Global Locations Compass – China

Comprehensive Assessment of Global Services, Analysis of Cities, and Implications for Services Strategy

Global Sourcing (GS)

Report: November 2011 – Preview Deck

EGR-2011-2-PD-0606

Background and scope of the research

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China is the second largest economy in the world and is attracting a lot of interest as a delivery destination for global services. In 2010, China was reclassified as a Mature location on Everest Group's Market Vista Locations Maturity Heatmap, based on market activity. China, with its large graduate pool, low cost of operations, and unique Asian language advantage, offers an attractive proposition for organizations looking at serving the Asian region. It also provides an opportunity to global players to de-risk their global delivery model. Additionally, it is witnessing significant market activity on account of the domestic market and the government's impetus to develop the industry.

In this research, we analyze China as a global services destination across various dimensions:

- Global services landscape across market characteristics
- Player activity
- Key industry/government bodies promoting its growth
- The education system
- Landscape of cities and labor pool, cost, market activity and risk analysis for seven key cities
- Future outlook
- Implications for buyers and service providers

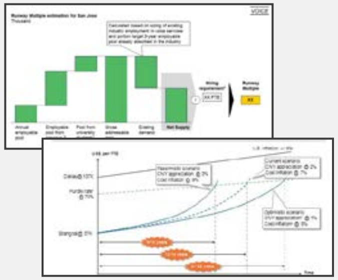
The scope of analysis includes:

- The focus of the report is on China's global services sector across captives and third party service providers
- The analysis spans across IT and BPO services, and does not include KPO, engineering services / R&D
- The report provides a deep dive on seven key cities in China: Beijing, Shanghai, Guangzhou, Dalian, Hangzhou, Suzhou, Chengdu. The profiled cities are representative of the four economic clusters and diverse language capabilities available in China

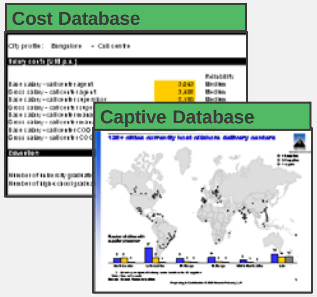
Methodology – Everest Group's extensive databases, proprietary intelligence and inputs from market participants formed the foundation for this research report

- Proprietary intelligence
- Market thought leadership
- Actionable and insightful research

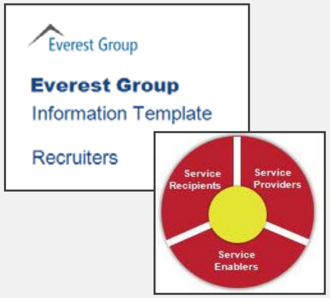
1 **Robust definitions and frameworks – location assessment, sustainability and scalability**



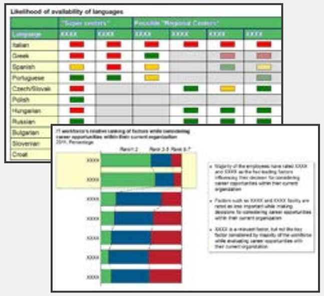
2 **Proprietary databases (Captives, Service providers, Market Activity, Cost/ Labor, Transaction Intelligence)**



3 **Diverse set of touch-points with key global services stakeholders for on-the-ground perspectives**



4 **Fact-based research adequately informed by deep domain expertise and experience**



- Dedicated team for global sourcing research, comprehensively supporting all location related requirements of clients (information, strategy, tracking, etc.)
- Comprehensive and round the year tracking of global sourcing activity across outsourcing transactions, locations, captives and service providers
- 20+ years of advising clients on global sourcing decisions spanning across strategy, optimization and implementation
- Executive-level relationships with buyers, service providers, country/ industry associations, and other industry stakeholders (recruiters, real estate firms, legal firms)

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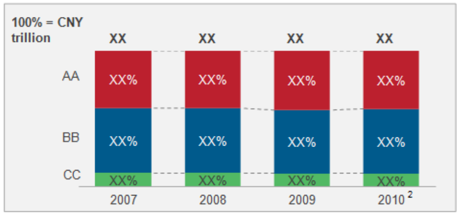
This research report provides an overview of China's political system, economic environment and education system

China is the most populous country in the world and the fourth largest in terms of area

China is the world's second largest economy after the U.S.

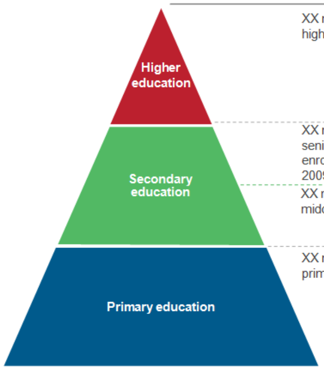
Key indicators	2007	2008	2009	2010
GDP growth (Y-o-Y percentage)	XX%	XX%	XX%	XX%
GDP per capita (US$)	$XX	$XX	$XX	$XX
Inflation CPI (Y-o-Y percentage)	XX%	XX%	(XX%)	XX%
Budget deficit FY, (percentage GDP)	XX%	(XX%)	(XX%)	(XX%)
Unemployment rate (percentage)	XX%	XX%	XX%	XX%

GDP by economic activity[1]
Percentage



Movement of CNY vs. US$
Cost of US$1 in CNY

Chinese government stipulates XX years of compulsory formal education

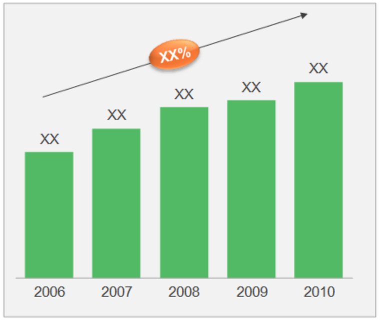


Annual enrolments	Additional details
XX new students enrolled in higher education in 2009	• University or college • Length of program: X to X years • Age level: X-X
XX new students enrolled in senior high school and XX enrolled in vocational schools in 2009	• Senior high school or vocational school • Grades: X-X • Age level: X to X years • Not compulsory
XX new students enrolled in junior middle school in 2009	• Junior middle school • Grades: X-X • Age level: X to X years • Compulsory
XX new students were enrolled in primary education in 2009	• Pre-school or kindergarten • Grades: X-X • Age level: For entry, as early as X years, until X years • Compulsory

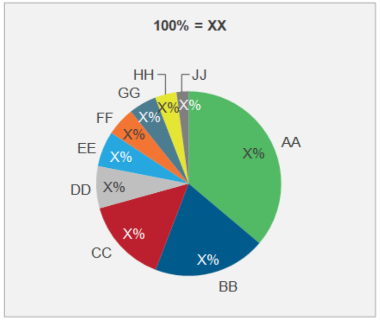
The Compulsory Education Law stipulates that each child must have XX years of formal education (XX years of primary education and XX years of secondary education)

China produced XX million graduates in 2010; more than XX percent from AA and BB disciplines

Total number of annual graduates
2010; Number in '000s



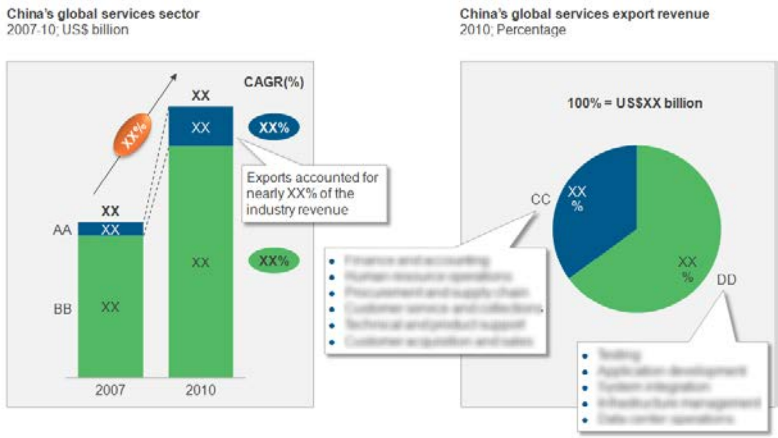
Distribution of annual graduates by discipline
2009; Percentage



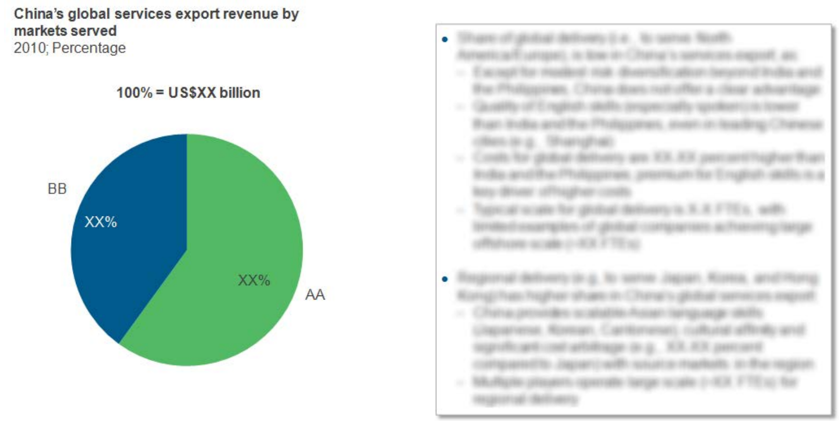
China is the largest producer of AA graduates in the world

The report provides in-depth analysis of China's global services sector including market characteristics, activity and government incentives

China's global services export revenue is estimated to be US$XX-XX billion in 2010



AA exports have a dominant share in China's global services export revenue



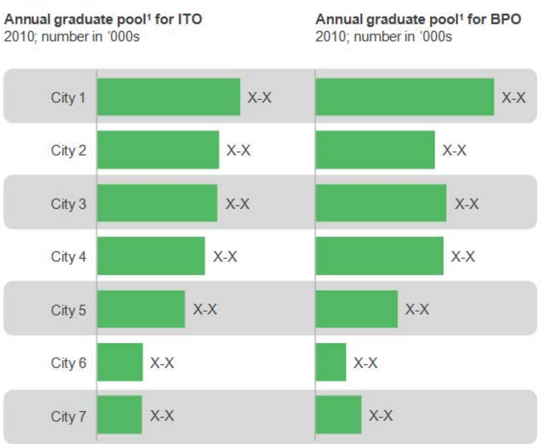
More than XX delivery centers were established/expanded across tier-1 and tier-2 cities in the last 12 months

On the captives side, XX delivery centers were established, however, majority of them are focused on delivering XXXXXXX and XXXXXXX services

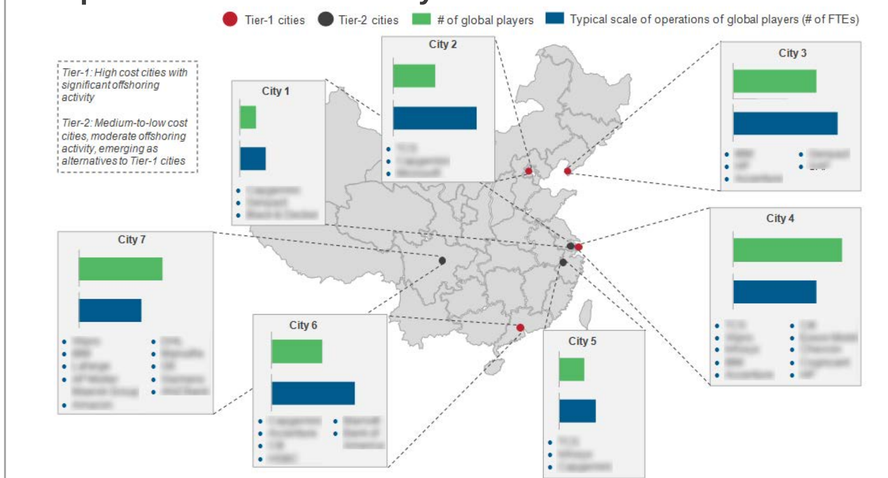
China offers XX+ city options for global services delivery across Tier-1 and Tier-2 locations

The report provides detailed assessment of seven key cities in China across labor pool, language skills, cost, market activity and risk

Annual graduate pool by function

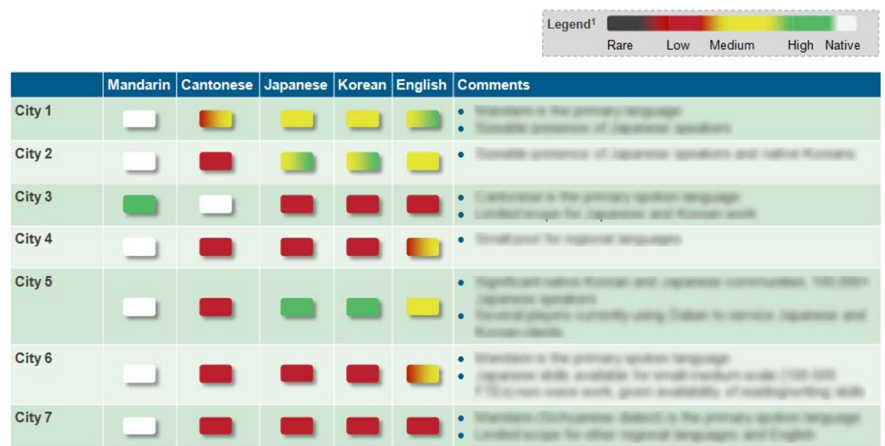


Comparison of market activity



Annual operating cost per FTE by function

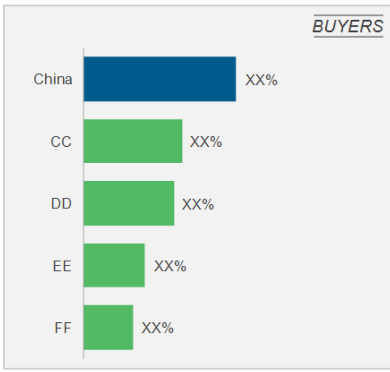
Comparison of spoken language skills availability



The report discusses China's future outlook providing perspectives on industry growth and arbitrage sustainability

China is the preferred location (after AA and BB) in terms of growth plans for both the buyers and the service providers

Growth plans[1] in countries beyond India and the Philippines for large[2] buyers
Percentage of respondents (N = XX)



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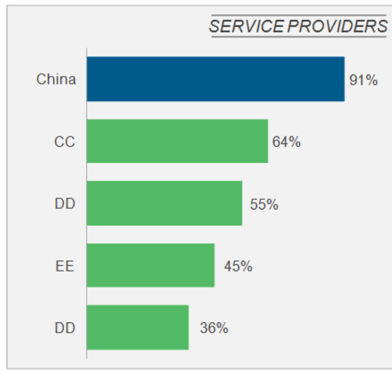
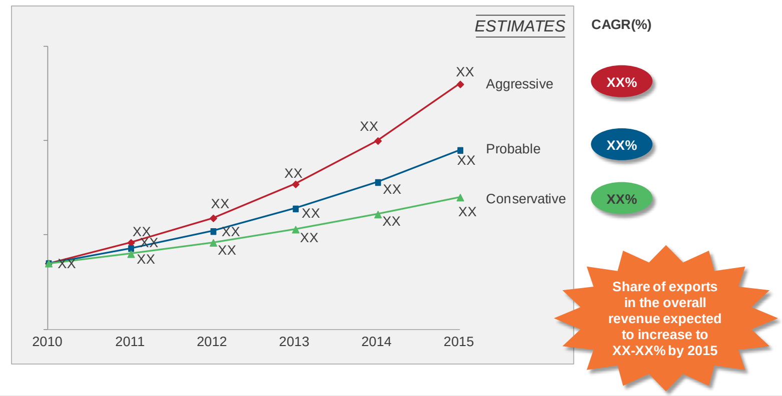
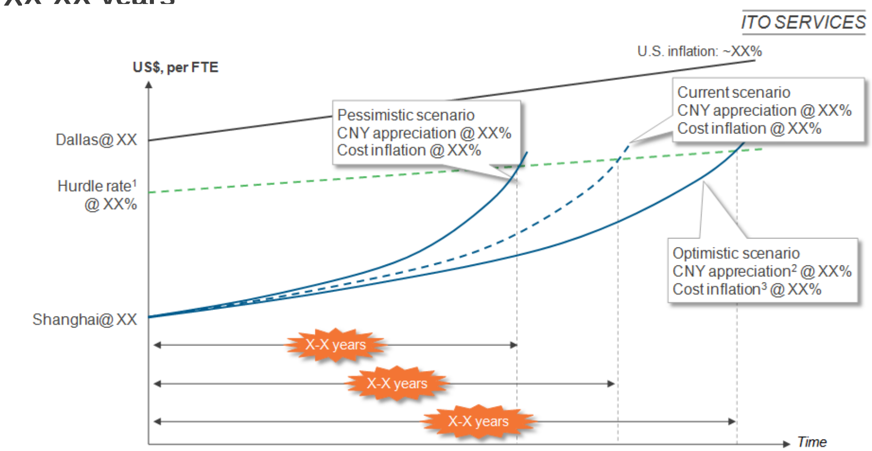


Services outsourcing industry export revenue is expected to increase to US$XX-XX billion by 2015

China's global services exports
2010-15; US$ billion



Cost arbitrage is expected to remain sustainable over the next XX-XX years



Attractiveness of cities across types of delivery

● High ○ Low

Instances of type of delivery

City	Global	Regional	Comments
City 1	●	◑	[illegible]
City 2	◑	◕	[illegible]
City 3	◔	●	[illegible]
City 4	◔	●	[illegible]
City 5	◔	◔	[illegible]
City 6	◔	◔	[illegible]
City 7	◔	○	[illegible]

Appendix: Additional research references

The following documents are recommended for additional insight on the topic covered in this Research Report. The recommended documents either provide additional details on the topic, or complementary content, that may be of interest

1. **Global Offshore Captive Landscape and Trends: Focus Geography – China** (EGR-2011-2-R-0601); 2011. This report provides an in-depth analysis of the global offshore captive landscape and insights into key trends in the last 30 months (2009 - H1 2011). The report also provides deep-dive of the captive landscape in six key industry verticals and a focus section on China

2. **Global Location Insights: October 2011 – Perspectives on Global Services Market in Poland** (EGR-2011-8-R-0604); 2011. This document provides an overview of Poland's global services market and the country's distinctive strengths in global services. The document also summarizes Poland's role in the global sourcing portfolio of leading adopters and indicates key takeaways and implications for players.

3. **Market Vista: Q3 2011** (EGR-2011-8-R-0607); 2011. This report summarizes the key trends and developments for Q3 2011 in the global offshoring and outsourcing market

For more information on this and other research published by the Everest Group, please contact us:

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