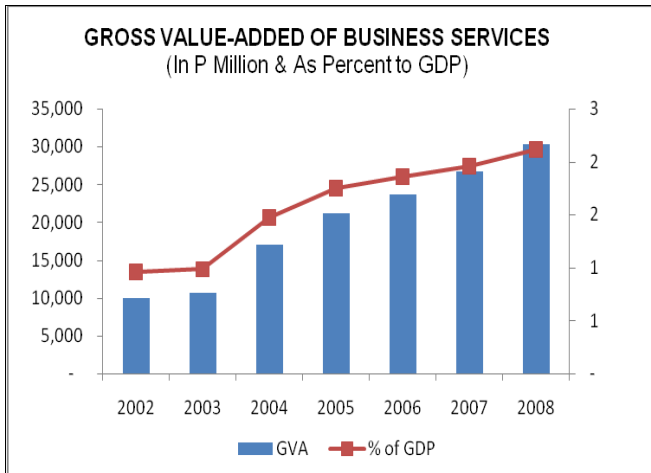


PHILIPPINE BUSINESS PROCESS OUTSOURCING INDUSTRY

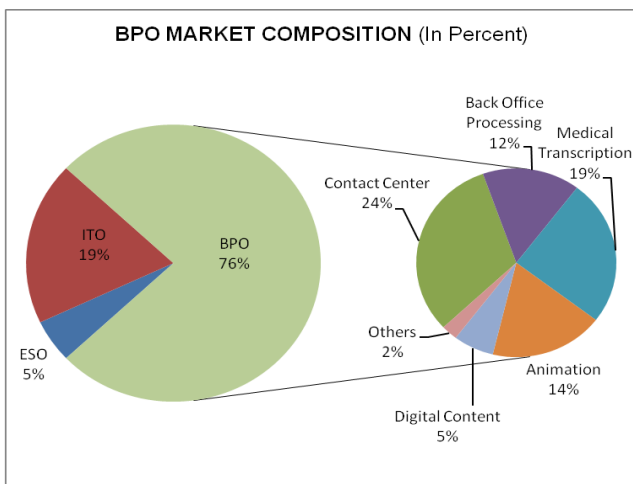
Business process outsourcing (BPO) involves hiring of an outside company or a third-party service provider to perform a task that would otherwise be performed internally by a company to lower business cost and/or streamline work flow. It covers services related to information technology, business administration, sales, marketing and customer care. For a service to be classified as BPO, it has to be an IT-enabled service and outsourced service activity.



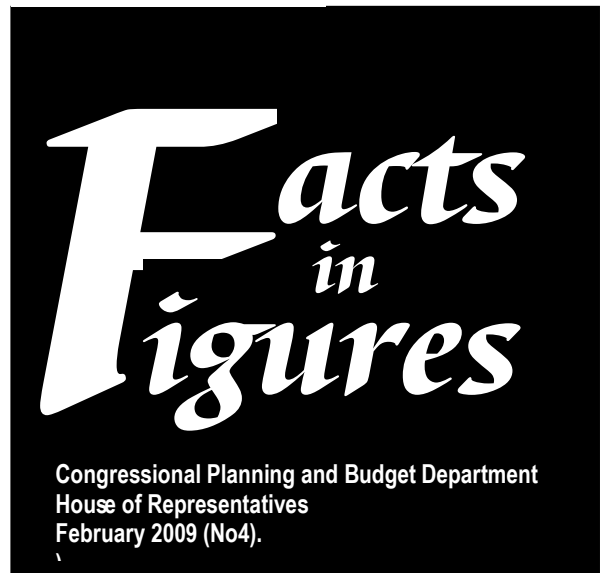
Source: National Statistical Coordinating Board (NSCB)

Gross Value Added. The BPO industry is one of the country's sunshine industries driving a steady and strong growth in the domestic economy's services sector. In the national income accounts, real gross value added (GVA) for business services which include the BPO industry grew by an annual average of 24.5% from 2004 to 2008. Moreover, the share of business services to GDP increased from 1.5% in 2004 to 2.1% in 2008.

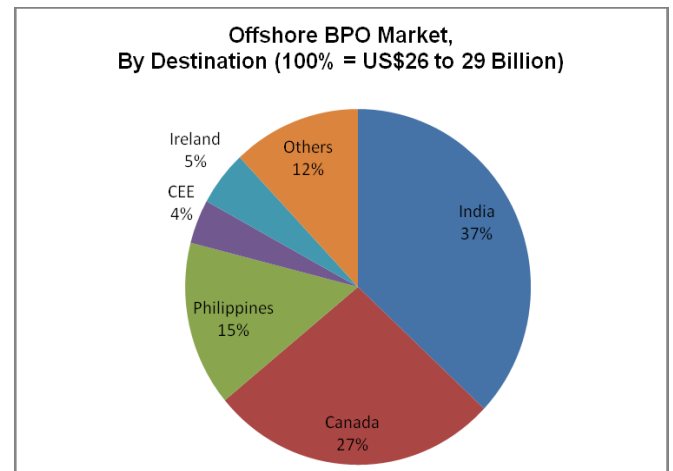
Market Composition. The BPO sector is just one of the four main segments of the outsourcing and offshoring (O&O) industry. Contact centers, medical transcription, back-office processing, game development, animation and digital content are services classified under the BPO segment. The other three major segments include software development or the information technology outsourcing (ITO), engineering services outsourcing (ESO) and the knowledge process outsourcing (KPO).



Note: No data available for KPO.
Source: BPAP



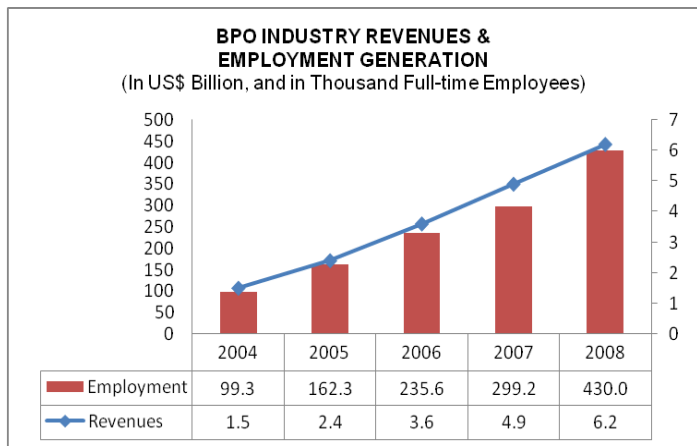
There are about 620 firms providing O&O services in 2007 from the 516 firms in 2006. Around 76% are BPO companies, 19% are software development companies and 5% are into ESO. Under BPO, 124 are call centers firms (24%), 100 firms are into medical transcription (19%), 70 firms are into animation (14%), 62 firms are into back-office processing (12%), and 27 firms are into digital content (5%). Other BPO services include legal transcription and other types of data transcription.



Note: CEE refers to central European economies
Source: Everest Research Institute 2008 as cited by BPAP

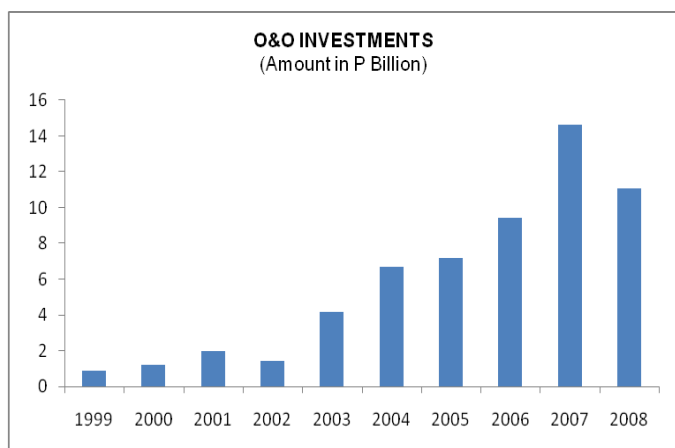
Global Markets. The Philippines has established itself as one of the most favored BPO service providers in the world next to India and Canada. According to the BPO Association of the Philippines (BPAP), the country captures around 15% market share in the global BPO market. The key success factor of the Philippine BPO industry rests mainly on its low cost but highly qualified English-proficient labor pool and the good telecommunications infrastructure ideal for outsourcing operations.

The BPO industry provides services to different countries all over the world. Around 65% of the services are exported to the US, 25% for other ASEAN countries - i.e. India, China, Hong Kong, Singapore, and Taiwan, and the remaining 10% to Europe - i.e. United Kingdom and Germany. Other markets include Japan, United Arab Emirates, and Saudi Arabia. Emerging markets are Australia, New Zealand and Canada.



Source: BPAP

Revenue, Employment and Investments. The BPO sector is a major contributor in revenues and employment generation in the Philippines. From a US\$1.5 billion industry in 2004, revenues generated from BPO companies jumped by 226.7% in 2007 to US\$4.9 billion in 2007. In 2008, estimated revenues amounted to US\$6.2 billion, a 26.5% increase in 2007. The number of full-time employees in the BPO sector has also increased markedly from 99,300 in 2004 to 430,000 in 2008, or a 333% growth within four years. Growth of investments in the O&O industry is notable. Investments in the industry grew more than double from P6.7 billion in 2004 to P14.7 billion in 2007. However, it went down by 24.6% in 2008 to P11.1 billion.

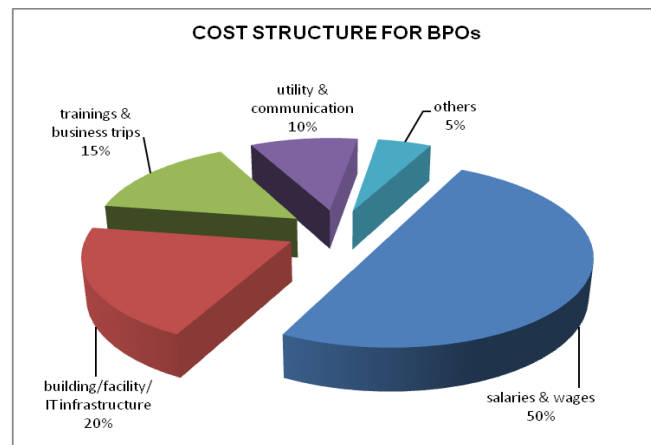


Source: PEZA

Contact Centers. The local contact center has remained the most dominant income and employment generator among BPO subsectors. In 2006, the industry earned approximately US\$2.7 billion in total revenues and employed nearly 160,000 agents. Contact centers in the country represent a big chunk of foreign investments inflow as huge multinational contact center firms choose to locate in the Philippines where labor costs are cheaper and the human resource pool is of good quality.

Other favorable factors considered by BPO investors are relatively low attrition rate and the good judgment call of Filipino agents or the ability to solve customer problems. According to a study, the Philippine attrition rate is relatively manageable at 60% as compared to 102% in India. Attrition rate is computed as the number of employees who left the company divided by the number of those who joined the company in a particular period. Also, contact center agent stays with the employer for an average of two (2) years in the Philippines compared to six (6) months in the USA.

Meanwhile, it takes one to two calls on the average to solve a problem in the Philippines compared to six to seven calls in India. This essentially explains the low cost voice services in the Philippines because customers need not make repetitive calls as compared to other call centers in other countries (IDEA 2007).



Source: Department of Trade and Industry (DTI)

Based on the cost structure for BPOs, salaries and wages account for the bulk of expenditures, which is approximately 50% of the total cost. The labor-intensive nature of BPO services and the relatively high pay rate for BPO agents vis-à-vis other sectors of the economy explain why employee salaries form the biggest share in the expenditures of BPO firms. Other major expenditures include building/facility and IT infrastructure which accounts for 20% of the total expenditures, trainings 15%, and utility and communications 10%. Various sources have attributed the resurgence in the construction and real estate sectors to the booming BPO industry especially due to the increasing demand for office spaces.

TOP 10 NEXT WAVE CITIES (2008)

	CITY	Score	Talent (50%)	Infra (30%)	Cost (5%)	BE (15%)
1	Metro Laguna	88%	89%	95%	62%	82%
2	Metro Cavite	85%	84%	93%	63%	82%
3	Iloilo	81%	72%	89%	87%	92%
4	Davao	80%	70%	95%	80%	60%
5	Bacolod	78%	70%	81%	80%	96%
6	Angeles-Clark-Mabalacat	77%	70%	81%	80%	96%
7	Baliuag-Marilao-Meycauayan	74%	66%	95%	67%	60%
8	Cagayan de Oro	73%	63%	91%	87%	68%
9	Malolos-Calumpit	73%	68%	84%	67%	68%
10	Lipa	73%	67%	87%	67%	64%

Source: BPAP-CICT-DTI

Beyond Metro Manila. The concentration of BPO firms in outsourcing hubs like Makati, Ortigas and Cebu has resulted in the rapid increase of office space rents and has prompted some companies to look for sites in the provinces where there is huge potential talent pool and where rents are lower. The DTI, CICT and BPAP came up with a scorecard showing the next-wave cities suitable for BPO investments. The scorecard, which assessed 30 locations across the country, ranked the cities using three criteria: availability of talent (50%), infrastructure (30%), cost (5%), and business environment (15%). The combined cities and municipalities of Santa Rosa City, Calamba City, Los Baños, Cabuyao and San Pablo City – or Metro Laguna – topped the Next Wave Cities scorecard in November 2008 as it ranked the highest in terms of the availability of graduates and workers