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**An Outlook of
Business Process Outsourcing
in the Philippines**

1 INTRODUCTION

Asia Pacific has developed as a strong player in offshore business processes as the number of American and European companies who choose to locate in the region continue to rise. Aside from the low cost advantage offered by the countries, strong initiatives of governments to improve policies to support the industry and investment in infrastructure has also added to the attractiveness of taking outsource service activities to the Asia Pacific. Popular offshore destinations in Asia often ranked by analysts include India, Philippines, China, Malaysia, and Singapore. While India currently enjoys the biggest share of the market, countries like the Philippines are expected to grow their share of the market in the coming years. This report aims to provide an overview of the Philippines, a country rising among the ranks as a preferred offshore location, through an assessment of the country’s competitiveness in the area of business process outsourcing.

1.1 The Philippines: Asia’s Bright Spot for Outsourcing Services

The Philippines is fast emerging as a viable offshore location. Recent reports made by analysts and consulting companies such as Gartner, A.T. Kearney, and McKinsey to name a few, often ranked the Philippines among the top destinations for outsourcing globally. Sample citations the Philippines has received from different groups include those listed in the table below.

Table 1. Citations on the Philippines

A.T. Kearney	<ul style="list-style-type: none"> ▪ In a recent evaluation conducted on country selection for offshore business processing, the Philippines made it among the top eleven choice countries globally. The consulting firm evaluated the countries using categories such as cost, environment, and people. (Where to Locate, 2003)
META Group	<ul style="list-style-type: none"> ▪ The Philippines is cited as one of the preferred offshore country. (November 2003)
CIO Magazine	<ul style="list-style-type: none"> ▪ The Philippines ranks as one of the world’s leading offshore outsourcing destinations. (November 2002)
Merill Lynch	<ul style="list-style-type: none"> ▪ The Philippines is identified as a ‘main’ outsourcing destination.¹
Nasscom-McKinsey	<ul style="list-style-type: none"> ▪ Based on location and people attractiveness, the Philippines ranks among the ten strong contenders for the global IT-Enabled Services market. (2002) ▪ The Philippines and China are expected to pose the strongest competition to India and challenge India’s supremacy in the medium to long term because of their sizeable, low cost talent pool and their governments taking significant steps to improve the attractiveness of the Information Technology Enabled Services Industry. (2002)
NeoIT	<ul style="list-style-type: none"> ▪ After India, the Philippines is probably the second most popular destination when it comes to pure offshore outsourcing. ▪ The outsourcing industry in the Philippines is known for its “applications development and maintenance, contact centers, business process outsourcing and content conversion”. (2003)
Gartner	<ul style="list-style-type: none"> ▪ While there is still no “country of choice” for U.S. enterprises, the Philippines has the potential of becoming a contender in the IT services market within the next five years, particularly for BPO and contact center services. Its capabilities in call center outsourcing and its skills in back-office finance and accounting position the country to address the demand for offshore BPO. (2003)

¹ Merrill Lynch classifies global outsourcing destinations in three categories: main, upcoming and others

At best estimates, the country has approximately \$1 billion in exported IT service and business process IT-enabled revenue generated from approximately 290,000 skilled professionals.² The government projects the growth of exported IT service and business process revenues to double this year as firms continue to see successful operations in other available business opportunities.³ Local and foreign analysts alike recognize that indeed business process outsourcing has a bright future in the Philippines.

1.2 Trends in Business Process Outsourcing

As success stories continue to be heard, more and more companies are turning to BPO to cut costs, improve their service levels, and create value. According to a study by Forrester Research, more than half of 82 US companies plan to invest at least \$1 million in BPO services this year.⁴ Top areas to be outsourced include human resources, procurement, customer service, and accounting. BPO in the US alone is projected to grow 31-40% annually in the next five years.⁵

While the industry continues to grow and mature, the question of business continuity arises for those who have chosen to follow the outsourcing trend. As a result, more companies today follow or are considering following a multi-country strategy as a measure to ensure business continuity.⁶ As companies continue to implement this strategy, the search for new or additional locations continues as well.

These trends provide a window of opportunity for the Philippines to grow its slice of the BPO market. Often ranked as a preferred offshore location for reasons that span from quality human resources to cost, the Philippines is very much capable and ready to address the future needs of companies in the BPO industry.

² NeoIT. Mapping Offshore Markets.

³ According to a statement released by Cesar Purisima, Secretary of the Department of Trade and Industry.

⁴ Forrester Research. August 2003.

⁵ McKinsey Global Institute. January 2004.

⁶ A.T. Kearney. Where to Locate. Some companies that that have invested in multi-process, multi-country BPO include British Petroleum, Bank of America and GM.

2 DOING BUSINESS IN THE PHILIPPINES

The Philippines is home to over 80 million Filipinos. While the number may initially signal an overpopulation problem for a country of its size, the Philippines' young population base represents an abundant labor force that can contribute immensely to the global economy. Highly skilled, trainable, and possessing a natural facility of the English language, the Filipino people have attracted the attention of global businesses. It is no surprise therefore to see the growth of business process outsourcing and call centers in the country. Other reasons exist for this trend and this section will discuss what it is about the Philippines that make it a preferred destination for business process outsourcing.

2.1 The Philippines at a Glance

This section provides general facts about the Philippines. The information provided gives a general overview of the geographic, political, and economic environment of the Philippines.

Table 2. General Facts about the Philippines

Land Area:	300,000 sq. km. (archipelago of 7,100 islands)
Coastline:	36,289 kilometers
Geography:	Three main island groups: Luzon, Visayas & Mindanao
Capital:	Manila (Land area - 38.3 sq. km)
Political System:	The 1987 Constitution provides for a presidential system of government with a bicameral parliament and three (3) equal branches: executive, legislative and judiciary.
Number of Geo-Political Subdivisions (as of Sept 2003)	
Regions:	17
Provinces:	79
Cities:	115
Municipalities:	1,499
Barangays (smallest unit):	41,969
Population (2000 Census):	76.5 M
2004 Interim Population Estimates based on decennial census-based growth rates:	84.2M
Population Density:	255 persons/sq. km. (as of May 2000)
Population Growth Rate:	2.3% (1990-2000)
Labor Force Population Rate:	67.2 (January 2004)
Employment Rate:	89% (as of January 2004)

Literacy Rate :	94.6% of total population - among the highest in the world
Number of Graduates Annually:	Secondary school: over one million College level: 350,000
Languages Spoken:	Filipino, English and other regional dialects
Ethnic Profile:	Christian Malay 91.5%, Muslim Malay 4%, Chinese 1.5%, others 3%
Major Religion:	85% are Roman Catholics, the rest are Protestants and Muslims
Climate:	Tropical with temperatures ranging from 23-32 °C. Two distinct seasons: Wet (June to October) & Dry (November to May)
Currency Unit:	Philippine Peso (US\$1=PhP 56.07) (Feb 2004 average)
Business Hours:	0800-1700 (Private/Gov't Offices) 0900-1500 (Banks) 1000-2000 (Stores/Malls)
Time Zone:	GMT +8 hrs.
Average Flying Hours:	Tokyo 3:35 Hong Kong 1:20 Jakarta 4:25 Kuala Lumpur 3:30 Paris 16:40 New York 17:30 Singapore 3:00 Sydney 7:40 Shanghai 2:20 Seoul 4:00 San Francisco 11:50 Frankfurt 13:00 Taipei 1:20 Bangkok 3:00 Brunei 2:30 Viet Nam 2:30 Brussels 14:16 London 14:00
GNP:	5.9% (Annual 2003)
GDP :	5.5% (Annual 2003)
Inflation:	3.4% (as of February 2004)
Foreign Direct Investment:	US\$ 118 value in millions (3 rd Quarter 2003)
Export :	US\$ 35,750.13 value in millions (Nov 2003)
Import :	US\$ 37,447.83 value in millions (Nov 2003)
Principal Exports	Electronics (66%); Garments (6%); Machineries/Transport Equipment (5%) -- 1st Sem 2003
Principal Markets:	USA, Japan, Netherlands, Hong Kong, Malaysia, Singapore, Taiwan, China -- 1st Sem 2003
Principal Investors	USA, Japan, Germany, Singapore, Taiwan, Argentina, Virgin Islands, France, Great Britain

Source: National Statistics Office and the Bureau of Investment

Geography



Figure 1. Average Flying Time from Manila to Selected Cities
“Situated on the crossroads of Asia’s commerce and transportation, it plays a significant role in international affairs. It serves as a bastion of democracy and a convenient and vital link between the two worlds – the East and West”

-PriceWaterhouseCoopers

The Philippines is located in the heart of Asia – today’s fastest growing outpost of the high-tech economy – sitting on the crossroads of Asian and international trade making it easily accessible and ready to serve the region. It is less than two hours from Hong Kong and within 4 hours from Tokyo and other Asian capital cities. The Philippines’ central position in the region makes it an ideal gateway of international shipping and air lanes, making it a critical entry point to the world’s largest market of 2 billion people. Recognizing the country’s geographical advantage, logistics giants such as FedEx⁷, DHL/Danzas and UPS have chosen the Philippines as their Asian hub.

Political Environment

The Philippines is the oldest working democracy in Asia and focuses on a strong adherence to constitutional process. Its democratic political system is patterned after the United States. This places the country in a good position to conduct business with U.S. end user buyers seeking to procure services from Filipino external service providers or multinational corporations focused on establishing offshore operations in the country.

Economic Environment

The last decade has seen the rise of the service sector, which now accounts for 46% of the total GDP. The economic environment provides an inviting climate for foreign enterprises, which include an allowance in some instances of up to 100 percent foreign-equity participation and market-oriented foreign exchange policies.

⁷ FedEx has a 12-year lease contract with the Philippines and is now on its ninth year of operation. On April 11, 2004 FedEx and the Philippine government will be renewing the contract for another 25 years. An estimated \$450 million investment will be used by FedEx to build its new facilities.

2.2 Key Drivers for the Filipino BPO Industry

While it has only been in the recent years that the Philippines experienced expansive growth in the BPO industry, the key factors supporting this growth is longstanding in nature. These factors can be attributed to the inherent qualities of its people and the significant advances that the private and public sector have established in terms of infrastructure and education.

2.2.1 Human Capacity

The Filipino worker has been earning a number of citations recently. In the 2002 IMD World Competitiveness Yearbook, the Philippines achieved a top 1 ranking on the overall availability of skilled labor. In comparison, India ranked 8th, Malaysia 30th, Indonesia 42nd, and China 45th. Ratings such as this strengthen the confidence in the country’s ability to supply quality labor. The rankings for availability of skilled labor are provided in Table 3.

Table 3. Availability of Skilled Labor 2002

Country	Finance skills	Country	Information Technology skills	Country	Overall availability of skilled labor
United States	8.17	United States	8.77	Philippines	8.25
Hong Kong (SAR)	8.10	India	8.72	Singapore	8.09
Philippines	7.97	Australia	8.27	United States	8.04
Australia	7.91	Singapore	8.26	Australia	7.78
Singapore	7.83	Philippines	7.71	Japan	7.62

Source: The World Competitiveness Yearbook 2002, IMD, Switzerland

An assessment of the qualities of the Filipino people shall be made to better understand their capabilities.

2.2.1.1 Quality and Supply of Labor Force

To support a sustainable BPO industry, a country must be able to provide a sizable amount of quality workforce knowledgeable in the field of business, accounting, finance, information technology, medicine and related courses, design, and other related fields that address the BPO industry’s needs.

The labor force participation rate of the Philippines in the past three years has remained over 65%, which translates to a 30 million workforce. The country produces about 380,000 graduates each year, of which 30,000 come from IT related courses. Majority of the graduates have studied business administration and other related courses, which include accounting and finance.

A review of Table 4 reveals that majority of graduates come from disciplines that is very much in demand in the BPO industry.

Table 4. Historical Graduates by Selected Discipline Group

Discipline Group	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001
Total	335,267	307,027	334,564	350,807	363,640
General	17,151	4,258	7,973	5,970	5,238
Education and Teacher Training	42,168	43,959	51,826	60,415	71,349
Fine and Applied Arts	2,480	967	1,357	1,560	1,323
Business Administration and Related Courses	90,880	93,612	101,649	104,555	106,559
Law and Jurisprudence	3,217	1,619	1,789	2,134	2,214
Mathematics and Computer Science	25,038	25,999	30,018	34,015	33,059
Medical and Allied Courses	36,181	34,325	34,218	30,053	27,296
Trade, Craft, and Industrial	3,814	309	110	391	712
Engineering	40,611	40,501	42,064	44,558	45,041
Architectural and Town Planning	1,810	2,040	2,013	2,235	2,541
Mass Communication and Documentation	4,145	3,598	3,898	4,747	5,140

Source: Commission on Higher Education

To ensure the quality of the professional field, the Philippine Regulatory Commission was installed by the government to administer, implement, and enforce regulatory policies with respect to the regulation and licensing of the 42 professions under its jurisdiction through the Professional Regulatory Boards. The quality of certified professionals is formally recognized most especially in the Engineering field. The Philippines is included in the APEC Engineer Registry, formally recognizing the academic and professional qualifications of Filipino engineers. Table 5 indicates the number of professionals certified in the fields relevant to BPO operations.

Table 5. Certified Professionals in the Philippines

Discipline	2000	2002	2003
Electrical and Computer Engineering	2337	2939	3007
Public Accountants	2648	2551	2529
Architects	725	715	799
Chemistry	234	239	258
Dentistry	1329	1354	502
Nursing	4602	4228	7528
Medical Technology	1890	1612	1641
Medicine	2189	2316	2157
Pharmacy	1681	1596	1563
Landscape Architecture	7		8
Interior Design	81	92	84

Source: Professional Regulation Commission

There is also a considerable supply of people with management experience. Table 6 reveals the number of professionals and people in the management level. These numbers

reflect the availability of individuals with management skills to fill leadership and management roles. Strengthening these findings is the citation received by the Philippines in the IMD World Competitiveness Yearbook 2000 where it ranked 3rd next to the United States and Chile in availability of competent senior managers.

Table 6. Employed Persons by Major Occupation Group
October 2002 - October 2003 (in thousands)

Occupation	October 2002	January 2003	April 2003	July 2003	October 2003
Total	30,251	30,119	30,418	30,451	31,524
Officials of government and special interest organizations, corporate executives, managers, managing proprietors, and supervisors	3,372	3,385	3,287	3,273	3,649
Professionals	1,391	1,389	1,368	1,287	1,364

Source: National Statistics Office

As the Philippines continues to realize the importance of investing in its people, the need to assure quality education and training becomes a must. The Commission on Higher Education⁸ has been mandated to ensure the quality and availability of education to all Filipinos. To fulfill this mandate, they have drafted a long-term higher education development plan for 2001-2010, which is currently being implemented.⁹

IT Professionals

The number of IT schools and institutions offering company-specific and standardized trainings continue to grow, ensuring the supply of quality and trained IT professionals. There are a number of Microsoft-authorized and IBM-authorized training centers in the Philippines, which offer the same courses and curriculum as their counterparts in the US or in Europe. Microsoft certification training is also readily available in several institutions. These trends ensure that world-class training is made available to the Filipino people.

In terms of availability of IT professionals, The 2002 Global New Economy Index of the META Group, ranks the Philippines 4th overall worldwide as the best source of IT professionals. META Group commends the Philippines for the “excellent availability” of skilled IT workers in the country and Filipino IT workers for their proficiency in mainframes, minicomputers and microcomputers as well as for their technical and business skills for information and communications technology (ICT) projects. The Meta Group used the following criteria to measure GNEI ICT competitiveness:

- Quality and Supply of ICT workers
- Country’s globalization state
- Economic Dynamism and competition
- Digital economy transformation
- Capacity for technical innovation

The ranking for the top four countries are provided in Table 7.

⁸ The governing body covering both public and private higher education institutions as well as degree-granting programs in all tertiary educational institutions in the Philippines

⁹ Review appendix: Long-term Higher Education Development Plan 2001-2010.

Table 7. 2002 Global New Economy Index (GNEI) Survey

Rank	Country
1	India
2	Israel
3	Iceland
4	Philippines

Source: Meta Group

The Meta Group cites the following qualities in Filipino IT professionals:

- Adept with mainframes, mini and microcomputers
- Equipped with technical and business skills for Information Technology and Communication projects
- Skilled in e-enabling services – business outsourcing, human resources, customer interaction, and website services, among others.

This evaluation reinforces the Philippines' goal to become an Information Technology and Communication hub in Asia.

Finance & Accounting Professionals

Trained accountants from the Philippines have a specific advantage given that the accounting regulations in the Philippines are the closest to American Generally Accepted Accounting Principles (US-GAAP) standards outside the United States.¹⁰ There are slightly over 100,000 registered/licensed Certified Public Accountants in the Philippines as of 2003 as reported by Philippine Institute of Certified Public Accountants. Yearly, over 2,500 Certified Public Accountants are added to this pool. In comparison, the Institute of Chartered Accountants of India (www.icaai.org) reports that there were 96,392 accountants in India as of 2001, 56,626 of which were in full-time practice, 11,019 in part-time practice, and 28,747 not in practice. This signifies that aside from the quality and skill compatibility, the Philippines also has a comparable size of accounting professionals that makes the Philippines an ideal site for financial shared services in Asia.

Medical Professionals

The country also has a high concentration of workers that have expertise in industry specific knowledge such as medicine and other allied courses. Yearly, the Philippines produces an average of 30,000 graduates from its 313 medical and allied sciences schools. Renowned worldwide for its quality, English speaking health care workers, the Philippines has been known to supply developed countries in Europe and the United States. According to figures from the Philippine Overseas Employment Administration, some 33,964 nurses were deployed abroad from 1995 to 2000. Deployment has increased in the recent years. In 2001 alone, the figure was 13,536, or 39.85 percent of the 1995 to 2000 deployment figures.

¹⁰ Review Appendix: Asian Development Bank Study on Accounting Practices in the Philippines.

Literacy

The Philippines has a well-educated and highly skilled labor force with strong computer and technological skills, which is currently underutilized. It is home to a number of Asia’s top universities. In 1994, the Department of Education rated the simple literacy of the Philippines at 93.9%, 96.5% in the urban areas. Metro Manila, where majority of the businesses and top schools are, rates at 98.8%. Table 8 indicates the simple literacy rate of Filipinos. By comparing the data from the two years it can be observed that there has been a significant improvement in the Philippines’ simple literacy – from 89.8 in 1989 and 93.9 in 1994.

Table 8. Simple Literacy of the Population 10 Years Old and Over 1989 and 1994

Area/Region (areas of interest)	1989	1994		
	Both Sexes	Both Sexes	Male	Female
Philippines	89.8	93.9	93.7	94.0
Urban	95.4	96.5	96.6	96.5
Rural	86.2	91.2	91.1	91.3
Metro Manila	98.1	98.8	98.9	98.8
Central Luzon	93.7	96.3	96.5	96.1
Southern Tagalog	93.2	96.4	96.8	96.0
Bicol Region	87.3	96.9	94.8	96.0
Ilocos region	90.6	95.5	96.1	94.8
Central Visayas	88.0	93.1	93.4	95.0
Northern Mindanao	90.5	94.6	93.8	95.5
Southern Mindanao	90.5	92.0	91.6	92.4

Source: Department of Education

English Proficiency

Today, the Philippines is recognized as the 3rd largest English-speaking nation in the world. Having been under American rule for over forty years, the modern day Filipino culture has been shaped and influenced greatly by American language and culture. English is widely spoken and used being the primary medium of instruction in higher education. All business, government and legal transactions are conducted in English. The clarity and understandability of Filipinos’ verbal skills in American English are more superior to that of India, Ireland, and other offshore destinations.

Turnover Rates

Worker turnover rates remain low in the Philippines. It can be attributed to culture of the Filipinos who demonstrate strong work ethic. It is common for the Filipinos to work long hours and think in a customer service-mindset.¹¹ To put this in perspective, turnover rates in the Philippines for call center positions are estimated at 13% while 22% for India.¹² This is much lower than turnover rates in US, which is at 35-50%.

2.2.1.2 Cultural Compatibility

The Philippine population is comprised of a dynamic and complex mix of ethnicities and cultures. The culture has been greatly influenced by settlers like the Chinese and colonizers which include Spanish and Americans. The most significant ethnic minority

¹¹ Ayala, Jaime Augusto Zobel. The Challenges and Opportunities in the Philippine Services Sector.

¹² Conboy, Martin. The 2003 Philippine Call Center Industry Benchmark. September 2003. Callcenters.net

group are the Chinese, who plays an important role in Philippine commerce. After the Chinese, Americans and Spaniards constitute the next alien minorities in the country. Foreign languages spoken by Filipinos include English, Chinese (Mandarin and Hokkien), and Spanish.

The more than forty year American occupation of the Philippines in the early 1900s left significant influences in the Filipino culture and lifestyle. Beyond the language factor, the Philippine education system was also strongly influenced by the American occupation. Filipino lifestyle is also very westernized. For example, children and teens grow up watching American television shows such as Nickelodeon, MTV and ESPN. All these elements create an awareness and interest in American culture allowing the Filipinos to relate to Americans easily. It is this unique set of characteristics that sets Filipinos apart from other offshore sites and adds to the attractiveness of locating here.

2.2.1.3 Labor Costs

The Philippines offers cost-effective wages. Its hourly rates are among the lowest in the world. Workers wages in the Philippines are 1/3 of those in Japan, technology workers in the Philippines cost around 16%-25% of US rates. Average monthly wages according to occupation and region are provided in the appendix. To put this further in perspective, a comparison of call center agents between countries is provided in Table 9.

Table 9. Annual Average Salary of Agents

Country	Rates
US	\$ 17,000 - \$ 22,000
Philippines	80 to 90 percent lower than US (\$1,700 to \$4,000 per year) average of \$2,828
India	80 to 90 percent lower than US (\$1,600 to \$4,000 per year) average of \$1,689
China	\$2,804
Hong Kong	\$16,438
Malaysia	\$3,960
Singapore	\$11,748
Thailand	\$3,949
Canada	Up to 30% lower than US
Mexico	Roughly 50% lower than US

Source: Daniel Hong, analyst of Datamonitor and CRM Magazine and Callcenters.net Benchmarking Report

The Philippine rates rank comparatively to its Asian neighbors. It may not be the cheapest in the region but Filipinos have unique traits that are valued in the industry that may not be available in other countries. Such traits include cultural compatibility with the US and good command of American style English. This inherent quality can translate to cost savings in other means such as training.

2.2.2 Infrastructure and Technology

2.2.2.1 Telecommunications

“A mature telecommunications infrastructure is one of the minimum requirements to be a legitimate offshore outsourcing destination. As we continue to monitor this market, our analysis indicates that the Philippines is on the path towards being a bright spot in Asia.”
- Mr. Lauro Vives, META Group VP for Asia Pacific and Philippine Country Head

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). Mukesh Mehta, VP for offshore operations of US-based Metlife Insurance cited the Philippines as “the best kept secret in the IT industry.” The Philippines is one of the fastest growing outposts of high-tech economy. Great improvements have been seen in telecom and office infrastructure over the years. High quality bandwidth is available at low cost. Bandwidth cost has declined 70% over the last four years and is expected to decline further. There is a rapidly expanding domestic network with six platforms available: (1) fixed line, (2) cellular, (3) cable TV, (4) over the air TV and (5) radio, (6) VSAT systems.

Another important advantage is its abundant international connectivity through fiber optic cable networks complemented by submarine cabling connected to every region of the world and satellite systems. The Philippines is connected to several state-of-the-art high capacity fiber optic submarine cables in the Asia-Pacific and Southeast Asia with onward connection to North America, the Middle East, and Western Europe. As of October of 2002 liberalization of the telecommunications sector has brought about the existence of 11 international gateway facility operators able to provide long distance calls, 5 cellular mobile telephone system operators, 7 inter-exchange carrier licensees able to service other carriers' traffic among others. This has created a solid competitive landscape for buyers. At the same time, satellite systems are available from regional and international operators. Diagrams and listings are provided in the appendix.

Deregulation and liberalization has created a competitive atmosphere in the telecom industry that has led to significant cost reductions. Local companies include: PLDT, Capwire, Bayantel, Digitel, Innove of Globe Telecoms, Eastern Telecoms and Philcom. Liberalization of the industry also allowed the entry of foreign capital. The biggest players in the market have strategic foreign tie-ups:

- Philippine Long Distance Telephone Company with First Pacific Group of Hong Kong and NTT of Japan;
- Globe Telecoms with Singapore Telecoms;
- Eastern Telecoms with Cable & Wireless; and
- Digitel with AB Telia of Sweden etc.

Deregulation has also enabled entry of foreign products and services. The foreign competing telecom companies stationed in the Philippines are: AT&T, MCIWorldcom, Sprint, Asianetcom, Hutchinson, Reach, and BTNA. There are also several Japanese telecom companies operating in the Philippines.

The government designed IT parks provide for independent fiber infrastructure. Such infrastructure would undoubtedly contribute to investments in Information and Communication Technology or Information and Communication Technology-related ventures in the country or outsource them from there.

Despite the technological advancements seen in the recent years, a majority of the organizations are said to routinely contract with more than one telecommunication carrier for redundancy. This is because the major telecommunication carriers in the Philippines frequently have conflicts with regard to their provisioning, which results in a temporary lack of service for customers. Hence, most enterprises assure connectivity by contracting with multiple carriers. It is a straightforward solution but clearly one that the country must address.

Telecommunication Rates

Bandwidth cost has drastically declined over the years. A T1 line cost US\$30,000 a month in 2001 and is expected to drop to as low as \$4,000. Provided in the tables below are the rates offered by major telecom companies in the Philippines.

Table 10. E1 Rates

Leased Facilities	International Private Leased Line				
	Domestic Leased Line				
Company	PLDT	Bayantel	MCI	AT&T	Asianetcom
Capacity	E1	E1	GDL E1		E1
Description			US West coast to Makati/Pasig		US West coast to Makati
Monthly Charge (IPLC)	US\$ 2,500.00	US\$ 2,700.00 (VAT Exclusive)	\$ 4,000	\$ 8,000	\$2,500.00
One Time Charge		US\$ 1,000.00 (VAT Exclusive)	\$ 1,500		
Lead-time		Thirty (30) working days			
Lease Term		One (1) Year			

Table 11. DS3/T1 Rates

Company	MCI	AT&T	Asianetcom.com
Capacity	DS3	DS3	DS3
Description	US West coast to Makati/Pasig		
Monthly Charge (IPLC)	\$ 40,000	40,000-60,000	\$ 25,000
One Time Charge	\$ 5,000		
Lead-time	30 working days		30-45 days
Lease Term			

The communications infrastructure existing in the country today and their costs are comparative to the rest of the region. In comparison to India, the Philippine costs can actually go 60-70% lower. This is due to the existing telecoms monopoly in India. This places the Philippines in a more competitive position over India in terms of infrastructure and technology.

2.2.2.2 Real Estate

The Philippines offers an abundant choice of real estate options. While most prime locations are found in the National Capital Region, select cities also provide comparable location sites. The options are primarily narrowed down to three physical locations:

- The commercial district of the city limits of Metro Manila
- Technology parks located within the Metro-Manila area (i.e., predominately suburban locations in nearby cities or towns)
- Two re-purposed military bases located two to three hours outside Metro Manila
- The commercial district of the city limits of Metro Cebu in the Central Visayas Region

As a national development strategy, the government designed and promoted the establishment of economic zones in the form of technology centric corporate 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 (i.e., former American military bases)

A sample of these technology centric corporate locations in the Philippines as researched by Gartner include:

- **ASEANA Intelligent Technologies Plaza**
Developer: ASEANA IT Plaza Consortium
Location: Paranaque City, Metro Manila, Philippines
Land area: 12.3 hectares (i.e., 30.4 acres)
Telecom facilities: 43,216 installed lines; 142,029 available phone lines; leased lines, ISDN and fiber optic
- **Bonifacio Information Special Technology Zone**
Developer: Bases Conversion and Development Authority
Location: Taguig, Metro Manila, Philippines
Land area: 25.0 hectares (i.e., 61.8 acres)
Telecom facilities: 187,414 installed lines; 53,882 available phone lines; leased lines, ISDN and fiber optic
- **CCTC IT Park**
Developer: Cebu Property Ventures & Development Corporation
Location: Cebu City, Philippines
Land Area: 23.7 hectares (i.e., 58.6 acres)
Telecom facilities: 30,967 installed lines; 119,777 available phone lines; leased lines, ISDN and fiber optic

- **Cebu Cybertown IT Park**
Developer: First Centro, Inc.
Location: Cebu, Philippines
Land area: 11.5 hectares (i.e., 28.4 acres)
Telecom facilities: 16,950 installed lines; 22,512 available phone lines; leased lines, ISDN and fiber optic

- **Eastwood City Cyberpark**
Developer: Megaworld Properties and Holdings, Inc.
Location: Manila, Philippines
Land area: 13.3 hectares (i.e., 32.9 acres)
Telecom facilities: 53,000 installed lines; 277,777 available phone lines; leased lines, ISDN and fiber optic

- **Fort Bonifacio E-Square**
Developer: Fort Bonifacio Development Corporation
Location: Manila, Philippines
Land area: 24.4 hectares (i.e., 60.3 acres)
Telecom facilities: 187,414 installed lines; 53,882 available phone lines; leased lines, ISDN and fiber optic
Tel: (632) 867-3988

- **Northgate Cyber Zone**
Developer: Filinvest Alabang, Inc.
Location: Alabang, Muntinlupa City, Metro Manila, Philippines
Land area: 18.7 hectares (i.e., 46.2 acres)
Telecom facilities: 38,886 installed lines; 142,543 available phone lines; leased lines, ISDN and fiber optic

- **PBCom Tower**
Developer: Filinvest Asia Corporation
Location: Makati City, Philippines
Building floor area: 11.748 hectares (i.e., 29.0 acres)
Telecom facilities: 421,942 installed lines; 239,606 available phone lines; leased lines, ISDN and fiber optic

- **RCBC Plaza IT Park**
Developer: RCBC Realty Corporation
Location: Makati City, Philippines
Building floor area: 15.04 hectares (i.e., 37.2 acres)
Telecom facilities: 421,942 installed lines; 239,606 available phone lines; leased lines, ISDN and fiber optic

The listing provided offers “ready-to-occupy” locations in the country. Due to the Asian economic crisis of 1997, the Philippines has an over capacity of real-estate space. As a result, the price of commercial real estate is extremely low compared to equivalent

options in Singapore or India (e.g., Bombay). Grade A property are available for lease at 40% less than their 1996 prices.

The findings in this section suggest that the infrastructure and technology in the Philippines is in place for Information and Communications Technology and Information and Communications Technology-related ventures that target global markets.

2.2.3 Government Support

The Philippine government has fostered the growth of BPO by implementing:

- **Investor Friendly Incentives**

Under the existing law, the Board of Investments grants an income tax holiday of four years for non-pioneer activities and six years for pioneer activities from the start of commercial operations, extendible by a maximum of two years.

- **Establishment of Economic Zones**

There are world-class, environment-friendly economic zones all over the country to respond to demands for ready-to-occupy locations for foreign investments. The Philippine Economic Zone Authority (PEZA) make up 16 special export processing zones and welcomes over 600 companies. The country's tax and fiscal incentives for companies located in economic zones continue to attract investors. Special incentives provided on Philippine Economic Zones include:

- ∴ Preferential tax rate of 5% of gross income earned in lieu of all national and local taxes
- ∴ Tax- and duty-free importation of capital equipment, raw materials, spare parts, and supplies
- ∴ Tax credit for import substitution
- ∴ Tax credit on domestic capital equipment
- ∴ Permanent residents status for foreign investors and immediate family
- ∴ Remittance of earning without prior approval from the Central Bank of the Philippines

- **Building IT Parks**

Building dedicated IT parks is a cornerstone of the government's e-services strategy providing not only a concentration of telecommunication facilities but also catchments for marketing, location and investment assistance for companies interested in further exploring outsourcing or other IT opportunities in the Philippines. Companies that set up IT business parks enjoy a six-year tax holiday that includes exemptions from government fees, licenses and export taxes.

- **Liberal policies and procedures**

Business regulations in the Philippines are flexible and receptive to the entry of foreign investments. Aside from allowing 100% foreign ownership of specific enterprises, it assures full repatriation of earnings and capital.

- Cooperation with the private sector
Together with the private sector, the government established the Information Technology and E-Commerce Council (ITECC) to oversee, review, and update the national promotion strategy for E-Commerce. The President of the Republic herself chairs the council. The task force aims to stimulate and foster the development of the Philippine IT sector and companies in the BPO industry.
- Deregulation of key industries and services
The deregulation of telecommunications led to open markets and increased competition. Perhaps the greatest effect of this policy is the decreasing costs of telecommunications in the country today.

The review of the key drivers¹³ of the BPO industry, which include human capacity, infrastructure and technology, and government support, reflect the readiness of the Philippines to serve global companies in search for an offshore location. While the Philippines greatest pride is its quality workforce, it is the summation of various strengths, its overall cost advantage, comparative telecommunications infrastructure and government support that point to the Philippines as a global outsourcing location of choice.

¹³ Key drivers identified in a USAID report. Philippines: Competitive Study of IT-Enabled Services Industry

3 SUPPORTING FACTORS FOR LOCATION SELECTION

There are other considerations that global companies may want to look into before selecting a location. These include living standards, the socio-political and economic climate of a country, and other industries supporting BPO. While usually not the primary factors for location selection these factors may carry some weight in the decision-making process.

3.1 Living Standards

In a survey conducted among 500 expatriates by Singapore based Political and Economic Risk Consultancy, the Philippines was top choice for expatriate living due to the following factors:

- Best overall quality life
- Ability of local population to interact with expatriate community
- Easily accessible recreational facilities
- Value-for money housing and shopping
- “Excellent” nightlife

Table 12. Expatriates Scorecard 2000 for Asian Countries

Philippines	3.27
Singapore	3.28
Japan	3.84
Hong Kong	4.10
Taiwan	4.49
Thailand	4.90
Malaysia	5.00
China	5.36
Indonesia	5.44
India	5.74
South Korea	6.27
Vietnam	6.32

On a scale of zero to 10, with 10 being the worst

Source: PERC

Site selection for many companies does not only entail cost savings in terms of human resources. Companies also look for a balance between cost and standard of living. This was one of the reasons why one of the world’s leaders in consumer products decided to locate their back end office here. The Regional VP and General Manager of the Philippine office was quoted to say, “We did not select the Philippines because salaries here are the cheapest. You can get cheaper salaries elsewhere. Vietnam, China, Indonesia, and India are cheaper. It is important to us to select a site that has a reasonable quality of living. The kind of culture, the kind of surroundings in Metro Manila, cost of housing being more reasonable than in other countries, good housing facilities, good

school facilities by way of the International School and other types of schools for children of expatriates.”

3.2 Socio-political and Economic Climate

3.2.1 Major Historical Socio-political Events

While a general perception of political instability is associated with the Philippines, careful consideration must be given in understanding the actual effects of this perception. To provide a brief background, in a span of 20 years, 2 major historical political upheavals have occurred. The first being the 1986 People’s Power Revolution which successfully overthrew the Marcos dictatorial regime and the 2001 People Power 2 Revolution that ousted then president Estrada. In 1997, the Philippines also suffered from the Asian Economic Crisis. Yet despite these major upheavals, the Philippines always rebounds and the trend of the Philippine economy in the long run still reflects growth as can be seen in the GNP and GDP trends through the years (Figure 2). If there were any major economic indicators that suffered, it would be the dollar exchange rate. But for BPO companies who earn in dollars and spend in pesos, their buying power actually increases.

The Philippines has been one of the least affected by the regional financial crisis that started in the last quarter of 1997. After posting a 0.5 percent contraction in 1998, the Philippines poised for a rebound with GDP growth of around 2.5% in 1999. Despite financial woes due to the crisis, analysts are predicting future growth as seen in the following forecasts:

- Strong domestic consumption and improved exports, the Philippine economy is forecasted to grow 4.5% in 2004
- Services are predicted to have higher growth rates than other sectors
- Inflation will remain low at 4.5%

According to the World Bank, The Philippine economy can be seen as stronger than many of the other developing countries affected by the Asian crisis in the sense that it had already reformed its financial markets and "graduated" from International Monetary Fund reforms. In 1993, the Philippine central bank was made independent, the financial system was liberalized, foreign exchange controls were removed, and new foreign banks were allowed for the first time since 1949. There have been no major bank closures (only 1 or 2 percent), nor a collapse in the real estate sector (which has been attributed to a low rate of speculative construction). The World Bank also ranks the Philippines as the most deregulated country in Asia. It is now considered a liberalized, trade oriented economy.

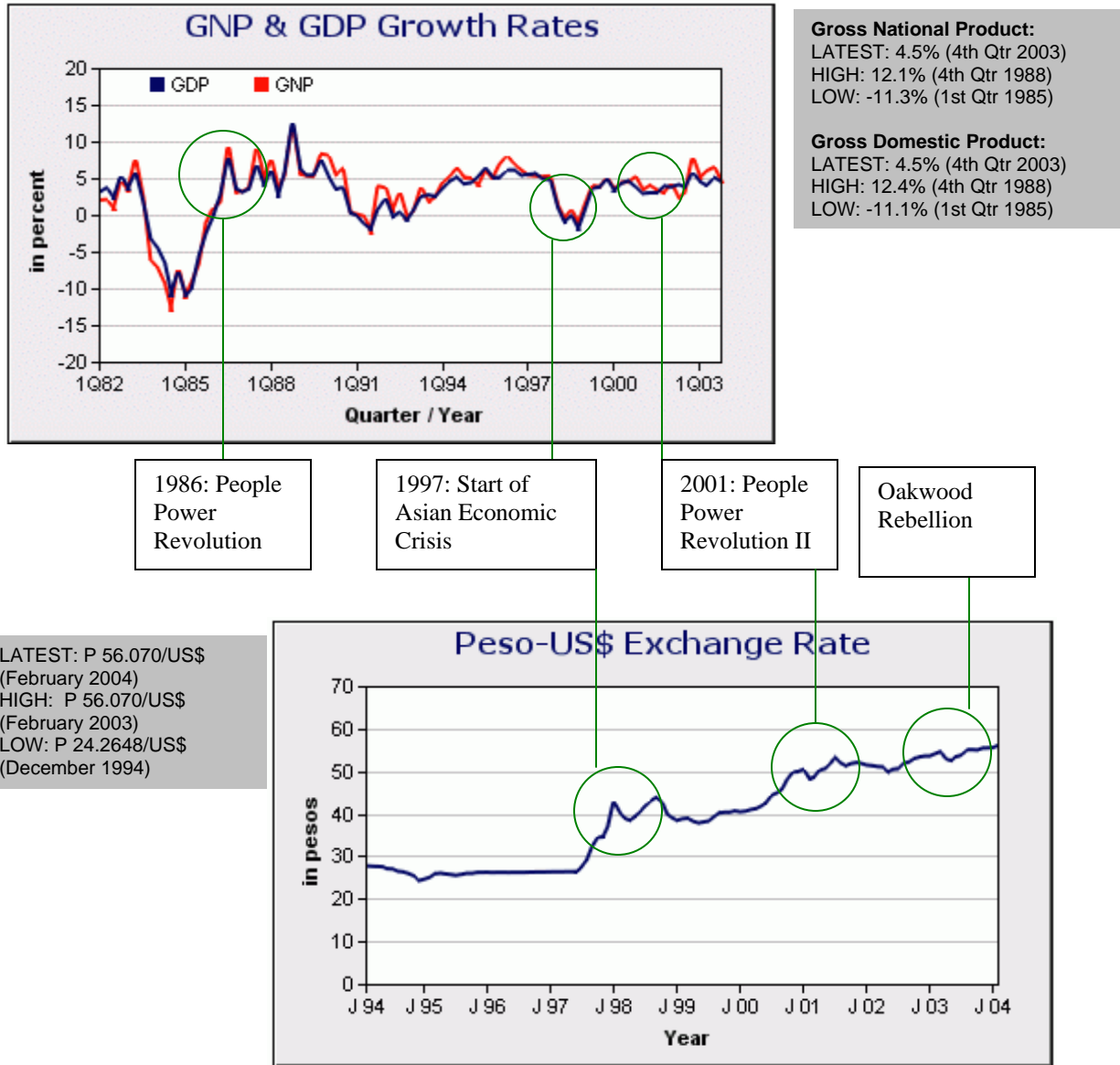


Figure 2. Major Socio-political Events Affecting the Philippine Economy
Source: National Statistical Coordination Board

3.1.2 Future Events

The Philippines is a developing democratic republic. Under the constitution, the president can hold six-year terms. It is now in its 4th post-Marcos era president and is very soon scheduled to hold the next presidential elections. As the May 2004 election draws near, a number of uncertainties once again arise for the Filipino people. However, call centers and BPOs can be assured that this event shall have no major operational impact on their business. After all, it is unlikely that any of the candidates will try to undermine the industry, which is providing much-needed jobs to the Filipinos.

Despite the changes in the socio-political climate of the Philippines, BPO investors can be assured in the country's ability to support the growing BPO industry. The fact that the numbers of global companies who locate here continue to grow and investors and analysts alike continue to give positive ratings is assurance enough to those considering the Philippines as a location site. Richard North, CEO of The InterCon Group¹⁴ was recently quoted saying that his group is apolitical and that it is not true that their investments in the country will be adversely affected if certain political candidates win in the May election. North stressed that the confidence of the InterCon Group is in the people and in the long-term economic potentials of the country, regardless of the frequently changing faces of the politicians. "We believe in the economic stability of the Philippines. We won't invest in a country if we don't believe it can provide good opportunities for business. We have been here for 35 years and we are here to stay," reiterates North.¹⁵ InterCon is only one of the many companies who have expressed their confidence in the Philippines.

3.3 Supporting Industries

3.3.1 Human Resource Firms

In the Philippines, a large number of multinationals and call centers seek the services of executive search firms to assist them with their recruitment needs. Especially for call centers that post a need of sometimes more than a hundred jobs, the services of executive search firms come in handy. Indicated in the tables below are the executive search companies operating in the Philippines.

Table 13. Executive Search Firms in the Philippines

¹⁴ The InterCon Group owns, manages, leases or franchises through subsidiaries more than 3,400 hotels and 530,000 guest rooms in almost 100 countries and territories worldwide. The prestigious hotel chain recently reaffirmed faith in the Philippine future during the inaugural of the Manila Customer Service Center at the RCBC Plaza, Intercon's new customer service center.

¹⁵ Philippine Star

Company Name	Profile
Signium Ward Howell ZMG	Ward Howell ZMG handles medium-top range executive search. It established a subsidiary, Asia Select to handle low-medium range executive search. They service a number of multinational companies. The firm handles shared services searches for Citibank NA (Philippines), Caltex Philippines, Procter & Gamble and call centers.
Asia Partnership Philippines	Asia Partnership is an international recruitment, training and consultancy firm with headquarters in Australia.
Boyden Global Executive Search	Boyden has served the executive search needs of the Philippines since 1985, initially providing its services from its Hong Kong office. As the demand grew for its unique approach to professional search, Boyden opened a fully staffed local office in November 1997. Boyden is the only international human resources consulting firm in the Philippines with internationally trained and experienced consultants. Boyden is renowned for quality and value-added executive search. Our staff is multinational and our focus is on exclusively retained senior level searches, domestically, in the Asia Pacific region and globally. major companies retain us to find the best executive talent.
George Garrett Guilford Associates	George Garrett Guilford is the Philippine Partner of Transearch International, engaged in executive search for senior-level appointments covering a broad range of industries.
Watson Wyatt	Watson Wyatt Worldwide is a global consulting firm focused on human capital and financial management. Watson Wyatt specializes in four areas: employee benefits, human capital strategies, technology solutions, and insurance and financial services. Watson Wyatt has more than 6,000 associates in 89 offices in 30 countries including the Philippines

3.3.2 Real Estate Consultants

While the Philippines has abundant real estate options, several international firms are in the country that provide a wide portfolio of services that can address a company’s real estate needs.

Table 14. Real Estate Consultants

Company	Profile
<p>CB Richard Ellis Philippines</p>	<p>CB Richard Ellis Philippines was established in 1998 and has been prominent in the Philippine market since 1995 through a previous Richard Ellis association. CB Richard Ellis Philippines currently employs over 100 highly qualified personnel and is rapidly expanding to serve clients with a full range of property services. The firm has established its position as the market leader in the commercial brokerage services segment and undertakes a large proportion of Tenant Representation assignments for Multi-national Corporations entering or expanding operations in the Philippines. The support services of residential brokerage are also an integral part of the full brokerage services to clients. The company is also rapidly expanding its operations in Asset Services, with currently over 1.4 million square feet or over US\$400 million of prime commercial, residential properties under its management, spread over major cities in Metro Manila, including Makati City, Ortigas Center-Pasig, Fort Bonifacio and the City of Manila. The Research and Consultancy Department has an excellent track record providing professional advisory services to: financial institutions, large domestic corporations, multinational corporations and government institutions, fund managers international real estate funds and investments banks.</p>

<p>Jones Lang LaSalle</p>	<p>Jones Lang LaSalle was formed in March 1999 with the completion of the merger between Jones Lang Wootton and LaSalle Partners. The newly merged company combines Jones Lang Wootton's strengths in Europe and the Asia-Pacific region, with LaSalle's great presence and investment management leadership position in North America. The Company is listed on the New York Stock Exchange with operational headquarters in London and global holding company headquarters in Chicago. Regional headquarters are based in Chicago for the Americas, London for Europe, Hong Kong and Singapore for Asia, and Sydney for Australasia. With 7,425 employees worldwide, operating in more than 100 key markets in 34 countries on five continents, Jones Lang LaSalle is positioned as the pre-eminent global real estate services and investment management company. The company portfolio includes more than 60 million square metres (680 million square feet) of real estate under management and approximately US\$22.5 billion of assets under investment management. Jones Lang LaSalle's balance of global investment management and real estate services capabilities create a single source for addressing the growing and wide ranging real estate needs of international and local clients worldwide. They provide a wide range of comprehensive, integrated services on a local, regional and international level to real estate owners, occupiers and investors through six business segments: Hotel Services, Investment Management and four geographic regions of Owner and Occupier Services.</p> <p>Jones Lang LaSalle's mission is to provide truly integrated, high value-added services for real estate investors, owners and users worldwide. Their vision is to create the real estate firm of the future - the firm of choice - serving clients around the globe, by using and advancing the best practices of the world's most innovative companies.</p>
<p>Colliers International</p>	<p>Colliers International is a global partnership of more than 40 real estate firms. In Asia Pacific, Colliers International is owned by the Colliers Macaulay Nicolls (CMN) Group of Companies, which is the largest member of the Colliers International federation. The organization's 6,600 employees span the world in more than 250 offices in 51 countries.</p> <p>Colliers International is the leading real estate services provider in the Philippines, synonymous with quality, reliability and total customer satisfaction.</p> <p>Established in 1994, Colliers International Philippines now has a staff of over 250 head office and on - site staff. The effective combination of personnel with knowledge of group and international best practices has resulted in a track record that is second to none.</p>

3.3.3 Software Companies

Major software companies are present in the Philippines. This assures that software needs of BPO firms can be addressed easily. Table 15 lists some selected companies.

Table 15. Software Companies in the Philippines

Company	Services	Type of Operations
Microsoft	Microsoft offers a wide range of products and services, suited for both personal and business use. Each product is designed for two things: one, to make it easier and more enjoyable for people to take advantage of the full power of personal computing every day; and two, to provide enterprises with more efficient solutions to maximize productivity.	Microsoft Philippines conducts business through its network of partners and resellers, which number more than 1,600.
Oracle	e-business solutions cutting across key economic sectors including telecommunications, banking and finance, government, manufacturing, retail and distribution and consumer products.	Oracle Philippines, founded in 1990, is a 100% subsidiary of Oracle Corporation and sells its products and services either directly or indirectly through bona fide business partners.
PeopleSoft (Formerly JD Edwards)	Provider of application software for the real-time enterprise	Direct and indirect distribution
Software AG	Europe's largest system software provider and a major global player offering cutting edge technology for data management and electronic business.	Value-Added Resellers / System Integrators Companies that obtain Software AG's technology and products from distributors. They then use these products mainly to implement projects according to individual customer needs.

3.3.4 Office Equipment Companies

Most major office equipment companies such as computer manufacturers are represented in the Philippines. While some have local offices, a number distribute their products via local vendors.

Table 16. Office Equipment Companies

Company	Services	Type of Operations
IBM	Personal computing Notebooks Desktops Workstations Monitors Accessories / upgrades Packaged Services Warranty & maintenance Servers Intel processor-based UNIX Midrange Mainframe Storage Printing systems (SG) Software	Local distribution via vendors
Dell	Notebooks Desktops Workstations Monitors Accessories / upgrades Software and peripherals Networking Storage Servers Printers	Local distribution via vendors
HP & Compaq	Desktop, Servers, Monitors, Handhelds, Software products, Networking, Storage, Fax, Copiers, etc	Local Retailers and Vendors
Ricoh	Facsimile Machines Digital Products Copiers Supplies Service Maintenance Contract	Local Operation with Dealer Channels
Sharp	Color Television(Domestic) VCR/VCP(Domestic) LCD Projector and Viewcam(Domestic) Mini Component (Domestic) System Stereo (Domestic) Radio Cassette (Domestic/Export) Airconditioner (Domestic) Inkjet Printer	Local operations with dealers. Local manufacturing and service.
Xerox	Copiers, Office Printers, Facsimile Machines	Local Operation with resellers
Avaya	Call center/CRM products, Conferencing products, LAN/WAN access solutions	Local Operation with Dealer Channels
Alcatel	Voice solutions and networking infrastructure	Direct sales with resellers
Genesys	Computer telephony integration	Direct sales with resellers
Nortel	Wireless Networks, Wireline Networks, Enterprise Networks, and Optical Networks	Local operations with resellers

3.3.5 Accounting Firms

A number of the world’s largest accounting firms are represented in the Philippines. These companies offer a wide array of services and provide world-class training to Filipino accounting and finance professionals.

Table 17. Accounting Firms in the Philippines

Firm	Foreign Affiliate	Profile
SGV	Ernst and Young	<p>SyCip Gorres Velayo & Co. (SGV & Co.) is the Philippines' largest multidisciplinary professional services firm with nine offices across the country. The Firm employs over 1,500 professionals from various disciplines. The Firm provides integrated solutions that draw on diverse and deep competencies in assurance, tax, risk consulting, and corporate finance. The Firm upholds the highest standards of quality. In fact, SGV & Co. remains the only ISO 9002-certified professional services firm in the Philippines since 1996.</p> <p>SGV & Co.'s track record has remained unmatched in the region. It has accumulated invaluable resources over 56 years of operation - highly qualified and competent staff, state-of-the-art facilities, and an enviable international network. The Firm envisions not only to give value-added services to its clients but, more importantly, to become a partner in their and the region's development.</p> <p>SGV & Co. became an affiliate of Ernst & Young International on June 6, 2002. Ernst & Young, a global leader in professional services, understands the business issues that are important to senior executives. With extensive business knowledge and hands-on industry experience, the global Ernst & Young organization can implement a broad array of solutions to help companies capture growth, improve financial performance and manage risk - anywhere in the world. Its 100,000 people serve as trusted business advisers in more than 130 countries, offering audit, tax, corporate finance and transaction services across all industries to many of today's leading global corporations as well as emerging growth companies.</p>
Joaquin Cunanan & Co.	PriceWaterHouse Coopers	<p>PricewaterhouseCoopers Philippines is also known as Joaquin Cunanan & Co. PricewaterhouseCoopers (www.pwcglobal.com) which is the world's largest professional services organization. Drawing on the knowledge and skills of more than 125,000 people in 142 countries, we build relationships by providing services based on quality and integrity.</p>
Punongbayan & Araullo	Grant Thornton	<p>In 1988, Benjamin R. Punongbayan and Jose G. Araullo founded a public accounting firm that they envisioned would grow by adhering to the principles of integrity, quality and excellence in the delivery of professional services. Today, Punongbayan & Araullo (P&A) is the</p>

		<p>third largest public accounting practice in the Philippines. P&A has a total personnel strength of over 400, including 17 Partners and Directors. P&A provides valued added services in the areas of Audit & Assurance, Tax Advisory & Compliance, Corporate Finance, and Business Support Services. P&A is the leader in privatization work in the Philippines and has handled many important due-diligence engagements for international finance institutions. P&A leads the Philippine accounting industry in its high level use of technology in all parts of its practice.</p>
Laya Mananghaya & Co.	KPMG	<p>The KPMG affiliate Laya Mananghaya & Co provides auditing, tax work and management consultancy services to local and multinational companies in the Philippines.</p>
CL Manabat & Co.	Deloitte & Touche	<p>C. L. Manabat & Co. provides a package of professional services in various areas of business management, including:</p> <p>Business Consulting Services</p> <p>General Business Advisory</p> <ul style="list-style-type: none"> . Business systems analysis and design . Organizational restructuring . Organization development and planning . Visioning, corporate image enhancement and public relations <p>Financial Advisory</p> <ul style="list-style-type: none"> . Investment planning . Financial restructuring for private and public placements . Loan syndication <p>Business Development and Strategy</p> <ul style="list-style-type: none"> . Industry studies and market research . Project development and implementation . Corporate strategic planning <p>Tax and Corporate Services</p> <ul style="list-style-type: none"> . Organizing business enterprises . Labor and personnel relations . Fiscal and non-fiscal incentives . Real property taxation and local taxation . Trademark application/registration of licensing agreements . Income tax preparation/statutory returns . Tax advisory and planning . Tax audit and tax laws compliance evaluation . Review of tax effects of alternative courses of action <p>Assurance and Advisory Services</p> <ul style="list-style-type: none"> . Statutory audit . Acquisition audit

		<ul style="list-style-type: none">. Due diligence review. Internal audit. Operations and management audit. Fraud audit. Litigation support <p>Outsourcing Services</p> <ul style="list-style-type: none">. Manpower sourcing and executive headhunting. Payroll processing. Bookkeeping services. Business center facilities
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Foreign firms considering to outsource can be assured that setting up their business in the Philippines can be made easier by the local presence of companies offering services and products that are essential to BPO.

4 THE FILIPINO BPO INDUSTRY: AN OVERVIEW

The BPO business in the Philippines was estimated at US\$350 million in 2001. The country is continuing to gear up as it reaches for its projected goal of US\$1.65 billion this year. Recognizing the huge opportunity that BPO represents for the country, the Philippine government and the private sector have been working together to better position the Philippines as a premier outsourcing location. Working together under the IT E-Commerce Council, the two sectors identified the following segments that the country should focus on¹⁶:

- Financial and Administrative Business Process Outsourcing
- Customer Contact/Call Centers
- Medical Transcriptions
- Animation
- Software Development

The general criteria used to choose the segments include:

- Market Potential
- Employment potential/job creation
- Supply of knowledge workers
 - Unique competitive advantages of the country
 - Education
 - English speaking proficiency
 - “Cultural affinity” with the USA
- Low costs (“value for money” up to 50% savings) and time difference

Projections for these sectors are given in the table below.

Table 18. Selected Segments of Business Process Outsourcing

	2001	2004	Average Annual Growth Rate	Benchmark (Reference)
Financial and Administrative BPO	5-6 firms	30-50 firms		
Customer Contact Centers	\$ 173M	\$ 864M	50%	20% (global)
Medical Transcription	\$ 40M	\$ 483M	130%	20% (USA)
Software Development	\$ 115M	\$ 268M	30%	55% (India)
Animation	\$ 21M	\$ 40M	25%	35% (global)
TOTAL	\$ 349M	\$1655M	68%	

Source: Department of Trade and Industry

As these segments continue to grow with the number of BPO providers that choose to set up business and locate here, the Philippines continues to expand and create depth in its BPO experience strengthening its competitive advantage in the industry.

¹⁶ ITECC Strategic Roadmap 2003. ITECC is the highest policy-making body of the Philippines chaired by the President herself. It hopes to lead the Philippines's ICT industry through the next millennium and beyond by providing a clearly defined direction through strong and capable leadership.

4.1 BPO Presence in the Country

The Philippines is home to a number of local and international BPO service providers. Already, a number of multinational corporations such as P&G, HP, AIG, Accenture, IBM and Citibank have chosen the Philippines as the site of their outsourcing operations. These corporate giants choice to locate in the Philippines for their outsourced services is a vote of confidence in the country's ability to offer BPO services to the global market. Table 19 below tracks the development of outsourcing in the Philippines through the growth of multinational corporations who have chosen to outsource in the country.

Table 19. Sample Business Models of Multinational Corporations in the Philippines

-
- In June of 1998, Caltex established Caltex Shared Service Center which today provides multi-functional backroom transactional processing services in the areas of finance and accounting, human resources, and information technology for six major client countries in the Asia-Pacific region -- Hong Kong, Malaysia, Philippines, Singapore, Thailand and New Zealand.

 - In December of 1999, Maersk-Sealand starts operations in the Philippines. Maersk Administrative Center Ltd (formerly Sea-Land) employs Filipinos to do general accounting and shipping documentation for its 11 Asian branches.

 - In 2001, UPS Asia Consolidated Service Center – employs Filipinos to do consolidated finance and accounting service as well as accounts payable management and check and cash management functions for its affiliate companies in the Asia Pacific region.

 - In 2002, AIG Business Processing Services Inc provides data entry and encoding, application forms transcription and processing imaging, claims processing, check preparation, accounting and disbursements services to member companies of American International Group Inc.

 - In May 2003, P&G and HP enter a 10-year agreement worth US\$3 billion for HP to manage its IT infrastructure. The contract covers data center operations, desktop and end-user support, network management and applications development and maintenance for P&G's global operations in 160 countries.

 - In September 2003, P&G awards IBM a ten-year contract worth US\$400 million to provide the manufacturing firm with employee services. The outsourcing deal which shall commence in January 2004 will have IBM providing services such as payroll processing, benefits administration, compensation planning, expatriate and relocation services, and human resources data management to about 98,000 P&G employees in about 80 countries. The Philippines is expected to benefit from this outsourced services deal which effectively makes the country the center for this business process outsourcing services in the Asia-Pacific.

 - In October 2003, The InterContinental Hotels Group sets up a P300-million modern customer service center at the RCBC Plaza in Makati City to serve its growing 18 million Priority Club Rewards members worldwide.
-

BPO service providers can be further broken down into two general categories:

- (1) Multinational corporations (MNC) in-house shared services providers and
- (2) Commercial service providers

Table 20 provides selected BPO service providers arranged according to category. Some common characteristics of MNC in-house shared service providers include the following: (1) Existing local operations (2) Core or sensitive outsourced services (3) Serving different locations to take advantage of lower labor costs and economies of scale. Meanwhile, commercial service providers are external companies targeting organizations

that want to focus on core business or simply organizations wanting to lower cost or operations.¹⁷

Table 20. BPO Providers According to Category

MNCs In-House Shared Service Providers		Commercial Service Providers	
Caltex	Finance & Accounting	Sykes	Telemarketing/CRM
Maersk	Finance & Accounting	PeopleSupport	Telemarketing/CRM
Alitalia	Finance & Accounting	Ambergris	Telemarketing/CRM
Proctor & Gamble	Finance & Accounting IT, Technical Help Desk	SVI Connect	Customer Care
Citibank	Credit card operations	C3	Customer Care
Accenture	Software Development	e-Telecare	Customer Care
Trend Micro	Software Development	SVIC	Software development
We Serve	Engineering drawings	CIS	Software development
Fluor Daniel	Engineering drawings	Vantage Info Services	Medical Transcription
Kajima Corp	Engineering drawings	American Data Exchange	Medical Transcription

Source: IT E-Commerce Council

Indeed, the confidence that the multinational corporations have shown in the Philippines and the continuing growth of the BPO service industry in the country today asserts the Philippines' ability to serve others who are on the lookout for a BPO site.

4.2 The Selected Segments and Competitive Advantages

4.2.1 The Call Center Industry

Market Size

The call center service has been dubbed the country's latest emerging sunshine industry. This is largely due to the explosive growth that the industry has seen in the past few years which can be attributed to the opportunities presented by the worldwide outsourcing trend. A \$33 billion industry in 2002, the global call center industry is expected to boom into a \$60 billion business by 2007.

The Department of Trade and Industry (DTI) reported that the number of seats of outsourced contact center players increased from less than 2,000 from the year 2000 to greater than 20,000 in 2003. Already with about 46 contact center firms in the country to date, this burgeoning industry is expected to grow yet another 100% this year to 40,000 seats as seen in Table 21. The projected growth rate is the highest among countries in the Asia Pacific countries. From "almost unexplored territory" five years ago, DTI projects that the call center industry will employ 100,000 Filipinos by 2005.

¹⁷ ITECC Business Development Committee Report 2003

Table 21. Number of Seats, 2003-2004

Country	2003	2004 (f)	Growth Rate
Australia	135,000	146,000	+8%
India	96,000	158,000	+65%
China	38,000	54,000	+42%
Philippines	20,000	40,000	+100%
New Zealand	12,000	13,500	+13%
Thailand	11,000	13,000	+18%
Singapore	10,000	10,100	+1%
Hong Kong	10,000	10,700	+7%
TOTAL	332,000	445,300	+34%

Source: Martin Conboy presentation at the DTI eServices Forum (2003). Callcenters.net
(f) Forecast

Presence in the Philippines

This surge in numbers and the good reviews that the Philippines has been getting from contact centers who have set up business here have not gone unnoticed. Many of the major US players have set up operations in the Philippines, which is comparable to India (see Figure 3). Although SITEL is not yet present at the time being, the company has specific plans of opening business in the Philippines by second quarter of 2004. As of 2003, there were about 34 firms operating in the country. A number of firms are still expected to enter the country in the near future while those who are in the country are expected to expand their operations soon.¹⁸

Figure 3. Selected Worldwide Customer Care Services Revenue, Top Vendors, 2002 Revenue and Offshore Presence of Leading Contact Center Players in the US

Company	Revenue in 2002 (US\$ millions)	Presence in the Philippines*	Presence in India*
Convergys	1,397.50	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
TeleTech	1,017.44	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
WEST	820.66	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SITEL ¹⁹	770.21		<input checked="" type="checkbox"/>
Sykes	452.74	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Sources: SGV Review: Contact Center Industry 2003, Bloomberg, Company websites, and the Knowledge Institute analysis. Convergys revenue is only from the contact center-related business (Customer Management Group)

*As of February 2004

¹⁸ Peoplesupport budgeted \$25 million for expansion plans this year for building an additional 700 seats employing 1,000 workers in Cebu and an additional 1,300 seats employing 2,000 in Manila. Convergys is eyeing Cebu City in the Central Visayas Region as the site for their 3rd call center in the Philippines.

¹⁹ In its 4th quarter 2003 report, SITEL mentions its plan to open a new center in the Philippines by the 2nd quarter of 2004.

Scope of Services Offered

Call centers provide a variety of customer and employee care services to Americans which include handling call-in queries and technical support; e-mail, online chat, travel and consumer services; and medical and legal transcriptions. Table 23 indicates the inbound and outbound support call center services currently being offered in the Philippines.

Table 23. Call Center Service Offerings in the Philippines

Service Offerings	
Inbound	Outbound
Inquiries (Products & Promos)	Telemarketing
Help desk / Technical Support (level 2)	Telesurvey
Payment Authorization	Telecollection
Order Taking & Confirmation	Sales Verification
Complaints Handling	Sales Dispatch
Concierge Services	Reactivation of lapsed accounts
Directory Assistance	

Call Center sites in the Philippines

Call centers can be found in the following areas: Manila, Makati, Quezon City, Pasig, Taguig, Mandaluyong, Muntinlupa, Laguna, Cebu, and Clark with plans of future expansion to other provinces. A listing of some of the companies that have set up business in the country is provided in the appendix.

Unique Competitive Advantages

The reasons identified by contact center firms for operating in the Philippines are not difficult to grasp given the country’s unique competitive advantages which include a highly educated, low-cost, English-speaking workforce as well as excellent telecommunication facilities, a cultural affinity to the United States, and government incentives. To further strengthen this point, the *Asian Call Centers Review 2002* rated the Philippines as the number one Asian call center location. The survey, which involved 19 countries, was evaluated on the basis of the quality of English language, quality of available agents, cost, telecommunications, stability, support services and management.

The opportunity that the call center industry presents is vast. While countries are fast recognizing this opportunity, there are but a few who have shown the ability to provide the service that markets are looking for. The Philippines, while working on its unique competitive advantages, has developed itself as one of these top locations for outsourced call centers. Perhaps the strongest confirmation of the country’s merits as an outsourcing location is the increasing expansion of existing call centers in the country today.

4.2.2 The Medical Transcription Industry

Market Size

The United States is regarded as the largest Medical Transcription outsourcer globally. In 2003 alone, the US medical transcription market was worth 13.2 billion dollars with a 10-percent annual growth. By 2007, the Medical Transcription market is projected to be

worth 19.3 billion dollars. The medical transcription industry has been experiencing some difficulty to fill the demand especially with the declining number of medical transcription professionals in the US. For reasons such as this, the industry resolves to outsource some of the requirements abroad. The outsourced portion is about \$6 billion and represents 45% of the US demand. Total outsourced market is growing at 13% per year.²⁰ According to the projection of local MT companies, if the Philippines can get hold of 10% of the market share, revenues from this sector will amount to more than 50 billion Philippine pesos in a few years.

Presence in the Philippines

Currently, there are at least 17 companies in the Philippines that provide Medical Transcription services to US clients either directly or via partnerships with American transcription firms. These companies employ approximately 1,200 professionals with medical backgrounds.²¹ Some of the Medical Transcription companies in the Philippines include SPI Healthcare Documentation, e-Data Services, Radix Systems, Total Transcription Solutions, Transkripsyo, JL Business Solutions, IT Outsource, Medi-Type and Vantage Information Services.

Scope of Services Offered

Medical Transcription in the Philippines includes the provision of the following types of transcription work²²:

- Office Visits
- Consultation Reports
- Progress Notes
- History and Physical Reports
- Operative Reports
- Clinical Notes
- Emergency Notes
- Psychiatric Evaluation
- Operative Reports
- Discharge Summary

Note: data/file conversion is also covered.

Unique Competitive Advantages

The supply of knowledge workers and the country's unique competitive advantages such as high English proficiency both written and spoken and familiarity with medical business practices in the US makes the Philippines a viable outsource site for Medical Transcription.²³ Most of the 1,500 medical transcription professionals employed in more the medical transcription companies are college graduates from medical schools and allied subjects like Chemistry and Biology.

²⁰ The Philippine Daily Inquirer. February 21, 2004. An interview with Terry L. Peteete, a medical transcription industry analyst for the United States and Asia and a member of Total Transcription Solutions Services, Inc. (TTSI)

²¹ Center for International Trade Expositions and Missions (CITEM)

²² Philippine Medical Transcription Industry Fact Sheet. <http://www.outsoucephilippines.org>

²³ Clarissa Dimacala, CARANA Corporation, April 2002. US AID.

A relatively young industry in the Philippines, medical transcription holds much promise given the global demand and the country's ability to supply this demand. While the size of outsourced Medical Transcription in the Philippines is small in comparison to other IT service sectors in the country, the country's inherent advantages such as the supply of health care graduates and the acceptance of Filipino healthcare workers globally clearly signifies the country's ability to support the growth of the medical transcription industry.

4.2.3 The Animation Industry

Market Size

The worldwide animation industry is estimated at US\$ 37 billion according to a NASSCOM report. Meanwhile, this number is forecasted to grow to US \$ 51 billion by 2005. The growth of the industry that just recently recovered from a major slump can be attributed to the increased broadcasting hours by cable and satellite TV along with the growing popularity of the Internet. Presently, the Philippine animation industry is valued at US\$21 million annually with a projected growth of 25% to reach \$ 40 million in 2004.

Presence in the Philippines

As of 2003, the Department of Trade and Industry reports that the local industry currently employs some 2,500 skilled artists in at least 24 known companies in the country. Filipino animators have been a part of major international studies and were behind some of the successful animated series worldwide.²⁴

Gartner identifies three primary groups of vendors in the animation industry:

- In-house animation studios, dedicated to the parent company (e.g., Japan's TOIE)
- American or international studios in the Philippines, e.g., Philippine Animation Studio, Inc. (PASI) and ImagineAsia
- Filipino studios (e.g., Phil Cartoon, Animasia, Animates and Artfarm)

Unique Competitive Advantage

Unique competitive advantages seen in the Philippine animation industry include its strong cultural affinity with the USA not just pertaining to the language but the awareness and interest in American culture which includes the entertainment industry. Aside from this, Filipinos are traditionally very creative and artistic people. In fact, there is a vast pool of highly skilled, creative and low-cost cell animators in the country.

Scope of Services Offered

Services Filipino animation firms provide include graphic design, desktop or e-publishing, 2D and 3D animation, web development, architectural visualization, and digital video editing.

After suffering from the global animation industry slump between 1999 and 2001, the Philippine animation industry is once again on the rise. Firms are currently expanding

²⁴ Filipino animators have also been part of major international studios such as Walt Disney, Warner Bros., Hanna Barbera, Dreamworks and the Cartoon Network.

their operations.²⁵ This is a boost of confidence for a country where talented animators abound.

4.2.4 The Software Development Industry

Market Size

Gartner predicts that the overall IT outsourcing spending will rise from \$176.8 billion in 2003 to \$235.6 billion in 2007.²⁶ In 2001, software development generated about \$115 million in revenues in the Philippines.²⁷ This year, the Philippines expects to reach \$268 million in revenues for the software development industry.

Presence in the Philippines

As of 2003, there are 1,739 registered companies in the IT sector, composed of:

- Hardware consultancy: 143
- Software consultancy, supplementary activities: 87
- Software Development: 99
- Data Processing and Conversion: 1,203
- Database activities: 120
- Maintenance and Repair: 22
- Other related activities: 65

Major players include:

- Accenture (Software Customization)
- WeServ (Software Development. and Implementation)
- Trend Micro Electronics (Software/Applications Development)
- APTI Phils. (Mobile Device Development)
- Ideawurx (Customized computerized telephony systems)
- Jupiter Systems (Software Development)
- Headstrong Philippines (Software Development)

Scope of Services Offered

Software development services pertain to the provision of contract services rendered locally for offshore clients or the assignment of manpower to the client's facilities.

Computer software is generally categorized into:

- Systems software – includes operating systems, language compilers, database management systems, and utilities among others.
- Application software – refers to software which have been developed for use in offshore clients, or the assignment of manpower to the client's facilities. These include analysis, design, programming, training, documentation and consultancy.

²⁵ Toei Japan entrusts 60 percent of its total animation work to its Philippine subsidiary, it is expected to grow to 80% this year.

²⁶ Gartner IT Outsourcing Market Forecast: Worldwide, 2002-2007.

²⁷ Likely to be understated due to unreported exports

Types of software development services include the following:

- Analysis and Design
- Programming and Testing
- Customization
- Reengineering and Conversion
- Installation and Maintenance
- Education and Training

The Philippines also has a recognized competence in:

- Operating systems: MVS, Windows, NT, Unix, LINUX
- Languages: JAVA, C, C++, COBOL, PL1, SQL, POWERBUILDER, Visual Basic, ASSEMBLER, etc
- Communications Architecture: SNA, TCP/IP, WAP, GSM
- Software Engineering methodologies
- Case Tools – Designer 2000, Magic, etc.
- Maintenance Methodologies
- Group Work Tools – Lotus Notes, MS Team Manager
- Proprietary Methodologies

Unique Competitive Advantage

The Filipino IT workers are commended internationally for their skills and knowledge. The Philippines produces about 30,000 graduates yearly from IT and IT related courses. In addition to its people, the Philippines has an excellent and increasingly cost-competitive ICT infrastructure as well as progressively IT-friendly policies and incentives.

While software development has been in the Philippines for two decades already, the country's capabilities in this area are relatively still little-known worldwide. Accounting mainly for this is the fact that large global companies employing Filipino IT professionals for their software development work – among them ADTX Systems, Mitsui & Co., TOEI Animation, Accenture, Micronet, Canon Information Technologies, the Fujitsu Group of Companies, NEC, Toshiba, Philippine EDS Techno-Service, and IBM – have kept these professionals as their “best-kept secret”.²⁸ As the Philippines continues to gain recognition as an excellent source of skilled IT workers, it hopes to attract the attention of companies searching for an offshore location for their software development processes.

4.2.5 Financial and Administrative Business Process Outsourcing

Market Size

The markets size of BPO across industries worldwide was measured at \$20 to \$25 billion. Part of the diverse BPO industry, Gartner forecasts the worldwide finance and accounting BPO market to grow from \$11.3 billion in 2002 to \$17.9 billion in 2007, a compound annual growth rate of 9.5 percent.

²⁸ Center for International Trade Expositions and Missions

Presence in the Philippines

Some of the multinational companies that have established their global backroom operations in the country are Accenture, Procter and Gamble, IBM, Hewlett Packard, Citibank and Caltex.

Scope of Services Offered

The Philippines is fast becoming a regional and global hub for shared corporate backroom operations, especially for financial services such as accounting and bookkeeping, account maintenance, accounts receivable collection, accounts payable administration, payroll processing, asset management, financial analysis and auditing, management consulting, inventory control and purchasing, expense and revenue reporting, financial reporting, tax reporting, and other finance-related services such as financial leasing, credit card administration, factoring and stock brokering; as well as for human resource services such as payroll processing, logistics management, cargo shipment management, engineering design and architectural drawings.

Unique Competitive Advantage

The Philippines has unique competitive advantages that make it ideal for financial and administrative business process outsourcing to locate here. This includes the similarity of the training that accounting professionals in the Philippines get from the US.²⁹ This is largely due to the fact that the Filipino accounting system is similar to the American Generally Accepted Accounting Principles (GAAP). Existing companies who have their outsourced financial operations have given good evaluations of the Philippines. The giant multinational P&G Group cites the Filipinos as “among the best accountants in the world...the very best, in terms of overall performance and in terms of the depth and array of accounting services it offered.”

Indeed, the financial and administrative BPO holds much promise for the Philippines. A number of companies have already recognized this and have chosen to locate and even expand their operations in the Philippines. Given that a number of these companies are large multinationals respected globally, their presence here signifies the confidence that they have in the Philippines to fill their needs.

The Philippines is well positioned to become a leading player in business process outsourcing, especially in the call center, medical transcription, animation, software development, and financial and administrative BPO segments. The double digit growth, the companies who choose to locate and expand here, and the high ratings in potential and performance as an offshore location received from consultants, researchers and companies who are already operating in the country further affirms the Philippines abilities as a prime offshore location.

²⁹ In a recent diagnostic study made by the Asian Development Bank on the accounting and auditing practices in the Philippines, they found that the Philippine accounting and auditing system is directly influenced by US and more recently by international arrangements and practices.

5 RECOMMENDATIONS

The Philippines has come to realize its own unique advantages and has chosen to focus on specific BPO segments in which to compete. Despite the country's less aggressive promotion strategies, the country manages to gain credit from reputable sources ranging from analysts, researchers and companies themselves who have been operating in the country, based on its merits alone. While undoubtedly, much more can be gained by aggressive promotions, it is the mix of key factors inherent to the Philippines such as its overall cost advantage, quality labor supply, competitive infrastructure and technology, and government and private sector support that has gained the attention of analysts and global businesses. The overall dynamics deserve considerable attention by enterprises considering the Philippines as their next BPO location. Not only can the Philippines serve as a grand base for in-house shared service operations, but has to be an addition to the portfolio of a well rounded global outsourcer, also to utilize its strengths and location to capture the regional market within Asia-Pacific.



Headway
Business Services Inc.