## Introduction

- The Philippines' market share for the global offshoring and outsourcing (O&O) industry has grown to 15% in 2008, making the Philippines the third largest O&O destination in the world.


| IT Industry Competitiveness Index, 2008: Overall Scores and Ranks of Asian Countries | | | | |
|---|---|---|---|---|
| Rank in Asia | Country | Score | Global Ranking | |
| | | | 2008 | 2007 |
| 1 | Taiwan | 69.2 | 2 | 6 |
| 2 | So. Korea | 64.1 | 8 | 3 |
| 3 | Singapore | 63.4 | 9 | 11 |
| 4 | Japan | 62.2 | 12 | 2 |
| 5 | Hong Kong | 54.1 | 21 | 21 |
| 6 | Malaysia | 34.2 | 36 | 36 |
| 7 | Thailand | 31.5 | 42 | 41 |
| 8 | Philippines | 29.8 | 47 | 47 |
| 9 | India | 28.9 | 48 | 46 |
| 10 | China | 27.6 | 50 | 49 |
| 11 | Sri Lanka | 24.9 | 54 | 50 |
| 12 | Indonesia | 23.1 | 58 | 57 |
| 13 | Bangladesh | 22.4 | 60 | - |
| 14 | Vietnam | 21.4 | 61 | 61 |
| 15 | Pakistan | 20.9 | 62 | 60 |

*Source of Date: The Economist Intelligence Unit, September 2008*

- The Philippines, whose offshore market has grown 46 percent annually since 2004, is poised to emerge as a leading destination for non-voice business process outsourcing (BPO) work.
- It has emerged as a key destination for English-based work especially for the North American market.
- In terms of IT industry competitiveness, the Philippines has maintained its 47th position in the world in 2008 and 8th in Asia. The ranking is based on six indicators: overall business environment, IT infrastructure, human capital, legal environment, R&D environment, and support to IT industry development.
- The country's improvement in IT infrastructure and human capital has helped sustain this global position.
- Since 2003, more than 80% of the IT/BPO services catered the US market.
- Exports to Europe and Asia are also growing. Other markets include Japan, Canada, Australia, New Zealand, the Middle East and Africa.
- The Philippine IT/BPO industry has a wide breadth of competencies in the following sectors:
  - Contact/call centers;
  - Business process outsourcing or BPO (finance & accounting, HR, payroll);
  - Knowledge process outsourcing or KPO (marketing research, medical research, legal case research & preparation, insurance, mortgage);
  - Medical, legal and other data transcription;
  - Film animation;
  - Software development;
  - Engineering and construction design; and
  - Game development or content development.

## Market Opportunity

**Market size**

- Global O&O market exceeded US$55 Billion in 2008
  - Annual growth rate estimated at 20% over the next 5 years
- Estimated global O&O market
  - 2009 – US$66 Billion
  - 2010 – US$79.2 Billion
- Philippines O&O forecast, 2010 – US$12 Billion revenue; 25% annual growth.

**Presence of a demand-supply gap**

- Industry projects about US$12 Billion revenue for 2010. This corresponds to the 15% share of the US$79.2 Billion projected penetrated market for 2010, provided the Philippines sustains its market share of 15% recorded in 2008.
- Out of the US$450 Billion projected global demand, around US$370.8 Billion remains untapped, which is a huge opportunity for the global O&O industry.


## Philippine Advantage

**Technology that supports the industry**

- Expanding technologies on fiber and copper network, wireless technologies (CDMA, GSM, WAP, GPRS, 3G, wireless broadband), radio and VSAT

**Support infrastructure**

- Digital fiber optic backbone network (FOBN)
- Nationwide radio microwave terrestrial network
- Next generation networks (NGN), characterized by the use of Internet Protocol (IP), Multi-Protocol Label Switching (MPLS) and Wave Division Multiplexing (WDM).

**Ideal locations**

- Metro Manila, Metro Cebu and the Next Wave Cities
- Around 165 ready-to-occupy IT Parks and Buildings all over the country.

| NEXT WAVE CITIES | | |
|---|---|---|
| Baguio | Metro Laguna[1] | Legazpi |
| Batangas | Metro Cavite[2] | Leyte |
| Cabanatuan | Iloilo | Pampanga South |
| Cainta | Davao | San Fernando |
| Camarines Sur | Bacolod | Subic/Olongapo |
| Dagupan | Angeles/Clark/Mabalacat/Dau | Tagbilaran |
| Dumaguete | Baliuag/Marilao/Meycauayan | Tarlac |
| General Santos | Cagayan de Oro | Tuguegarao |
| La Union | Malolos/Calumpit | Urdaneta |
| | Lipa | |

[1] *(Sta. Rosa, Calamba, Los Baños, Cabuyao, San Pablo City)*
[2] *(Bacoor, Dasmariñas, Imus, Cavite City)*

**Human resources**

***Availability***

- More than 490,000 college-degree graduates in 2008, 66.6% of which have courses suitable for the IT/BPO or cyber-services sector.
- Annual growth rate of tertiary level graduates is estimated at 3.8%.

***Quality***

- 3rd largest English-speaking country in the world
- 72% of the population fluent in American English
- English language as the basic communication medium used in business, government and schools.
- Highly educated, flexible, productive, loyal, dedicated workforce with excellent work ethics and attention to detail
- Strong affinity for western culture.

**Costs advantage**

- Average annual salary of IT professionals in the Philippines handling various types of IT job functions is the most competitive in Asia.

- Cost of bandwidth went down by at least 85% in the last 5 years.

| AVERAGE ANNUAL SALARY BY COUNTRY AND JOB FUNCTION (IN US$) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Country | IT Management | Project Management | Systems Development | Communication | Support | Administration | Other IT Professionals |
| China | 25,103 | 21,574 | 11,788 | 11,762 | 9,824 | 13,728 | 7,124 |
| Hong Kong | 89,770 | 61,304 | 51,228 | 64,062 | 44,794 | 53,580 | 62,080 |
| India | 18,354 | 16,783 | 10,325 | 8,823 | 6,584 | 8,320 | 11,499 |
| Indonesia | 10,376 | 8,114 | 4,564 | 5,177 | 3,897 | 4,887 | 5,688 |
| Malaysia | 26,407 | 21,604 | 14,297 | 17,804 | 11,976 | 14,499 | 19,511 |
| **Philippines** | **12,466** | **11,119** | **8,199** | **7,423** | **4,730** | **8,165** | **6,406** |
| Singapore | 65,785 | 51,158 | 34,010 | 36,130 | 29,562 | 37,033 | 50,499 |
| Thailand | 29,066 | 22,285 | 13,237 | 14,987 | 13,155 | 17,520 | 23,600 |
| *Source: ZDNet Asia Survey, Oct 2008 – May 2009* | | | | | | | |

## Industry Potentials

**Growths -**

*Number of industry players*

- From an estimated 300 companies in 2004 to 618 in 2008, or an increase of 106% in 5 years.

*Investments (in terms of project cost)*

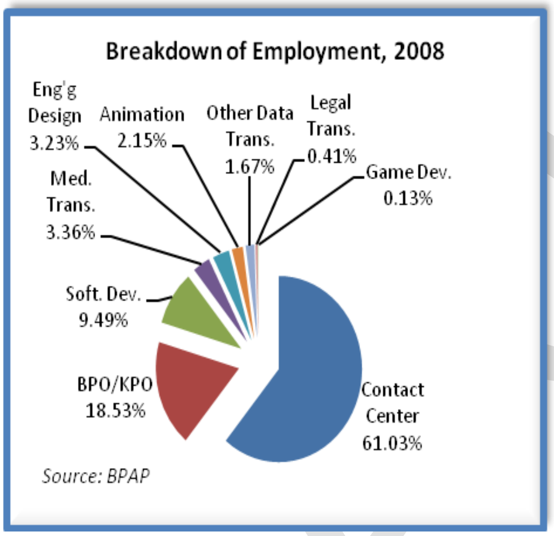
- BOI-registered IT/BPO projects alone – Project cost increased to Php 26.20 Billion in 2009 (July) from Php 18.64 Billion in 2004, or an increase of 40.66%.

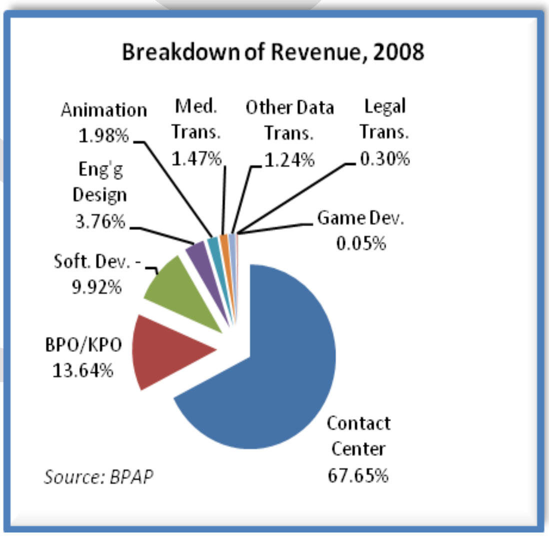
*Employment*

- Estimated 475,000 full-time employees (FTEs) as of August 2009 from 371,965 FTEs in December 2008, or an increase of 27.7% in a period of 8 months.
- Average annual increase of 40% in employment generation from 2004-2008.

*Revenue*

- US$6.061 Billion revenue generation in December 2008.
- Average annual increase of 43% in revenue generation from 2004-2008.




**Contribution to the economy**

*Percent of GDP*

- Total BPO: 3.6% share in GDP in 2008.

*Percent to total exports*

- IT/BPO accounts for 12.36% of total Philippine exports in 2008.

## Government Support

**Enabling laws/policies**

- Medium-Term Philippine Development Plan 2004-2010
  - Reduction of connectivity cost
  - Development of ICT Human Resource
- Executive Order No. 561 dated 19 August 2006 creating the Philippine Cyber Corridor, an ICT belt stretching 600 miles from Baguio City to Zamboanga designed to provide a variety of cyberservices at par with global standards, and supported by a $10 Billion high bandwidth fiber backbone digital network.
- 2009 Investment Priorities Plan providing fiscal and non-fiscal incentives to Business Process Outsourcing or voice and non-voice IT-enabled services.
- Allocation of Php 350 million scholarship funds for the training of near-hires in IT/BPO.
- Data Privacy Bill proposed in Congress to ensure protection of personal information in the ICT

systems in government and private sector.

**Development plans and programs**

- Roadmap 2010 aiming to capture 10% of the global offshoring and outsourcing market share by 2010.
- Adoption of Service Science, Management and Engineering (SSME) curriculum in colleges and universities nationwide to develop the critical mass of skilled manpower needed to sustain Philippine leadership in global O&O industry.

## Incentives

**Fiscal**

- 4 to 8 years Income Tax Holiday (ITH);
- Special 5% tax rate on gross income after the lapse of ITH (for IT Park/Eco-zone locators);
- Tax and duty exemption on imported capital equipment (for IT Park/Eco-zone locators); Duty-free importation of capital equipment (for BOI-registered firms under E.O. 528);
- Exemption from 12% input VAT on allowable local purchase of goods and services, e.g., communication charges (for IT Park/Eco-zone locators);
- Additional deduction for labor expense;

**Non-fiscal**

- Unrestricted use of consigned equipment;
- Exemption from wharfage dues and export tax, duty, impost and fees;
- Employment of foreign nationals;
- Special Investors Resident Visa.

## Costs of Doing Business

**Salaries and wages**

**Average Annual Salary (in US$)**

| IT Job Function | National Capital Region | Regional/ Provincial |
|---|---|---|
| Data Encoder/ Transcriptionist | 3,223 | 2,976 |
| Call Center Agent/ Customer Service Representative | 4,219 | 3,384 |
| Team Leader/ Technician | 4,840 | 3,936 |
| Analyst/ Software Developer | 5,812 | 4,800 |
| MIS/Systems Administrator | 5,987 | 4,956 |
| Manager/ Department Head | 13,331 | 11,484 |

*Source of Basic Data: Clark Development Corporation and BPAP. (Computed based on a minimum wage rate of P382/day in NCR and P302/day in the regions. Overtime pay, allowances and other company benefits not included. Exchange rate use is P48/US$1.)*

**Rentals, lease, acquisition (average)**

- Office space rental – NCR: Php 500/sq.m.; Regional/Provincial: Php 250/sq.m.
- PEZA-accredited IT Building lease – US$300/station/month (24/7) including TELCO, back-up power generator, security surveillance system, etc.
- PEZA lots lease – US$0.40/sq.m.

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