Global Locations Compass – The Philippines
Comprehensive Assessment of Global Services, Analysis of Cities, and Implications for Services Strategy

Global Sourcing (GS)
Report: February 2012 – Preview Deck

Background and scope of the research

Background of the research

The Philippines is seeing a lot of interest as a delivery destination for global services. It is classified as a mature location on Everest Group's Market Vista Locations Maturity Heatmap[1]. With its sizable graduate pool, low cost of operations, and English language advantage, the Philippines offers an attractive proposition for organizations looking for destinations to offshore services. Additionally, several government initiatives, such as Next Wave Cities™ have resulted in significant activity in the Philippines' global services industry. As a result of this, the Philippines has emerged from constituting less than five percent share of global offshoring industry in 2006 to 10 percent share in 2011, – a year-on-year CAGR[1] of 28 percent.

In this research, we analyze the Philippines as a global services destination across various dimensions:
- Global services landscape across market characteristics
- Player activity
- Key industry/government bodies promoting its growth
- Education system
- Landscape of cities and labor pool, cost, market activity, and risk analysis for key cities
- Future outlook
- Implications for buyers and service providers

The scope of analysis includes:
- Global services sector across in-house centers and third-party service providers in the Philippines
- IT and BPO services in the Philippines; does not include KPO, engineering services / R&D
- Analysis on key cities in the Philippines, specifically, Metro Manila, Cebu, and the Next Wave Cities™

1   Everest Group's Market Vista report Q4 2011
2   Compounded annual growth rate
Source: Everest Group analysis

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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
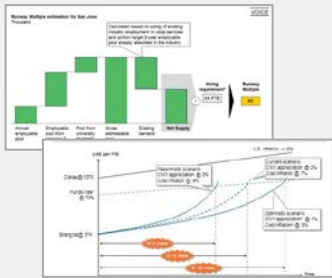
2 Proprietary databases (Global In-House Centers, Service Providers, Market Activity, Cost/Labor, and Transaction Intelligence)
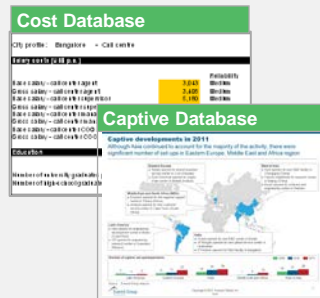
3 Diverse set of touch-points with key global services stakeholders for on-the-ground perspectives

4 Fact-based research adequately informed by deep domain expertise and experience
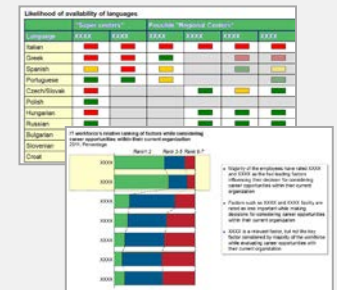
- Dedicated team for global sourcing research, comprehensively supporting all location related requirements of clients (information, strategy, tracking, etc.)
- Comprehensive and round the year tracking of global sourcing activity across outsourcing transactions, locations, global in-house centers, and service providers
- More than 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, and legal firms)

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This report provides an overview of the Philippines' political system, economic environment and education system

The Republic of the Philippines | Overview

Location:

Capital:

Time zone:

Government type:

Population:

Literacy rate:

Official language:
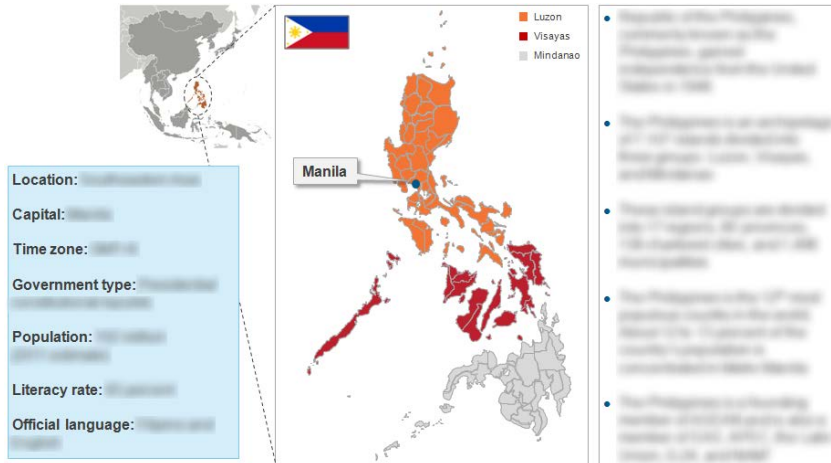
GDP of the Philippines grew at XX percent in 2010 to US$ XX bn: One of the best performances among peer countries

Key indicators	2007	2008	2009	2010
GDP growth (YoY percentage)	XX%	XX%	XX%	XX%
GDP per capita (US$)	XX	XX	XX	XX
Inflation CPI (YoY percentage)	XX%	XX%	XX%	XX%
External debt-to-GDP ratio	XX	XX	XX	XX
Budget deficit (percentage of GDP)				
Unemployment rate (percentage)	XX%	7.3%	XX%	XX%

GDP real growth of selected Asian countries
2010, Percentage

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

Philippines education system stipulates XX years of compulsory formal education

Higher education — XX million new students enrolled in higher education in 2009-2010
- University or college
- Length of program: Usually X years
- Age level: XX to XX

Secondary education — XX million new enrollments in secondary schools in 2009-2010 across XX thousand schools
- Senior high school or vocational school
- Grades: XX to XX
- Typical age level: XX to XX years
- Not compulsory
- Junior middle school
- Grades: XX to XX
- Typical age level: XX to XX years
- Compulsory

Primary education — XX million enrolled across XX thousand elementary schools for year 2009-2010
- Pre-school or kindergarten
- Grades: XX-XX; XX primary & XX intermediate levels
- Typical age level: For pre-school, as early as XX years. For elementary school, XX-XX years
- English covered as a core subject
- Compulsory

- The education system is closely related to the American system of formal education
- Basic education comprises of compulsory XX years of primary and XX years of secondary education

Philippines produced XX graduates in 2011

Total number of annual graduates
2011; Number

2007 2008 2009 2010 2011E
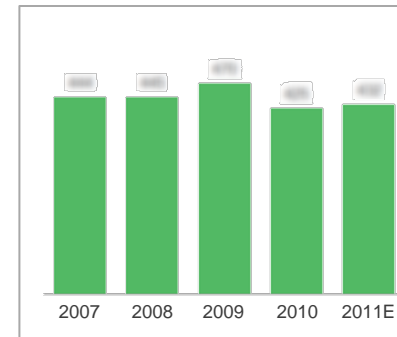
Distribution of annual graduates by discipline
2011; Percentage

100% = XX

- Others
- Commerce & business
- Arts & humanities
- Medicine
- Information technology
- Engineering & technology
- Education
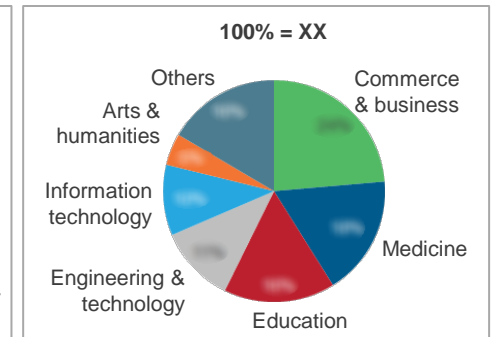
About XX percent of graduates are from engineering, management, and science disciplines

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The report provides in-depth analysis of the Philippines' global services sector including market characteristics, activity and government incentives
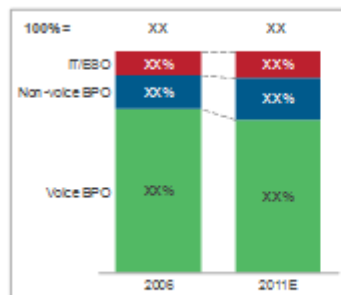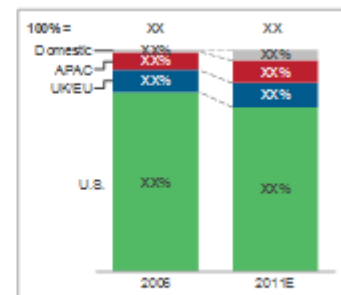
The Philippines IT-BPO industry is expected to reach US$XX billion in 2011

Industry focus is shifting towards non-voice work; geographic diversification beyond U.S. gaining traction

Expansion beyond AA and BB adds depth to the Philippines IT-BPO sector
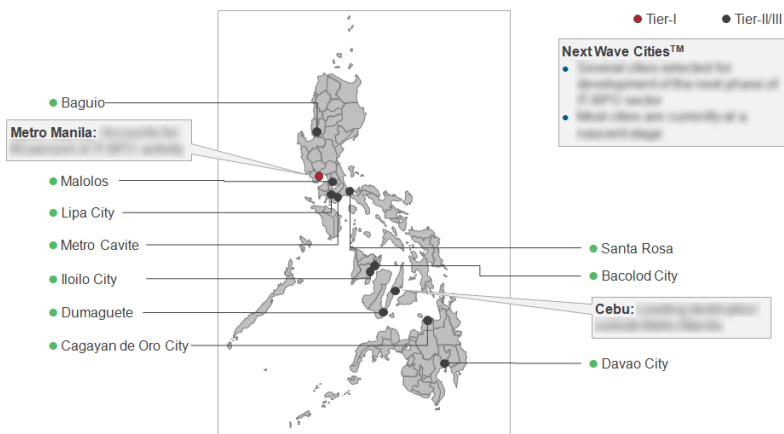
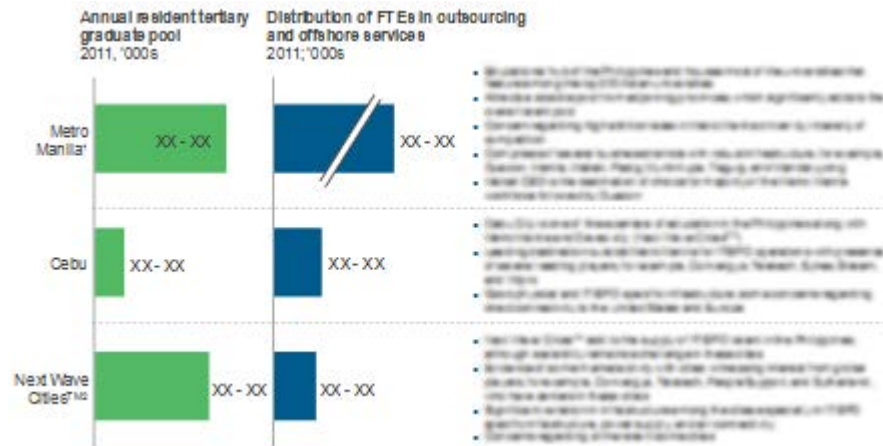### The Philippines offers incentives through XX options – AA and BB

The report provides detailed assessment of key cities in Philippines' across labor pool, cost, market activity and risks

Talent pool availability

Annual resident tertiary graduate pool
2011, '000s

Distribution of FTEs in outsourcing and offshore services
2011; '000s

Metro Manila[1]: XX - XX | XX - XX

Cebu: XX - XX | XX - XX

Next Wave Cities[NG]: XX - XX | XX - XX

Annual operating cost per FTE by function

Total operating cost per FTE for global delivery – IT ADM
2011; US$ '000s per annum

Total operating cost per FTE for global delivery – F&A
2011; US$ '000s per annum

Metro Manila[2]: XX - XX | XX - XX

Cebu: XX - XX | XX - XX
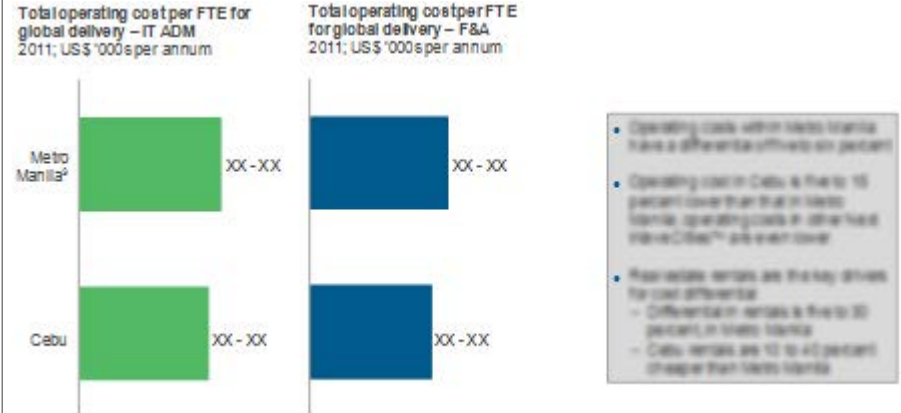
Comparison of market activity

Tier-I cities · Tier-II cities · # of centers · Typical scale of operations
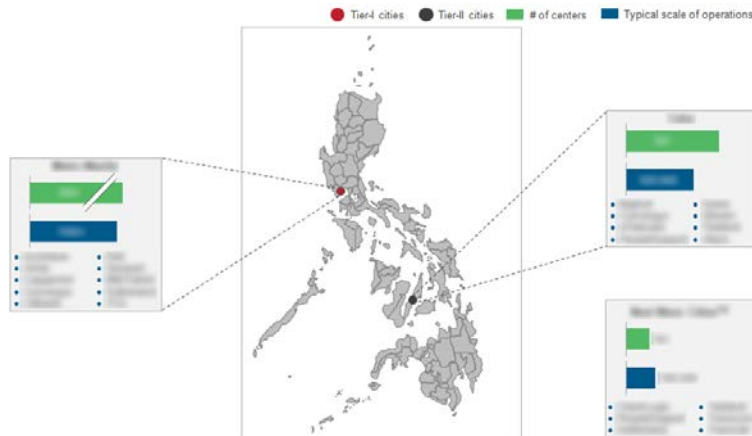
Assessment of operating environment

Operating environment

- Legal and regulatory
  - Intellectual property & data privacy
  - Government support
  - HR/employment laws
- Infrastructure
  - Air connectivity
  - Rail connectivity
  - Road/public transportation
  - Telecom
- Stability, safety, & security
  - Crime/terrorism/social unrest
  - Natural hazards
  - Political stability
  - Economic stability

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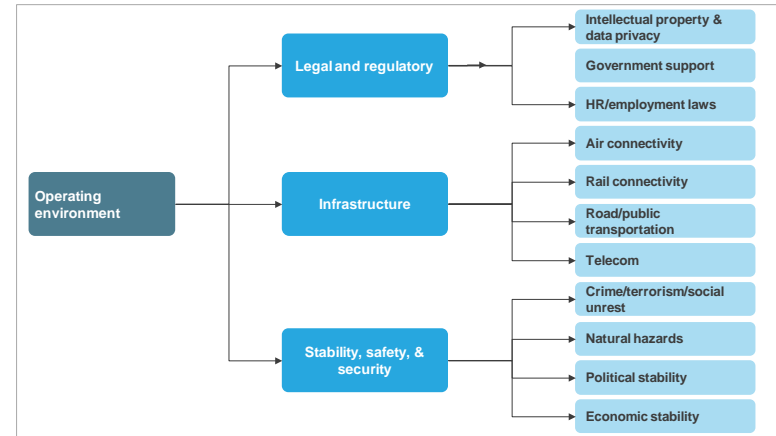
The report discusses Philippines' future outlook providing perspectives on industry growth and arbitrage sustainability

The Philippines is among the top three preferred locations in terms of growth plans for buyers…

Planned location addition and expansion plans for buyers in 2011-2013
Percentage of respondents

■ Add to location portfolio ■ Expand existing presence

<500 FTE offshore

India — XX XX
The Philippines — XX XX
Argentina — XX
China — XX
Poland — XX

500 - 2,500 FTE offshore

India — XX
The Philippines — XX XX
China — XX XX
Brazil — XX XX
Colombia — XX

>2,500 FTE offshore

India — XX
China — XX XX
The Philippines — XX
Poland — XX XX
Brazil — XX XX

N = XX

…likewise, the Philippines is among the top three preferred locations for service providers

Planned location addition and expansion plans for service providers in 2011-2013
Percentage of respondents

■ Add to location portfolio ■ Expand existing presence

<1,000 FTE offshore

India — XX XX
The Philippines — XX XX
China — XX XX
Columbia — XX XX
Brazil — XX

1,000 - 4,999 FTE offshore

India — XX XX
China — XX XX
The Philippines — XX XX
Brazil — XX XX
Poland — XX
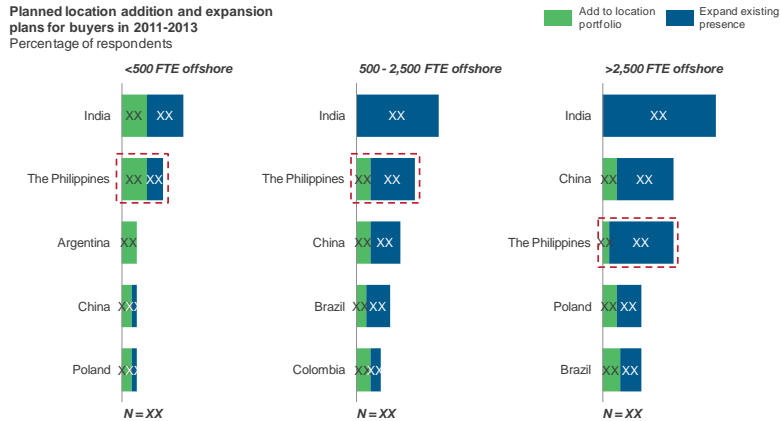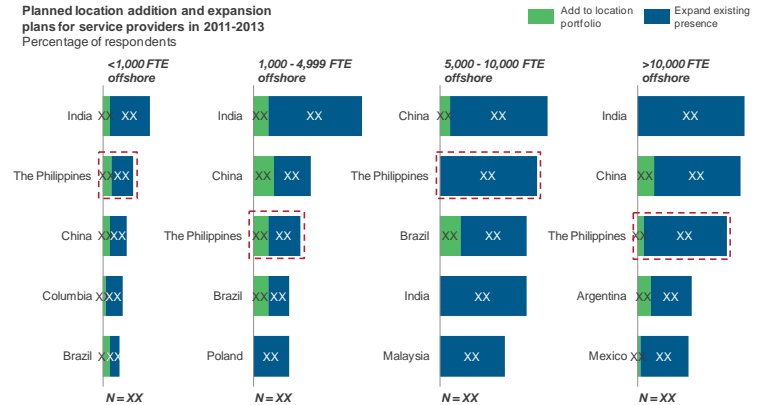
5,000 - 10,000 FTE offshore

China — XX XX
The Philippines — XX
Brazil — XX XX
India — XX
Malaysia — XX

>10,000 FTE offshore

India — XX
China — XX XX
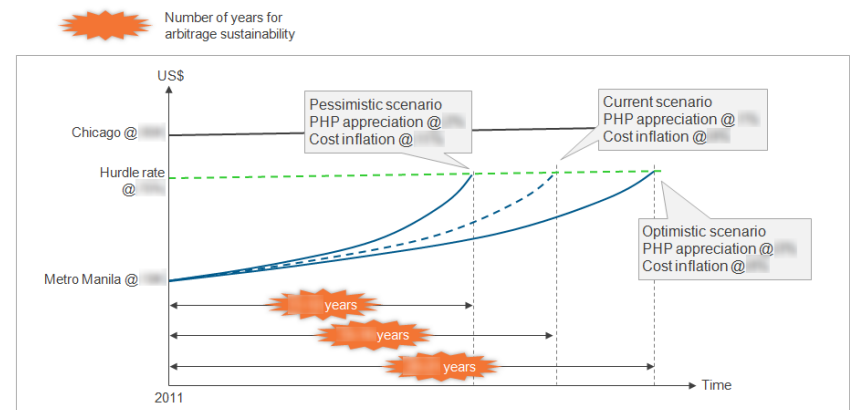The Philippines — XX XX
Argentina — XX XX
Mexico — XX XX

N = XX

The Philippines IT-BPO industry is expected to reach US$XX billion by 2016

The Philippines' IT-BPO industry
2010-16; US$ billion

2010   2011E   2016E   2016E

The Philippines' cost arbitrage is expected to remain sustainable over the next XX-XX years

Number of years for arbitrage sustainability

US$

Chicago @

Pessimistic scenario
PHP appreciation @
Cost inflation @

Current scenario
PHP appreciation @
Cost inflation @

Hurdle rate @

Optimistic scenario
PHP appreciation @
Cost inflation @

Metro Manila @

years
years
years

2011   Time

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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. **Market Vista: Q4 2011** (EGR-2012-8-R-0639); 2012. This report summarizes the key trends and developments for Q4 2011 in the global offshoring and outsourcing market.

2. **Global Locations Compass - China** (EGR-2011-2-R-0606); 2011. This research report provides detailed data and in-depth analysis of China's global services sector, and is intended to enable the development of a holistic perspective on the country .

3. **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

4. **Outsourcing and Service Provider Landscape in Germany** (ERI-2011-2-R-0531); 2011. This report provides an overview of outsourcing market in Germany and analyzes the capabilities of the leading service providers in the country.

5. **Outsourcing Landscape in France: Global Sourcing and Service Provider Assessment** (ERI-2011-2-R-0541); 2011. This report provides an overview of outsourcing market in France and analyzes the capabilities of the leading service providers in the country.

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

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