Everest Group®
RESEARCH

Poland Tier-2/3 Cities: Complementing Tier-1 Cities or Carving a Niche for Digital Services?

Locations Insider™ (LI)
Market Report – December 2017: Complimentary Abstract / Table of Contents

EGR-2017-2-PD-2451

Our research offerings for global services

- **Market Vista™**
  Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available
- **Application Services**
- **BPS | Banking Financial Services**
- **BPS | Healthcare & Life Sciences**
- **BPS | Insurance**
- **Catalyst™**
- **Cloud & Infrastructure**
- **Contact Center**
- **Digital Services**
- **Engineering Services**
- **Finance & Accounting**
- **Human Resources**
- **ITS | BFSI***
- **ITS | Healthcare & Life Sciences**
- **IT Services Forecaster™**
- **Locations Insider™**
- **PricePoint™**
- **Procurement**
- **Recruitment & Talent Acquisition**
- **Service Optimization Technologies**
- **Transaction Intelligence**

Subscription information

- This report is included in the following subscription(s)
  - **Locations Insider™**
- In addition to published research, a subscription may include analyst inquiry, data cuts, and other services
- **If you want to learn whether your organization has a subscription agreement or request information on pricing and subscription options, please contact us**

Custom research capabilities

- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio – plus a tracking tool
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

Corporate Headquarters
Office: +1-214-451-3000
info@everestgrp.com

European Headquarters
Office: +44-207-129-1318
unitedkingdom@everestgrp.com

Delhi Office
Office: +91-124-284-1000
india@everestgrp.com

* Banking, financial services, and insurance

Table of contents (page 1 of 2)

EGR-2017-2-PD-2451

Table of contents (page 2 of 2)

Background and scope of the research

Background of the research

Cities in Poland play a critical role in delivery of global services for both global and European players. As the global services industry matures, there is a gradual shift in the mix of locations being leveraged. With increasing competition, companies are looking to reduce costs and access additional talent pool for services delivery. The last few years have witnessed a surge in interest for global services delivery from tier-2 and tier-3 cities in Poland (as defined on page 7). Cultural affinity, time-zone similarity, and low-risk environment make these locations attractive for delivery to Western Europe. At the same time, these cities offer certain challenges such as lack of depth of talent and relatively inferior quality of infrastructure. The report takes a closer look at the value proposition offered by tier-2/3 locations in Poland as delivery destinations for global services industry

In this research, we analyze tier-2/3 cities as destinations for offshore and nearshore services delivery for global companies. The report is broadly divided into four sections:

- Market overview and trends in adoption of tier-2/3 cities in Poland for services delivery
  – This section highlights the current market size, growth, and trends in adoption of tier-2/3 cities
- Assessment of value proposition of tier-2/3 cities in Poland
  – This section provides facts and examples to illustrate the key value proposition offered by tier-2/3 cities in Poland
- Key trends affecting delivery from tier-2/3 cities in Poland
  – This section provides insights into key drivers behind the movement of enterprises / service providers to tier-2/3 cities in Poland
- PEAK Matrix™: Assessment of delivery locations on the Everest Group proprietary PEAK Matrix™ to classify them into Leaders, Major Contenders, and Aspirants

The scope of analysis includes

- Services – voice and non-voice Business Process Services (BPS), Information Technology (IT) services, and digital services
- Geography – Poland
- Global In-house Centers (GICs) and third-party Service Providers (SPs)
- Analysis of value proposition of key tier-2/3 cities in Poland: Bielsko-Biała, Bydgoszcz, Katowice, Łódź, Lublin, Opole, Poznań, Rzeszów, Szczecin, and Tri-city. The report also includes an assessment of Krakow as a reference location for the analysis

Cities can be classified into three broad categories based on their maturity for global services delivery and economic profile

- Locations differ in terms of cost of operations, talent pool availability, business environment, and market activity
- To simplify location analysis, cities can be classified into three broad categories based on:
  - Extent/maturity of IT-BPS market activity (includes aspects such as number of delivery centers of service providers/GICs and IT-BPS export revenue)
  - Overall socio-economic status of the city (includes aspects such as economic growth, infrastructure, population, and educational institutions)

Location category	Typical characteristics
Tier-1	• Large centers for global services delivery – Typically high competitive intensity within the IT-BPS market compared to tier-2/3 locations • Large economic centers • Primary education hubs with presence of large number of universities and significant talent migration from other locations • For example, Krakow, Warsaw, and Wroclaw
Tier-2	• Moderate levels of market activity with presence of both service providers and global in-house centers • Regional economic hubs, with a focus on particular industries • Moderate presence of universities and migration of talent from smaller cities nearby • For example, Katowice, Łódź, Poznań, and Tri-city
Tier-3	• Limited instances of IT-BPS delivery • Relatively smaller cities (population wise) with less economic activity compared to tier-1/2 cities • Limited migration of talent from other cities • For example, Bydgoszcz, Opole, Rzeszów, and Szczecin

Overview and abbreviated summary of key messages

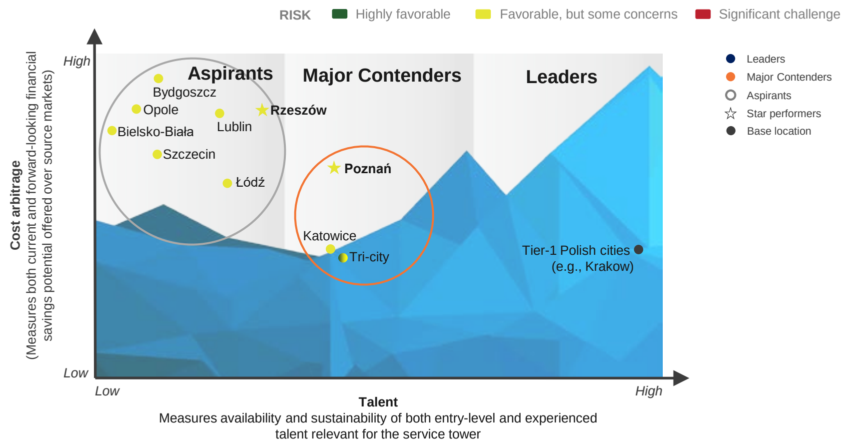
This Everest Group research provides current market trends on adoption of tier-2/3 Polish cities for global services delivery. The report aims to illustrate the value proposition offered by tier-2/3 Polish locations as delivery destinations for global services industry. The report also highlights the extent of digital services delivery from these locations.

Some of the findings of the report

Market overview and adoption of tier-2/3 Polish cities for global services delivery	• There is growing interest in adoption of tier-2/3 Polish cities as global services delivery destinations given market saturation in tier-1 cities (e.g., Krakow and Warsaw) • The share of tier-2/3 Polish cities is steadily increasing since 2008 and is expected to increase even further • There is more evidence of third-party service providers setting up delivery centers in tier-2/3 locations than enterprises. In the near future, GICs are likely to leverage tier-2/3 cities more due to lower competitive intensity in the labor market and availability of upskilled talent
Value proposition of tier-2/3 Polish cities	• Tier-2/3 Polish cities typically offer 15-30% cost arbitrage over tier-1 cities. This is primarily due to lower salaries, rentals, and overheads in tier-2/3 Polish cities • Although smaller than the talent pool in tier-1 cities, tier-2/3 Polish cities offer substantial entry-level talent pool • Although primarily leveraged to deliver traditional IT services, tier-2/3 Polish cities are increasingly becoming hotspots for digital technologies such as Robotic Process Automation (RPA), big data, and cloud • Tier-2/3 Polish cities also help in geographic risk diversification, offer significant talent for English and European languages, and may help reduce long-term investments due to additional government incentives available in these locations
Key trends affecting delivery from tier-2/3 Polish cities	• Digital adoption, Brexit, and investment incentives are the key trends likely to impact delivery of global services from tier-2/3 Polish cities – As an after-effect of Brexit, and especially in the scenario of a “hard Brexit”, companies (mainly financial services) based in London are likely to revisit their location portfolios and move jobs/roles to continental Europe. This is likely to spurt demand for delivery of back-office and IT services from the CEE region, including from Poland – Unlike other geographies (e.g., India and the Philippines) where tier-1 cities account for more than 70% of all digital delivery centers, Poland has witnessed significant activity for digital services such as cloud, data analytics, natural language processing, and security in tier-2/3 cities as well – Some tier-2/3 cities attract investment incentives as high as 50%, which further strengthen cost arbitrage of these locations and make them even more lucrative for service delivery

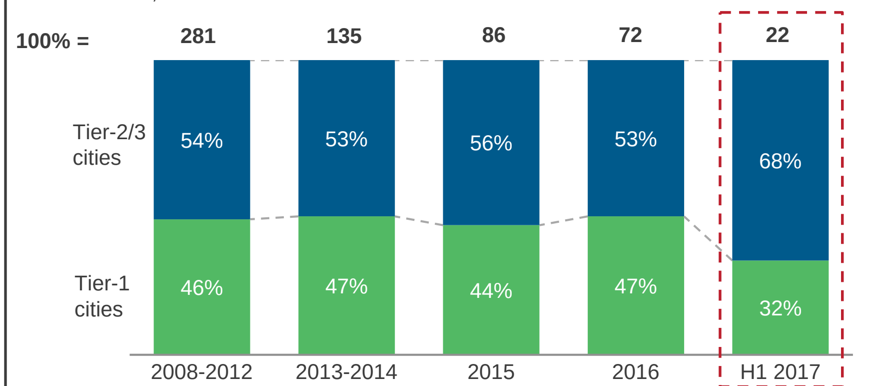
The study offers four distinct chapters providing deep dive into market overview and adoption trends, value proposition, key trends, and comparative assessment of tier-2/3 locations

Everest Group Location PEAK Matrix™ for IT-ADM



Market overview and adoption trends

Breakdown of new centers (GICs and service providers) – by city tiers
2008-H1 2017; Number of centers

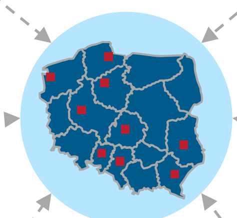


Value proposition of tier-2/3 Polish locations

Talent availability
Most tier-2/3 Polish locations offer good quality of technical skills. Graduates in these locations are well-suited for IT services delivery. With talent development measures, these locations can potentially be leveraged for judgment-intensive work as well

Lower operating costs relative to tier-1 Polish cities
Driven by lower salary levels and rentals, tier-2/3 cities offer lower operating cost than tier-1 cities

Language advantage
Tier-2/3 Polish cities, like tier-1 cities, have high proficiency for English language and are, thus, well-suited for English language delivery. Some tier-2/3 cities also offer significant talent for European languages (e.g., Łódź offers German, French, and Spanish; Poznań, Opole, and Szczecin provide German language skills). Universities in tier-2/3 cities have launched programs to upskill linguistic capabilities



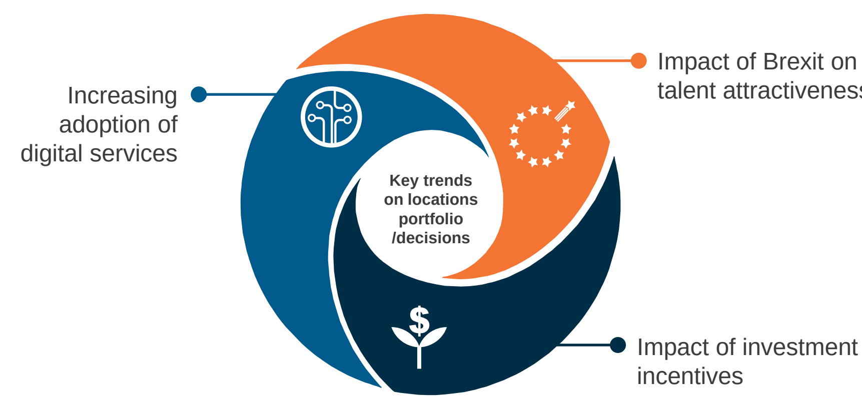
Mitigating location concentration risk
Players with large delivery centers in tier-1 Polish cities that are looking to expand operations are increasingly leveraging tier-2/3 cities to diversify risk

Lower competitive intensity than tier-1 Polish cities
Lesser concentration of players in tier-2/3 cities results in lower competitive intensity, thereby providing an added advantage of lower attrition rates

Stronger government support relative to tier-1 Polish cities
Some tier-2/3 Polish locations offer relatively more attractive financial incentives compared to tier-1 cities, owing to higher levels of unemployment

Geographical proximity and similar time zone
Most firms in Western Europe leverage Central Eastern Europe (CEE) locations for regional delivery where there is significant time zone overlap and ease of travel due to geographical proximity. Tier-2/3 Polish locations are attractive in both aspects

Key trends affecting delivery from tier-2/3 Polish locations



Source: Everest Group (2017)

Research calendar – Locations Insider™ (LI)

Published | Planned | Current release

Flagship Locations Insider reports	Release date
Global Locations Annual Report 2017: Signs of Structure in a Disordered World	June 2017
"Next-wave" Location Profiles: Delhi, India	August 2017
"Next-wave" Location Profiles: Kuala Lumpur, Malaysia	August 2017
"Next-wave" Location Profiles: Cork, Ireland	August 2017
"Next-wave" Location Profiles: Penang, Malaysia	September 2017
"Next-wave" Location Profiles: Iloilo, Philippines	September 2017
"Next-wave" Location Profiles: Krakow, Poland	October 2017
"Next-wave" Location Profiles: Belfast, Northern Ireland	October 2017
"Next-wave" Location Profiles: Monterrey, Mexico	Q4 2017

Thematic Locations Insider reports	
Emergence of Western Europe for Centralized Service Delivery to Europe	July 2017
Reimagining Location Strategy Due to Increasing Agile/DevOps Adoption	July 2017
Impact of Brexit on Contact Center Landscape in UK & Ireland	July 2017
Talent Model and Location Hotspots for Service Delivery Automation (SDA) Center of Excellence (CoE)	July 2017
EU GDPR: Is There a Silver Lining to the Disruption?	September 2017
Poland Tier-2/3 Cities: Complementing Tier-1 Cities or Carving a Niche for Digital Services?	**December 2017**
Landscape of Locations Delivering Business Process Services to the UK & Ireland	Q4 2017

Note: For a list of all Locations Insider™ (LI) reports published by us, please refer to our website page

Additional research references

The following documents are recommended for additional insight into the topic covered in this report. The recommended documents either provide additional details or complementary content that may be of interest:

1. **Global Locations Annual Report 2017: Signs of Structure in a Disordered World** (EGR-2017-2-R-2234); 2017. The global services locations landscape continued to witness stable growth in 2016 in terms of revenue; however, the growth rate was slower than the previous year owing to macroeconomic slowdown, political instability, and volatility in equity and investment markets. Similarly, the growth rate of center setups also dropped in 2016, in comparison to 2015. The period also continued to witness a shift from traditional locations (such as India) to leverage of other locations in Asia and Nearshore Europe. Additionally, there has been significant growth in delivery of disruptive technologies such as digital. The Global Locations Annual Report 2017 is a unique and comprehensive guide to understanding the nuances of the global services locations landscape and interpreting locations-related developments and trends to frame locations strategy. It presents insights into the size and growth of the global services market, update of locations activity, changes in risk profiles of locations, and an analysis of the maturity, arbitrage, and potential of locations (MAP Matrix™)

2. **Emergence of Western Europe for Centralized Global Service Delivery to Europe** (EGR-2017-2-R-2266); 2017. Over the last few years, Western Europe has gained significant importance as a global/regional delivery geography. GIC growth is largely fueled by increasing number of GIC setups by Europe- / U.S-based firms. Western European locations offer a unique value proposition with availability of skilled-talent, stable business/operating environment, multilingual capabilities, and high maturity for certain services. This report provides a detailed assessment of location options within Western Europe for global service delivery. This report assesses the key drivers for enterprises / service providers to move to Western Europe and key trends affecting the operationalizing of a delivery center in the geography. It also aims to assist companies in location selection within Western Europe by highlighting the key factors to be considered while selecting locations for service delivery

3. **“Next-wave” Location Profile – Krakow, Poland** (EGR-2017-2-LP-2364); 2017. Everest Group’s Next Wave Location Profiles provide crisp, yet insightful assessment of emerging / “Next-wave” countries or cities for services delivery. This report on Krakow offers perspectives on global sourcing profile of Krakow, key opportunities, drivers, and challenges, along with an overview of talent and skills availability, financial attractiveness, and environment risks

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

Anurag Srivastava, Vice President: anurag.srivastava@everestgrp.com
Namita Dahiya, Senior Analyst : namita.dahiya@everestgrp.com
Rahul Gupta, Analyst: rahul.gupta@everestgrp.com
Global Sourcing Team: gsresearch@everestgrp.com

Website: www.everestgrp.com | Phone: +1-214-451-3000 | Email: info@everestgrp.com

About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empower clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

Dallas (Headquarters)
info@everestgrp.com
+1-214-451-3000

Bangalore
india@everestgrp.com
+91-804-276-4533

Delhi
india@everestgrp.com
+91-124-496-1000

London
unitedkingdom@everestgrp.com
+44-207-129-1318

New York
info@everestgrp.com
+1-646-805-4000

Toronto
canada@everestgrp.com
+1-416-388-6765

Stay connected

Website
www.everestgrp.com

Social Media
@EverestGroup
@Everest Group

Blog
Sherpas In Blue Shirts
www.sherpasinblueshirts.com