and move them to The Philippines, reliable and reasonably priced telecommunication infrastructure, low cost high quality locations, growing buyer trends on outsourcing. The industry in which the call centre industry operates is global, therefore highly fragmented and extremely competitive. As a result of intense competition, outsourced call centre services and solutions frequently are subject to pricing pressure.

Philippine BPO Industry

BPO has been one of the fastest growing sectors in the Philippines in the past 7 years. By 2010, revenues are projected to reach US\$12.2 billion, showing a five-year compounded annual growth rate (CAGR) of 38% (SGV Industry Bulletin-BPO Edition). The bulk of this amount will be accounted for by the call centres. In the global arena, the Philippines consistently ranks among the top five BPO locations. The country continues to be an attractive location for offshore voice BPO (call centre) services due to its supply of English-speaking professionals, low labour costs and availability of a good telecommunications infrastructure.

Customer Care (Call Centres)

The relatively high cost of personnel and worker inefficiency, which accounts for the majority of call centre operating expenses, influences outsourcing in the call centre industry. The call centre landscape in India The Philippines and other locations is growing in response to the demands made by organizations in developed economies to off-shore their calls to low labour cost service suppliers.

Even with such an impressive performance, the Philippine market share of the global pie was only 3% in 2005. India, the country's closest competitor, had a market share of approximately 8% in 2005. There is definitely much room to grow as the US and British markets remain largely untapped. Asia Pacific has only drawn on approximately 11% of the worldwide customer care market in 2005. The Philippines is in a very good position to match India in the customer care segment especially with the recent trend in India of rising wages, high attrition rates and issues with language proficiency. The Philippines has much higher rates of English proficiency. The UN claims that India has 40 million fluent English speakers equating to approximately 4% of their population whereas The Philippines has 60 million fluent English speakers equating to 75% of the population. The dominance of English in The Philippines means that Filipinos think in English unlike most of their Indian counterparts. According to The Asian Call Centre Review, The Philippines has the highest standard of English in Asia followed far behind by India, Sri Lanka and Nepal.

Major Players

TeleTech Holdings, Inc.

TeleTech is a provider of integrated customer relationship management solutions with operations in 13 countries. Its growth rate of 44 percent from 1998-2000 reflected numerous acquisitions as well alliances, which provide its technological capabilities and global reach. In December 2000, TeleTech formed alliance with Philippines Long Distance Company (PLDT) for expansion into the Philippines. In The Philippines, Teletech is focused exclusively on the US marketplace. It does not have any dedicated resources in The UK focused on The Philippines marketplace.

www.teletech.com

Cyber City Teleservices

Cyber City is a provider of integrated call centre solutions owned by HSBC with operations in The Philippines predominantly servicing both The UK and US marketplaces. It has its own account management team in London and has been in the pioneer of UK based call centres in The Philippines. Unlike other vendors, Cyber City has grown organically since its inception in 1999 and specialises in customer service, DRTV (Direct Response Television), catalog and charity sectors. Its reputation is such that all of its clients act as references. It has a strong expatriate management team and benefits from a huge labour pool in

Clark which has led to significantly lower attrition than its counterparts and hence an improved level of service. Their operation regularly wins reports.

www.cctl.co.uk

Convergys Corporation

Convergys Corporation (CVG) is a global leader in providing customer care, human resources, and billing services. They operated their first call centre in the Philippines in 2003. Convergys is a member of the Standard and Poor's (S&P) 500 and a Fortune Most Admired Company. Based in Cincinnati, Ohio, Convergys has more than 62,000 employees in 68 customer call centres, three data centres, and other facilities in the US, Canada, Latin America, Europe, the Middle East, and Asia.

www.convergys.com

Sykes Enterprises, Inc.

Sykes described itself as a provider of end-to-end customer care management solutions. Founded in 1977 as an IT services firm focused on IT staffing, in 1993 the company turned its focus to providing customer support for hardware and software providers. In 1999, Sykes repositioned itself from being a technical support provider to being a global provider of e-business solutions. Sykes is the first US-based outsourced call centre in the Philippines which started its operations in 1997 but at this time only provided local and Regional Asian services. It entered the English speaking market in 2001.

www.sykes.com

Sitel / Client Logic

SITEL is one of the largest U.S. based providers of contact centre CRM solutions. Sitel is headquartered in Nashville, Tennessee and has over 65,000 associates across 28 countries. The recent merger of Sitel with Client Logic, both global BPO providers, is bringing into one company a varied combination of skill sets, solutions offerings and clients, both current and prospective. The activities of both companies will be enhanced by combining their strengths to come out the more powerful player in the industry.

www.sitel.com

Switching Costs

Attrition is generally high in this industry segment in Metro Manila (National Capital Region). The attrition cost is estimated at US\$1,614.42 per agent which is comprised of recruitment cost of US\$320.00 and training cost of US\$1,289.42. Attrition also has a hit on performance which directly impacts revenues because of the following:

- higher AHT (average handle time – call time)
- higher shrinkage
- lower agent productivity
- service credits (penalties)

The limited supply of qualified personnel and the high cost of attrition make the bargaining power of suppliers in this industry segment high.

Again the issue of attrition is far higher in Manila. Cyber City Teleservices in Clark were recently accredited in The Philippines press as having the lowest attrition rates in The Philippines. Cyber City's attrition rates in Manila are twice as high in Metro Manila as they are at their main base in Clark.

Driving Factors

Despite economic woes and geopolitical uncertainties, offshore sourcing (offshoring) and global delivery will become an integral part of any enterprise's sourcing strategy. Today, there are only a few countries with active offshore IT and IT-Enabled professional services industries aimed at the offshore clientele; and there

a even fewer with robust, mature offerings that address global delivery of IT and IT-Enabled services. However, governments around the globe are attempting to nurture similar industries, making competition fierce for attracting multinational corporations (MNCs) and United States – as well as European – buyers and services.

Today, the Philippines is an important offshore player driven by several factors.

Labour Force

The main motivation for offshoring was to minimize production cost and maximize profits. Salaries in developing countries are 50% to 80% less than in the U.S. or U.K. For example, the salary of a customer service representative (CSR) in the U.S. is US\$25,000 while the cost in the Philippines and India is US\$2,828 and US\$1,689, respectively (Strengthening Offshoring in the Philippines by Jorge Sibal, 2006). Labour typically makes up 60% of the cost of a call centre, so reducing labour costs by 50-70% through offshore outsourcing has a tremendous impact. While costs are lower from the point of view of the U.S. companies, the skilled and knowledge workers in the developing countries are benefited by the increase in their incomes since their current salaries for local work are still lower compared to the workers of the developed countries. Currently, the size of the total labour force of the Philippines is approximately 29 million with close to 380,000 to 450,000 college graduates entering the labour force each year.

English Proficiency. The Philippines is the third-largest English speaking nation in the world. In addition, according to government sources, the overall literacy rate for the country is 94 percent. The Philippine government also asserts that 75 percent of the population is fluent in English. Thus, Philippine workers are well suited to doing business with the United States as their ability to adopt accent and level of understandability by Brits of Filipino workers can be considered comparatively better than India and significantly better than China or Eastern Europeans.

Telecommunication

The country's affordable telecom infrastructure and abundance of cost-efficient Class A office spaces makes the Philippines an ideal call centre hub in the region. Relative to other countries in the Asia/Pacific region, the Philippines is considered to have a solid power and telecommunication infrastructure (i.e., voice and data). There is redundant international connectivity, including fiber optic cable and satellite communication (Gartner Research 2003). It is interesting to note that bandwidth cost have declined by 70 percent during the past four years, according to local IT service and contact centre providers. In addition, there are a number of international carriers for telecommunication services providing a solid competitive landscape for buyers. These include: Bayan Tel, Digitel, Globe Telecommunication, Philippine Long Distance Telecom (PLDT) & SMART Communications. Telecommunication rate structures have become competitive.

Real Estate

Although the Philippines consist of a large archipelago consisting of more than 7,000 islands, the primary physical locations where enterprises would most likely place operations are focused in and around the capital city of Manila or in the cities of Clark or Davao. As a national development strategy, the government designed and promoted the establishment of economic zones in the form of technology centric parks all over the country to respond to demands for ready-to-occupy locations for foreign investments. The options include: Philippine Economic Zone Authority (PEZA) locations & Special economic zones and Freeport zones (e.g., Eastwood City Cyberpark, Cebu Cybertown IT Park, Northgate, Clark FreePort etc..) These locations offer high quality office spaces with the lowest lease rates comparable to other countries like China, Malaysia, India and Singapore (Gartner Research 2005). As of January 2005, the Global 50 Index still rates the Philippines as among those with the lowest office occupation costs despite the substantial growth in call centres and BPO services.

Political Climate

Despite uncertainties and through elections and changes in leadership, the Philippine government has maintained consistent support of foreign investment and foreign business ownership. Despite recent turmoil, the Philippines in general, and Luzon in particular, remain peaceful places to do business. Security teams from major US companies have concluded that Manila is a safer environment than most US cities, due to much lower rate of violent crime.

Economic Climate

GDP, GNP & Inflation

In 2006, the Philippine domestic economy expanded at a rate of 5.4%, while GNP growth reached 6.2%, aided by double-digit expansion of overseas Filipino workers (OFW) remittances (refer to Appendix 1: Philippine Economy Statistics). The GDP growth was an improvement from previous year's growth rate of 5%. The service sector, which contributes about half of total output, continued to lead overall growth. Back office activities such as BPO have become a dominant driver of service sector growth. Despite of the improvement, the GDP growth is a percentage point below the government's 5.5% target rate of the year. In 2006, the Philippines remained at the tail end of other Asian economies, outperforming only Thailand in terms of GDP growth. Despite the slower-than-expected GDP growth, other economic indicators for the year finished on a high note. The stronger exports brought the overall balance of payments (BOP) position for 2006 to a surplus of US\$3.8 billion, 58% higher than the surplus in 2005 and the highest in the last seven years.

Positive news on the macroeconomic front is leading to revival of private investor confidence and government willingness to tackle investment climate constraints:

- The rating agencies have reacted with positive ratings watch announcement. Most investment banks have also been issuing favorable reports regarding growth prospects in the Philippines.
- The government has announced an ambitious infrastructure investment program. Budget allocations for public fixed investments are planned to be increased funded in part by the extra tax revenues generated from tax increases of 2005 and because of better tax collections. By 2008 the government aims to sustain annual infrastructure investment at about 5 percent of GDP. A list of ten high priority infrastructure projects, mainly in the transport sector, is expected to be announced shortly..
- Surveys suggest increased optimism among private companies and investors. A recent survey by the Philippines Chamber of Commerce indicated that more than half of the membership plans to expand their business in 2006.
- The IT Enabled Services (ITES) Sector continues to generate positive headline announcements. In 1999, the ITES sector, especially the BPO sector, was identified as a possible significant source of growth. This assessment is turning out to be correct. Employment in this sector has increased from about 70,000 in 2003 to about 240,000 by mid 2006. The growth of this sector is also causing tightening in the commercial real estate market in Manila with favorable implications for the banking system because loans are collateralized by real estate. BPO export revenues have increased from less than \$0.5 billion in 2003 to more than \$2.5 billion in 2006. Consensus exists within the industry that by end of the decade the ITES sector could generate more than \$10 billion of export revenues with a workforce of around one million.

Competitor Analysis

Competitor analysis is an important part of the strategic planning process. It helps management understand their competitive advantages relative to competitors, generate understanding of competitors' strategies, and provide an informed basis to develop strategies to achieve competitive advantages in the future.

U.K.-based call centre service providers in the Philippines compete globally. Potential customers have a three-step process in their decision making:

- Whether to outsource or not
- If they outsource, decision on delivery location (e.g., India, Philippines or Eastern Europe)
- Scout for call centre service providers that has presence in their desired location (sometimes this process comes before the client decides on the delivery location, they let the service provider come up with suggestions)

The companies that were analyzed as competitors are the following:

- call centre (outsource) service providers
- call centres with the same target market segment (these are the call centres that will most likely compete on agent hiring as well because of the similar agent profile requirement)

Cyber City Teleservices

Value Proposition

Unlike its competitors, Cyber City has sought to become the experts on delivery in The Philippines. They are also more of an entrepreneurial organization with the key shareholders having an impact on the operational delivery in The Philippines. This success was highlighted when HSBC bought a significant stake in the business in 2007. Based in Clark, Davao and Manila, they have significant redundancy in the country. They have grown organically and have more clients who act as their reference than any other vendor in The Philippines.

Target Market Segments

Cyber City focuses its marketing efforts on businesses in DRTV, customer support, catalogue outbound telemarketing, debt collection, Hi-Tech (including Dell) and charities. It does a lot of overflow work from other call centres and hence has more smaller clients than many of its rivals.

Strengths

- Regular winner of Outsourcing Awards
- Financially viable and stable
- All clients are referencable
- Able to deliver effectively on accounts with less than 100 people unlike other larger players.
- World-class facilities in their Philippine sites
- High emphasis on data security with ISO standards, European Data standards and VISA's PCI security.
- Lower attrition rates than other call centres
- Substantial UK skill-sets
- 9 years experience in the Philippines marketplace
- Competitively priced due to lower corporate overheads
- Financially stable

Weaknesses

- No US based call centres
- Limited marketing awareness of them as a brand.

Key Success Factors

An industry's key success factors (KSFs) are those competitive factors that most affect industry members' ability to prosper in the marketplace – the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and market achievements that spell the difference between being a strong competitor and a weak competitor (Crafting & Executing Strategy, Thompson, Strickland and Gamble)

People

The call centre industry is a both a service industry and a "people" business. Recruiting the best people for every position in the organization is critical and can spell the difference between success and failure of any call centre business.

This is why a lot of the call centres today are being creative in the way they package and market themselves to attract the talent that they want.

In the Philippines, where the demand for talent is greater than the supply, the battle of talents is key to delivering performance for the clients. A lot of resources are invested in recruitment and training to ensure that agents, supervisors, managers, and directors are all equipped with the necessary skills to do their respective jobs.

In recruitment for example, the term “profiling” is very common right now in a lot of the big players in the industry because companies spent a lot of time defining the right person for the right job. The industry has realized that a profile of an agent that will do an outbound / telemarketing job will be far different from a profile of an agent that will do a technical support account. Creating a profile of an agent, supervisor, manager, director based on work experience, educational background, age, and skills are keys to ensure job match. This move also ensures that attrition is controlled from the start and performance is better managed.

In training, a lot of the companies have constantly evaluated their training approach and methodologies to consistently assess their effectivity and efficiency in training people. Training people in the industry has constantly evolved over the last few years. Gone are the days, where the training ends after they have trained people to teach them on product knowledge. Training people today not only in terms of their skills but competencies is a must across all organizations.

In operations, the reason why it is critical to have good, competent people running operations because this is where the bulk of the delivery of service happens. In the absence of capable leaders running operations from performance management, coaching and feedback, data analysis, and action plan formulation, the metrics of the account will suffer. Clients do not hesitate to terminate contracts and move or transfer volume to other service providers in the event cases like this do happen and there have been documented cases of Home Depot and Echostar moving their business from one vendor to another.

Processes

Processes in the call centre industry are another key factor in ensuring success. Companies invest a lot of resource getting their certifications (ISO, 6 Sigma and COPC) to guarantee clients of quality and performance.

Processes are also key differentiator in how call centres sell their services. A lot of time is spent in RFP's discussing how and what are the processes of a centre in terms of their recruitment, training, operations, quality, IT and facilities management.

In the recruitment process, a lot of the customers look for the steps that the applicant takes. Are the process good enough to screen their ideal agent? Can the tools and process evaluate the skills needed to do the job? What are the items being measured when the applicants take the assessment tools and processes? Is there a profile process being built that is customized for the client?

These are some of the things that needs to be considered for a recruitment processes to be successful and effective.

In the training processes, companies are also trying to customized their training for their target client. Different tools also play an important part in enhancing the process because it helps evaluate the effectiveness of the processes. Training tools such as Can8, Eurolanguage, Carnegie system are examples of tools that offshore centres are using to monitor and improve language training processes. Customer Satisfaction or CSAT is one of the metrics that the client looks at as they look for recognition in getting noticed and credited for the JD Powers Award. One of the key aspects of CSAT is ease of understanding and effectiveness of the agent that handles the customer's call. Hence, if call centres cannot be effective in training agents to speak clearly, comprehend their calls, and resolve the issue, mostly like their CSAT scores will be low. This is where tools that was mentioned above are maximized to ensure that agents can constantly improve on their communication and comprehension skills.

In Operations, its all about how robust and rigid your processes are. Without processes, an implementation project will find it difficult to migrate a project from an onshore to an offshore perspective. Process mapping is one of the key functions of the sales and implementation team because this is where they determine the timelines and the possible improvements that they can recommend to their clients. One of the biggest reasons for outsourcing is vendors guarantee process improvements because call centres invest heavily on tools and processes.

Clients and vendors are most like to prefer to give the business to centres that have ISO Certification because they most likely guarantee that they have the processes in place and have it documented. Centres that have ISO certification go thru an extensive audit on getting their certification plus at least a twice a year audit from the certifying body. Certification processes are also critical in the facilities and IT section because it also guarantees security of data for the client.

Partner Selection

Client selection is as important as talent selection. Partner selection refers to call centre getting the right clients for their business. The success of huge call centres like Convergys and Teletech can be traced to their long term partnerships with their existing accounts. Convergys and DirectTV for example is a testimonial for this example. Convergys grew its centres by acquiring the multiple sites of DirectTV in the US. This is the same approach that they did with AT&T / SBC. Teletech and Verizon, Sykes and MCI are other key examples of how important and critical partner selection is. Cyber City are the most successful offshore partner of Dell and conduct all offshore work for MTV in addition to many catalog titles.

The nature of the business that the partners are also critical in ensuring success for call centres. Outbound / telemarketing accounts in nature are not scalable and stable. The DNC (Do Not Call) Act further damaged the outbound/telemarketing industry. If you take the top 10 call centres in the world, not one of the centres are doing outbound business already. APAC closed all of their outbound business 1 year ago to focus mainly on doing inbound for healthcare accounts.

Another critical factor in partner selection is the location of their business. If a call centre can get different partners from different locations, it will afford them to utilize their seats better. Take for instance a Philippine centre that will have an Australian, UK and US accounts. Australia will have a day schedule, UK will have a midshift schedule of around 2-3pm to 12 midnight, and the US will take up the overnight schedule. A higher seat utilization results to better profitability.

The choice of location and presence for call centres also afford them to offer multi-shore delivery solutions. Thus, centres that have presence in NA, Asia, Europe can offer services where local language is present. Take for example, Hispanics are the fastest growing population in the US. Centres that have presence in Latin America such as Costa Rica, Chile or Guatemala can use this sites to offshore the business at a lower cost to service Spanish speaking customers. They will have an advantage to small and medium players that cannot offer such service to their clients.

Price

A survey that was done by the Black Book of Outsourcing indicated that 53% of the companies that did outsource, sited cost reduction as their main driver. With all things being almost equal among the major players – processes, tools, service provided, etc, Price will always be one key factor in determining who gets the business and who to retain them.

Savings on price affords the client to free up funds that they can use instead to focus on their core competencies.

From the call centre side perspective, call centres need to be prudent and resourceful in finding ways to build their price models. A call centre that can find a way to cut cost on facilities, IT, even organization structure and personnel models without sacrificing quality will be more successful in getting more business and retaining the account on a long term basis. This is so because they can afford to propose a price that is very competitive.

Some centres also use this savings by trying to return it to the organization. A common practice is to improve the pay and incentives of the employees. This approach can be used as a retention model as well as to motivate employees. This has rippling effects as studies have shown that 85% of happy, motivated employees provide excellent service to customers.

Conclusion of Industry Analysis

Global competition, pricing pressures, softness in the global economy and rapid changes in technology are making it increasingly difficult for companies to cost effectively maintain the in-house personnel necessary to handle all their customer care needs. As a result, companies are increasingly turning to outsourcers to perform specialized functions and services in the customer care arena. By working in a partnership with outsourcers, companies can ensure that the crucial task of retaining and growing their customer base is addressed.

Philippines is a popular call centre site, owing to its abundant English speakers that are college graduates

and Americanized when it comes to English accent and cultural affinities. The Philippines is said to be the best outsourcing site outside North America since the accent of Filipinos is nearer to that of American consumers as compared to other ethnicities. The government as well as private institutions seem to agree that a more sanguine growth outlook for the Philippines is in store for 2007. Domestic demand is expected to remain robust and the government's commitment to accelerate investment spending should provide enough stimulus and help lift investor confidence in the country. This is expected to bring in the necessary investments which will eventually translate to the much needed employment opportunities.

Still, there remain the risks to growth. The global downturn may result to subdued export growth. Fuel prices also continue to be volatile. On the domestic front, the El Nino might pull down the agricultural expansion. Political uncertainties that will come with the forthcoming elections might also cloud the near term outlook.

Threats

The Philippines faces competition from several Asian countries that have significantly larger labour pools and represent a larger economic force in the world markets. Many of these countries offer similar advantages of low-cost labour. As a result, the Philippines needs to focus on areas where it will not be overshadowed by India and China. It must establish a clear and focused strategy regarding which niche markets it will take leadership role in and which other areas it will simply satisfy the excess demand and capitalize on the offshore boom.

- The Philippines' recent history is marked with sporadic political upheavals, coup attempts and acts of terrorism.
- Offshore failures are widely publicized and even though these tend to be in India and Africa, the offshoring industry is tarnished
- Customer perception on lack of robustness of industrial infrastructure and standards of data protection legislation in some of the outsourcing host countries

Opportunities

- US\$17 billion of IT services will go offshore by 2008 (IDC Inc. News Release, Oct 25, 2004). One of the most important opportunities for the Philippine market is to establish itself in the early stages of the nascent sectors of BPO (through offshore delivery models) and contact centre options delivered in the offshore arena. Among U.S. enterprises, this is still a market in its infancy with regard to offshore delivery (Gartner Research 2003). As a result, there is no clear country of choice. The Philippines can seize this opportunity to create a clear presence in a number of niche portions of these service sectors.
- Opportunity for specific service providers to partner with global external vendors to establish greater access to the market (U.S., U.K., etc.)
- BPO is the fastest growing form of outsourcing, with International Data Corporation (IDC) projecting compounded annual growth rate (CAGR) of about 11% through 2008.

For More Information:

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