



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

Background and scope of the research

Background of the research

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)

Table of contents (page 1 of 2)

Topic	Page no.
• Background, scope and methodology	4
• Executive summary	6
• Section I: Country overview	8
– Quick facts	9
– Economy of China	10
– Political system in China	11
– Education system in China	12
• Section II: Overview of global services sector	15
– Key messages	16
– Current position of China	18
– Size of services industry	20
– Player presence	22
– Government initiatives and incentives	24
– Landscape of cities	27
• Section III: Assessment of cities	29
– Key messages	30
– Talent pool	32
– Operating cost	34
– Market activity	36
– Operating environment	38

Table of contents (page 2 of 2)

Topic	Page no.
• Section IV: Future outlook	42
– Key messages	43
– Outlook for China	44
– Future industry size	45
– Cost arbitrage sustainability	46
• Section V: Implications for buyers and service providers	47
• Appendix	50
– Glossary of terms	51
– References	52

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

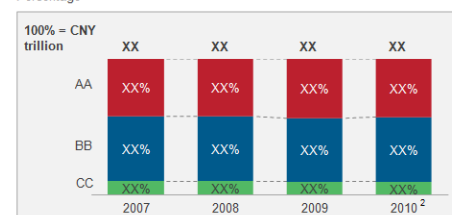
China is the most populous country in the world and the fourth largest in terms of area



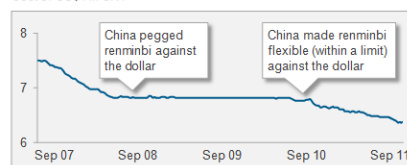
China is the world's second largest economy after the U.S.

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 activity¹
Percentage

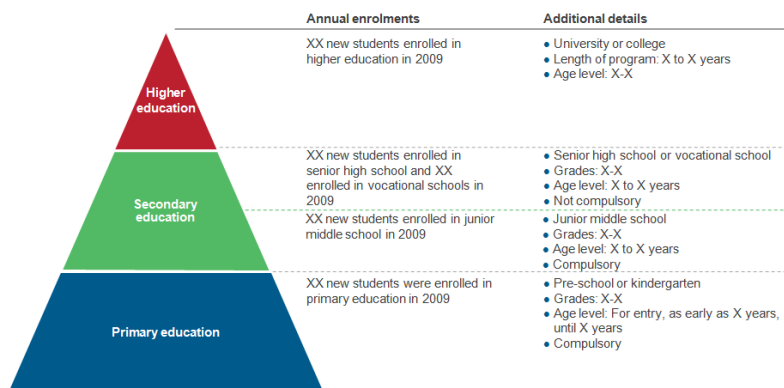


Movement of CNY vs. US\$
Cost of US\$1 in CNY



- China is the world's second largest economy after the U.S. It is also the largest importer and exporter of goods in the world.
- The two most important sectors of the economy are BB and CC, which produce more than 50 percent of the GDP. However, the share of AA sector is gradually rising.
- Exporting and importing more than 50 percent of the GDP sector.
- China's economic development has been more rapid in the coastal regions than in the interior. There is a difference in the stability of inland and coastal economies.

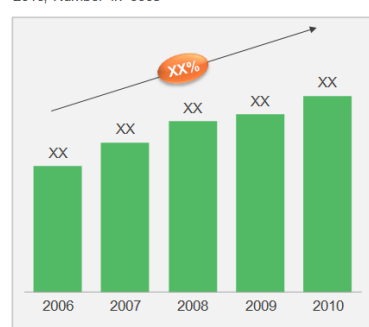
Chinese government stipulates XX years of compulsory formal education



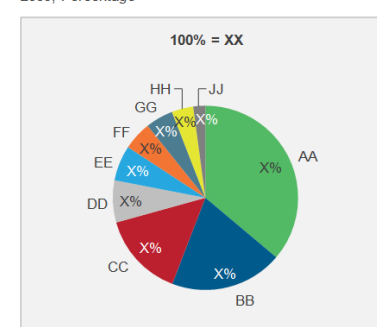
The Compulsory Education Law stipulates that each child must have XX years of formal education (XX years of primary education and XX years of secondary education)

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



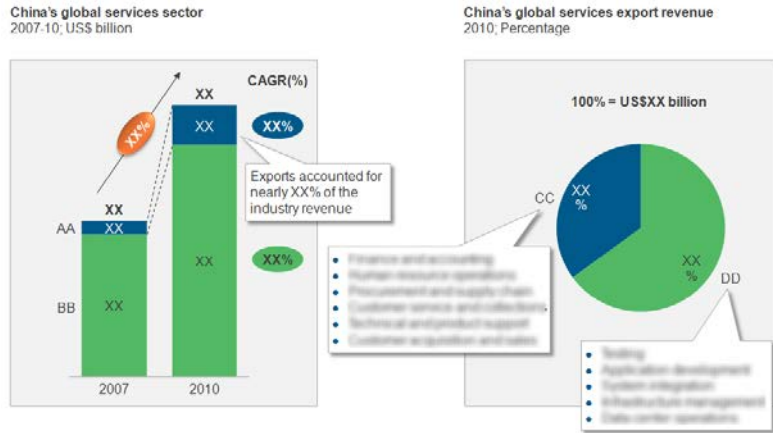
Distribution of annual graduates by discipline
2009; Percentage



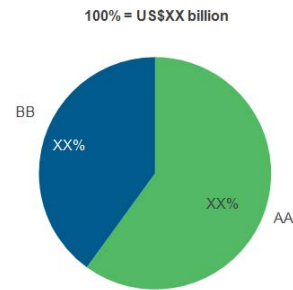
China is the largest producer of AA graduates in the world

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



- **Share of global delivery (i.e., to serve South America):** is low in China's services export as
 - Except for modest near-disproportionately higher India and the Philippines, China does not offer a clear advantage
 - Quality of English skills (especially spoken) is lower than India and the Philippines, even in leading Chinese cities (e.g., Shanghai)
 - Costs for global delivery are 85-90 percent higher than India and the Philippines, premium for English skills is a key driver of higher costs
 - Typical scale for global delivery is 3.5-5 FTEs, with limited examples of global companies achieving large offshore scale (i.e. > 100 FTEs)
- **Regional delivery (e.g., to serve Japan, Korea, and Hong Kong):** higher share in China's global services export
 - China provides scalable Asian-language skills (Japanese, Korean, Cantonese), cultural affinity and significant cost advantage (e.g., 85-90 percent compared to Japan) with source markets in the region
 - Multiple players operate large scale (i.e. > 100 FTEs) for regional delivery

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



Cities that witnessed market activity in the last 12 months

- Strengths
- Weaknesses
- Opportunities

- Beijing
- Shanghai
- Guangzhou
- Chengdu
- Wuhan

- **Planes are:**
 - **Service Providers:** TSC, Thermal Technologies, Farni, Accurate, and Cognex
 - **Captives:** Incoher & Gamble (PNC), Mendenhall, Mendenhall, Mendenhall Group Corporation, Microsoft, Marriot, NIP Semiconductor, TSC, Communications, and Insurance
- **Planes are announced plans to provide support services**
 - **Service providers:** BMC, Infosys (PNC), and others
 - **Captives:** General Motors, Toyota, Nissan, Renault, Peugeot Group, Red Hat, and Yahoo

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

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

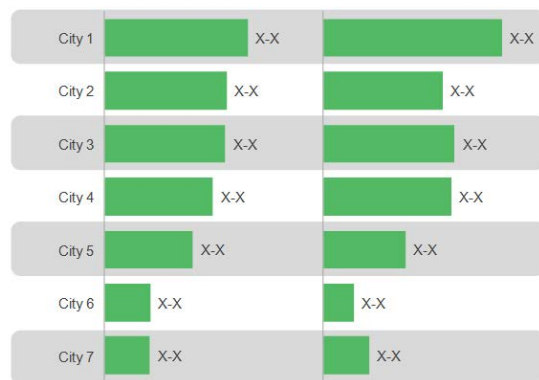


The report provides detailed assessment of seven key cities in China across labor pool, language skills, cost, market activity and risk

Annual graduate pool by function

Annual graduate pool¹ for ITO
2010; number in '000s

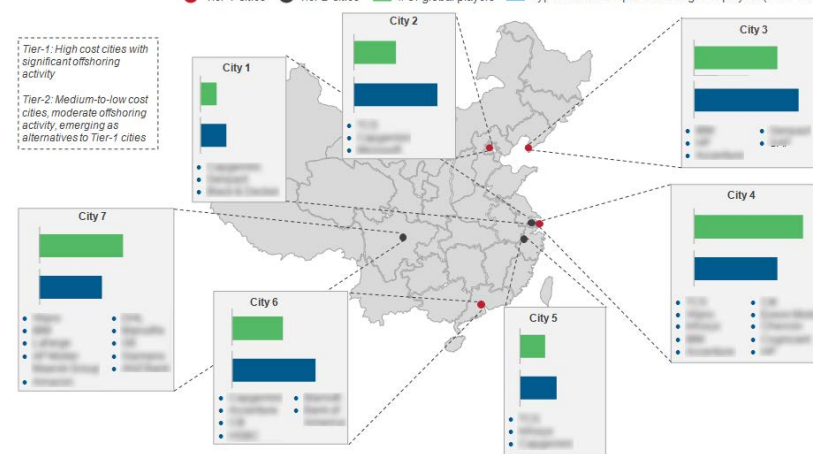
Annual graduate pool¹ for BPO
2010; number in '000s



- Shanghai, one of the largest education hubs in China, has the largest entry-level pool followed by Chengdu, Beijing, Shanghai, and Nanjing.
- Beijing, almost a mile apart from the rest of Tier-1 cities, offers a wide pool of talent from the rest of the province and adjoining cities just before the subway.
- Cities are well connected with advanced infrastructure and modes of transportation, hence workforce traveling distance is relatively short.
- For example, Shanghai is well connected with adjoining regions through Kunming, Nanjing, and Hangzhou through high-speed rail and flights via a new bridge and it is open to the additional pool.
- Conversely, Tianjin also taps into the pool from Shanghai and the rest of the province.
- Employability and propensity to work in the service sector can vary between different cities and can also alter the relative ordering of cities for the entry-level talent pool availability.

Comparison of market activity

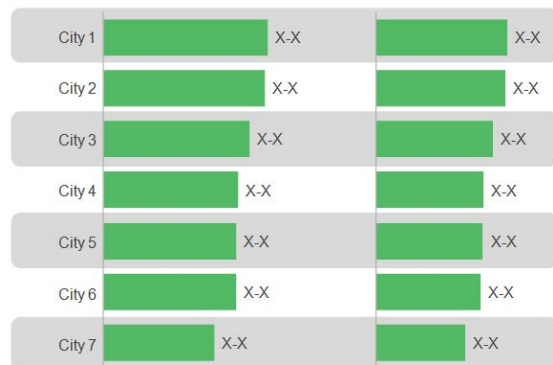
● Tier-1 cities ● Tier-2 cities ■ # of global players ■ Typical scale of operations of global players (# of FTEs)



Annual operating cost per FTE by function

Total operating cost¹ per FTE for global delivery – ITO
2011; US\$ '000s per annum

Total operating cost¹ per FTE for global delivery – BPO
2011; US\$ '000s per annum



- Shanghai and Beijing have the highest costs, while Tianjin and Chengdu have the lowest.
- Operating costs for local delivery are 33-43 percent lower than for global delivery.
- Operating costs for regional delivery are 33-43 percent lower than for global delivery.
- Depends on availability of language skills.
- Premium on regional language skills exist, but the extent of premium is lower than that for English language.
- Talent and local media costs are the key drivers for cost differential.
- Differential in labor costs is 33-43 percent, mandatory benefits (social security) vary significantly between cities.

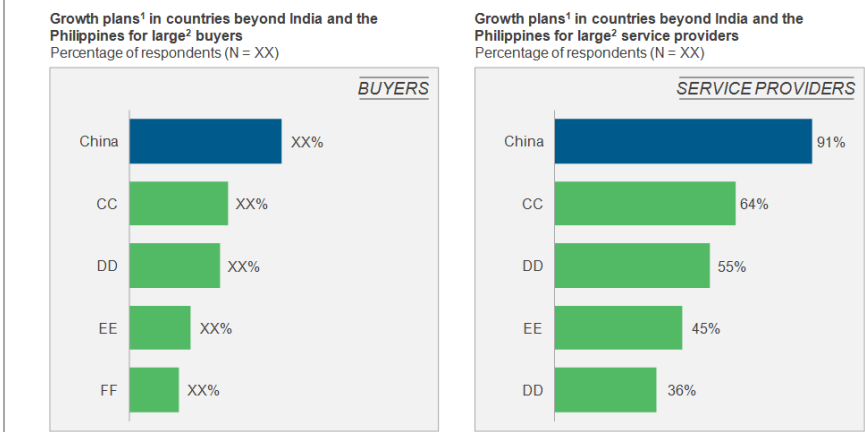
Comparison of spoken language skills availability

Legend¹ ■ Rare ■ Low ■ Medium ■ High ■ Native

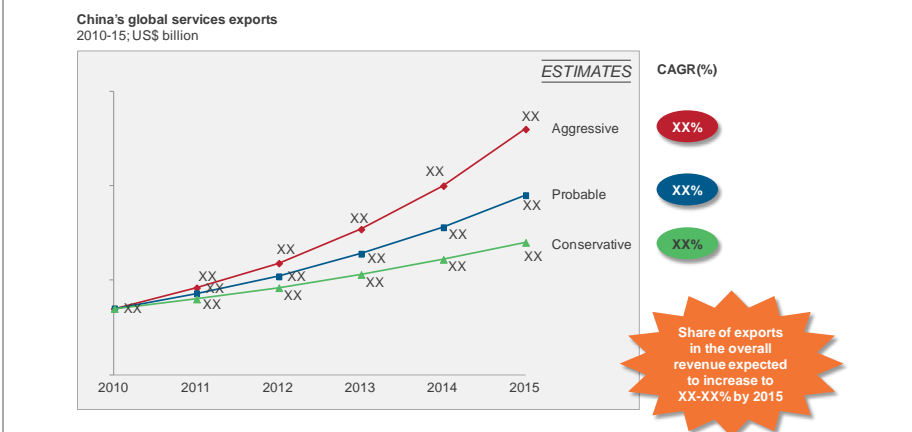
	Mandarin	Cantonese	Japanese	Korean	English	Comments
City 1	■	■	■	■	■	<ul style="list-style-type: none"> Mandarin is the primary language Good knowledge of Japanese speakers
City 2	■	■	■	■	■	<ul style="list-style-type: none"> Good knowledge of Japanese speakers and native Koreans
City 3	■	■	■	■	■	<ul style="list-style-type: none"> Cantonese is the primary spoken language Good knowledge for Japanese and Korean work
City 4	■	■	■	■	■	<ul style="list-style-type: none"> Good pool for regional languages
City 5	■	■	■	■	■	<ul style="list-style-type: none"> Significant native Korean and Japanese communities, 100,000+ Japanese speakers Several players currently using Cantonese to service Japanese and Korean clients
City 6	■	■	■	■	■	<ul style="list-style-type: none"> Mandarin is the primary spoken language Japanese skills available for small customer scale (100-500 FTEs) on cost with good availability of handwriting skills
City 7	■	■	■	■	■	<ul style="list-style-type: none"> Mandarin (Cantonese dialect) is the primary spoken language Good knowledge for other regional languages and English

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

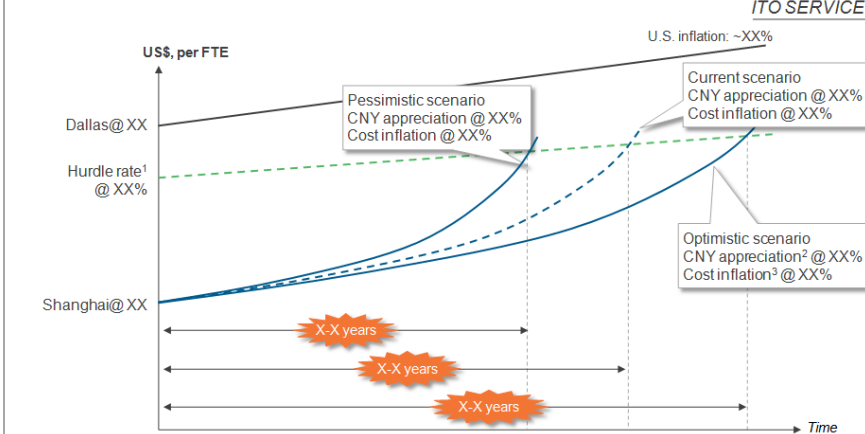
China is the preferred location (after AA and BB) in terms of growth plans for both the buyers and the service providers



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



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



Attractiveness of cities across types of delivery

Instances of type of delivery			
City	Global	Regional	Comments
City 1	High	Low	<ul style="list-style-type: none"> Better quality of English skills, suited for global delivery Presence of Japanese and Korean speakers
City 2	Low	Low	<ul style="list-style-type: none"> High scalability for regional Japanese and Korean work due to proximity and language advantage
City 3	Low	High	<ul style="list-style-type: none"> Instances of large scale operations to serve Hong Kong driven by language (Cantonese) and proximity
City 4	Low	High	<ul style="list-style-type: none"> High scalability for regional Japanese and Korean work due to proximity and language advantage
City 5	Low	Low	<ul style="list-style-type: none"> No instances of large scale global delivery Does not offer any distinct regional delivery advantage
City 6	Low	Low	<ul style="list-style-type: none"> Currently, no instances of large scale operations Relatively new entrant in the services space Some advantages due to proximity to Shanghai
City 7	Low	Low	<ul style="list-style-type: none"> No distinct regional delivery value proposition Emerging as a BPO back office and data center hub

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:

Amneet Singh, Vice President – Global Sourcing:

amneet.singh@everestgrp.com

H Karthik, Vice President – Global Sourcing:

h.karthik@everestgrp.com

Sakshi Garg, Senior Research Analyst:

sakshi.garg@everestgrp.com

Everest Group

Two Galleria Tower
13455 Noel Road, Suite 2100
Dallas, TX 75240

Phone: +1-214-451-3110

E-mail: info@everestgrp.com

About Everest Group

Everest Group is an advisor to business leaders on the next generation of global services with a worldwide reputation for helping Global 1000 firms dramatically improve their performance by optimizing their back- and middle-office business services. With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of global services in their pursuits to balance short-term needs with long-term goals. Through its practical consulting, original research and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies and management approaches. Established in 1991, Everest Group serves users of global services, providers of services, country organizations and private equity firms, in six continents across all industry categories. For more information, please visit www.everestgrp.com and research.everestgrp.com.

Everest Group

Leading clients from **insight** to **action**

Everest Group locations



Dallas (Headquarters):	info@everestgrp.com +1-214-451-3000
New York:	info@everestgrp.com +1-646-805-4000
Toronto:	canada@everestgrp.com +1-416-865-2033
London:	unitedkingdom@everestgrp.com +44-207-887-1483
Delhi:	india@everestgrp.com +91-124-496-1000

www.everestgrp.com | research.everestgrp.com | www.sherpasinblueshirts.com