IBPAP®
IT & Business Process Association
PHILIPPINES

Joseph R. Villordon, R.E.E., MBA
Vice-Chair, Quality Council
IT-BPM Association of the Philippines (IBPAP)

www.ibpap.org

Information Technology & Business Process Association of the Philippines

- Founded in 2004
- Enabling organization for the IT-BPM Industry Associations (IAs) and Global In-House Center (GICs)
- Serves as the one-stop information and advocacy gateway for the industry
- Assists investors in setting up operations easily and quickly
- Conducts business research for the industry
- Serves as the gateway for knowledge sharing and networking among members
- Enables PPP (Public-Private-Partnership) for talent development programs

Information Technology & Business Process Association of the Philippines

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GDAP GAME DEVELOPERS ASSOCIATION OF THE PHILIPPINES

GICC
GLOBAL IN-HOUSE CENTER COUNCIL

Philippine Software
PSIA
Industry Association

ACPI
ANIMATION COUNCIL OF THE PHILIPPINES, INC.

CCAP
SERVING THE WORLD

HIMAP
Healthcare Information Management Association of the Philippines

WHO'S WITH US?

Voice – Based Services Suppliers

Convergys, Sykes, TeleTech, Nokia, Concentrix, Sitel, Telus, Siemens, Bosch, docomo, ACS, Western Union, Teleperformance, FIS, Admerex, solmat, IHG, VXI, PCCW Teleservices, Stellar, Sutherland Global Services, Percepta, UST Global, Acquire

Homegrown Suppliers

Teleserv, prople, Radix, Blast Asia, PacificHub, Morph, moanimo, Anino Games, BPO, SVI Corporation, SPi, Suspended Animation Media, Pointwest Technologies, Eacomm, mediafarm, Transprocure, Jupiter Systems, Inc., MxSecure, Palafox Associates, Sterling Global Call Center

Banking, Financial Services and Insurance

HSBC, JPMorgan Chase & Co., Manulife Financial, Bank of America, Deutsche Bank, Sun Life Financial, citi, Macquarie, American Express, Capital IQ, E*Trade, GE Money, ANZ, integra, Boston Finex Group

IT and Software Services

accenture, headstrong, Misys, hp, IBM, Lawson, Safeway Philtech, NetSuite, Trend Micro, logica, Emerio, Fujitsu, Dell Perot Systems, Continental Temic, Oracle, SeaChange, Canon, Tsukiden, Unisys

NASSCOM'S Top BPOs

Tata Consultancy Services, Infosys, Genpact, Wipro, Tech Mahindra, Cognizant, HTMT, 3i Infotech, Motif, WNS, intelenet, Aditya Birla Minacs, EXL, InterGlobe Technologies, firstsource

Shared Service Centers / Captives

Chevron, P&G, Nestlé, Shell, FT, Maersk, Bombardier, DHL, APC, McGraw Hill, Ingram Micro, SGS, Hershey's, Diageo, Johnson, Star Cruises, Vestas, SunPower, ADP, pwc, Henkel, McKinsey & Company

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WHO'S WITH US?

Engineering Services Outsourcing

ATKINS, EMERSON, Palafox Associates, EEI Corporation, Bechtel, PB, Lexmark, Continental Temic, Nokia Siemens Networks, Hyundai, Verizon, Tsuneishi, JGC Philippines, Fluor Daniel, Foster Wheeler, Phinma, Versar

Creative Services Outsourcing

Anino Games, Zeenoh, Funguy Studio, Why Cry! Animation, Sun Game, Toei Animation, AV, Toon City Animation, Inc., Lady Luck Digital, Top Peg, Woodpecker Studio, gameloft, AFFINITY X — Every Revolution Starts Small

HR Outsourcing

Ericsson, NorthgateArinso, Towers Watson, Hewitt, Manpower, alexander mann solutions, Western Wats, KFORCE Global Solutions, hrmall

Medical Services Outsourcing

eData Services, MxSecure, SPi, Ttsi, MediCall, Optimize, Summit Technologies, Inc., ScopeWorks

Legal Process Outsourcing

Baker & McKenzie, White & Case, Infinit-O, SPi, Integreon, RR Donnelley, Thomson Reuters, Sentor, LegisPro, LPO Manila Inc., MOS, ACT Litigation Services, Kittelson & Carpo

Clinical Research Outsourcing

Quintiles, Parexel, AstraZeneca, Pfizer, Bayer HealthCare, MSD, Kendle — Real people. Real results., Covance, St. Luke's Hospital — Our specialty is you, PPD, Gleneagles CRC, Omnicare Clinical Research, gsk GlaxoSmithKline, ICON — A Symbol of Excellence

Maintenance, Repair, Overhaul Services

SIA Engineering (Philippines), Lufthansa Technik — More mobility for the world, Asian Aerospace Corporation, AirAsia.com, EVA Air, Korean Air, KLM, Bombardier Learjet, Bell Helicopter — A Textron Company, Cathay Pacific, SilkAir, EgyptAir, Beechcraft King Air A100

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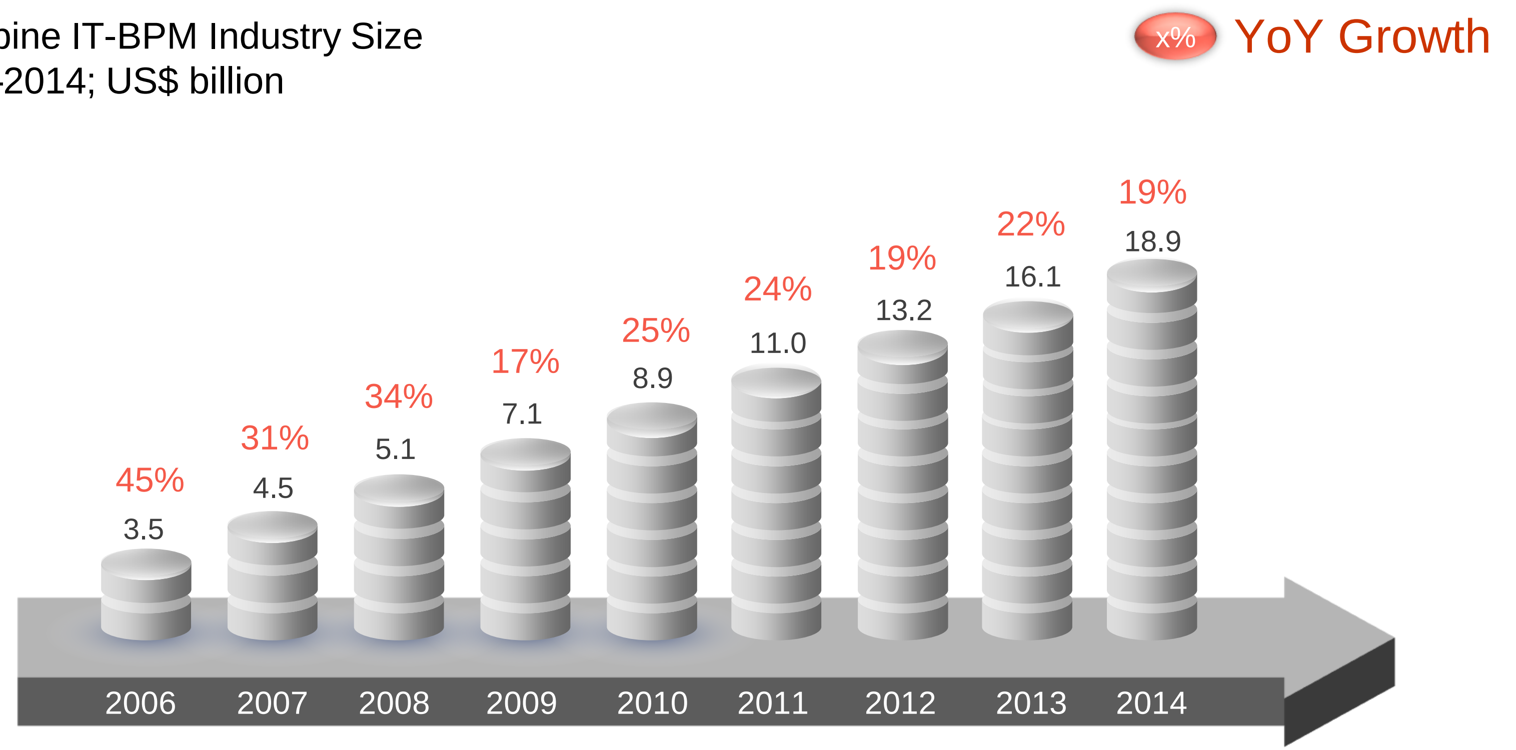
INDUSTRY PERFORMANCE 06-14

Philippine IT-BPM Industry Size
2006–2014; US$ billion



# FTEs (~'000)	236	298	371	424	527	640	777	917	1071

1Philippines IT-BPM market as percentage of global offshore services market, in revenue terms
Sources: BPAP, ACPI, CCAP, GDAP, HIMOAP, PSIA

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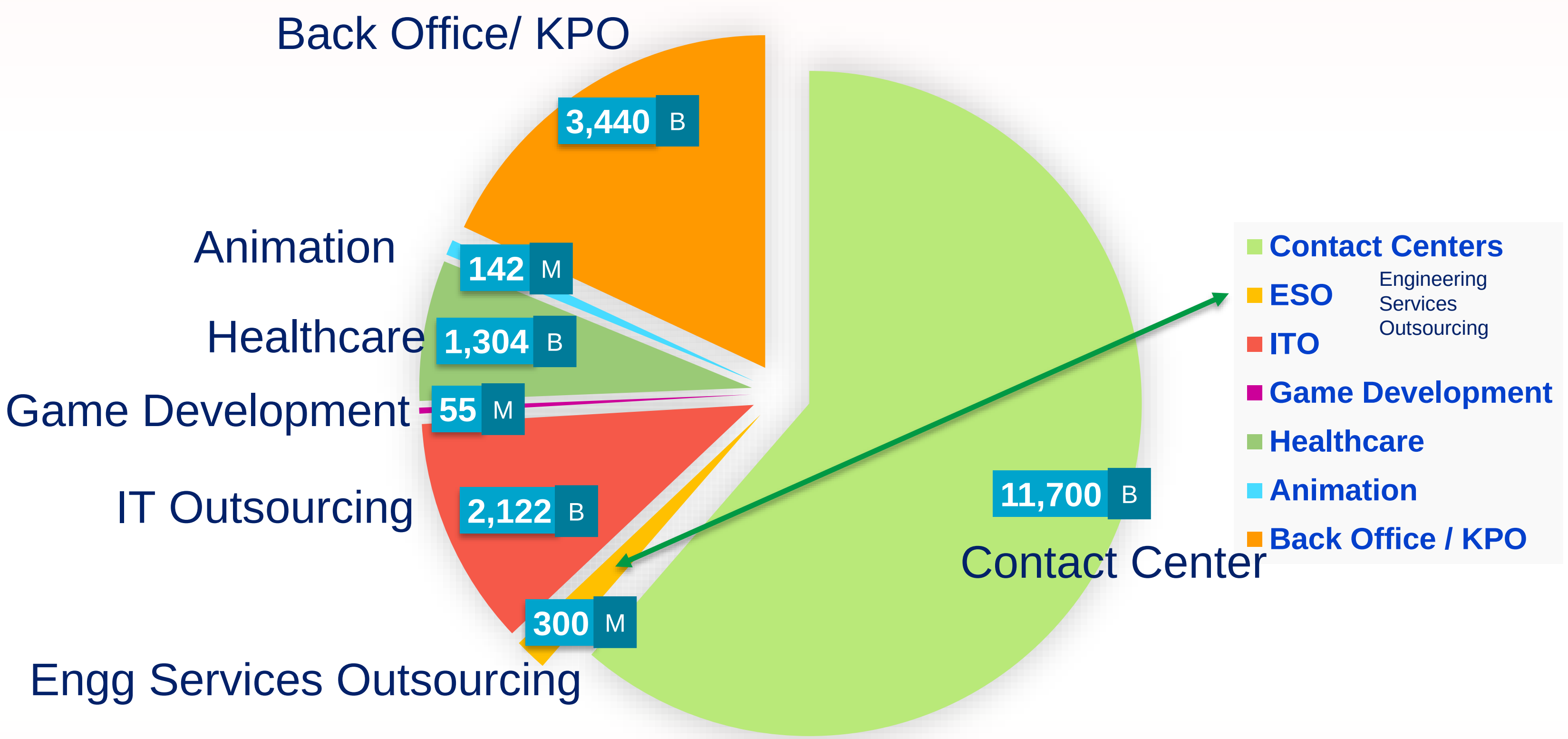
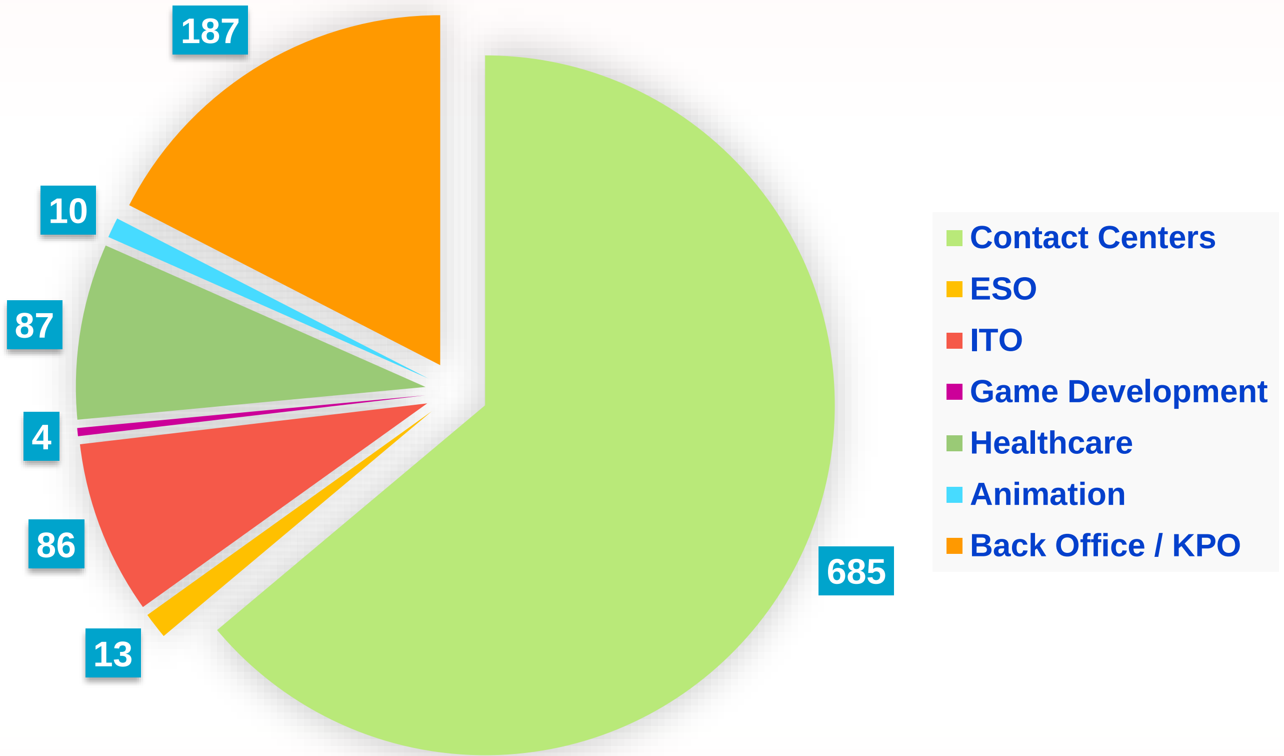
2014 REVENUE DISTRIBUTION



2014 HEADCOUNT DISTRIBUTION

**in hundred thousands



A wide range of services are delivered from the Philippines

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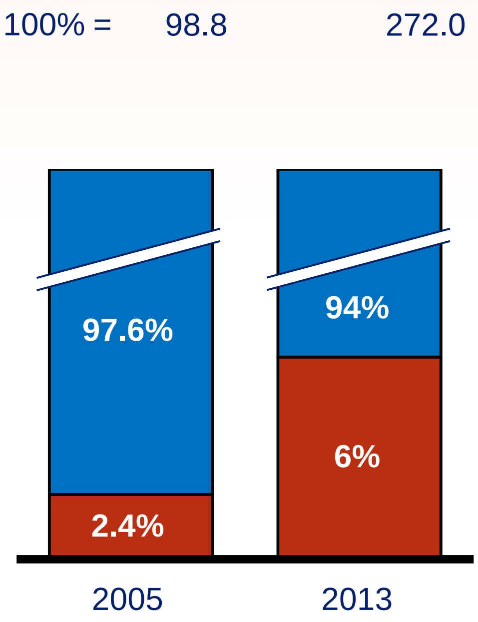
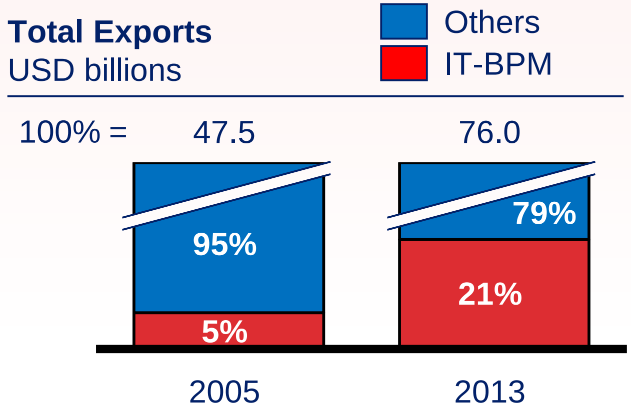
IT applications services (ITO)	Business process services (BPO)	Engineering services (ESO)
Application development and maintenance • Application development • AD integration and testing • Application Maintenance System Integration • Analysis • Design • Development • Integration and testing • Package implementation IT Infrastructure Services • Help desk • Desktop support • Data centre services • Mainframe • Network operations • IT consulting Software product development • New product development • System testing • Localization/Support • Gaming	Horizontal processes • Contact centers • Human resources • Finance and accounting • Supply chain (procurement, logistics management) Industry/vertical processes • Banking and insurance • Telecom • Public sector • Utilities • Health care • High-tech • Oil & Gas • Consumer products KPO • Business research, financial research • Animation • Data analytics • Legal process and patent research • Other high-end processes	Manufacturing Engineering • Upstream product engineering – Concept design – Simulation – Design engineering • Downstream product engineering – CAD/CAM/CAE – Embedded software – Localization • Plant and process engineering Architecture design • Design process • Building Management models

THE INDUSTRY & THE ECONOMY

GDP
USD billions

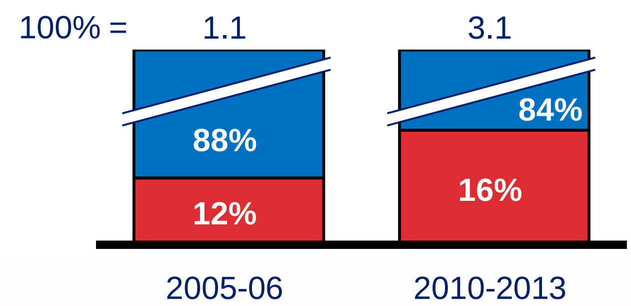


Total Exports
USD billions



Industry's 27% CAGR for 8 years exceeded 6% CAGR of total exports for the same period

Employment contribution
Million jobs



The IT-BPM industry contributed 16% to annual increases in total no. of employed individuals for the past four years

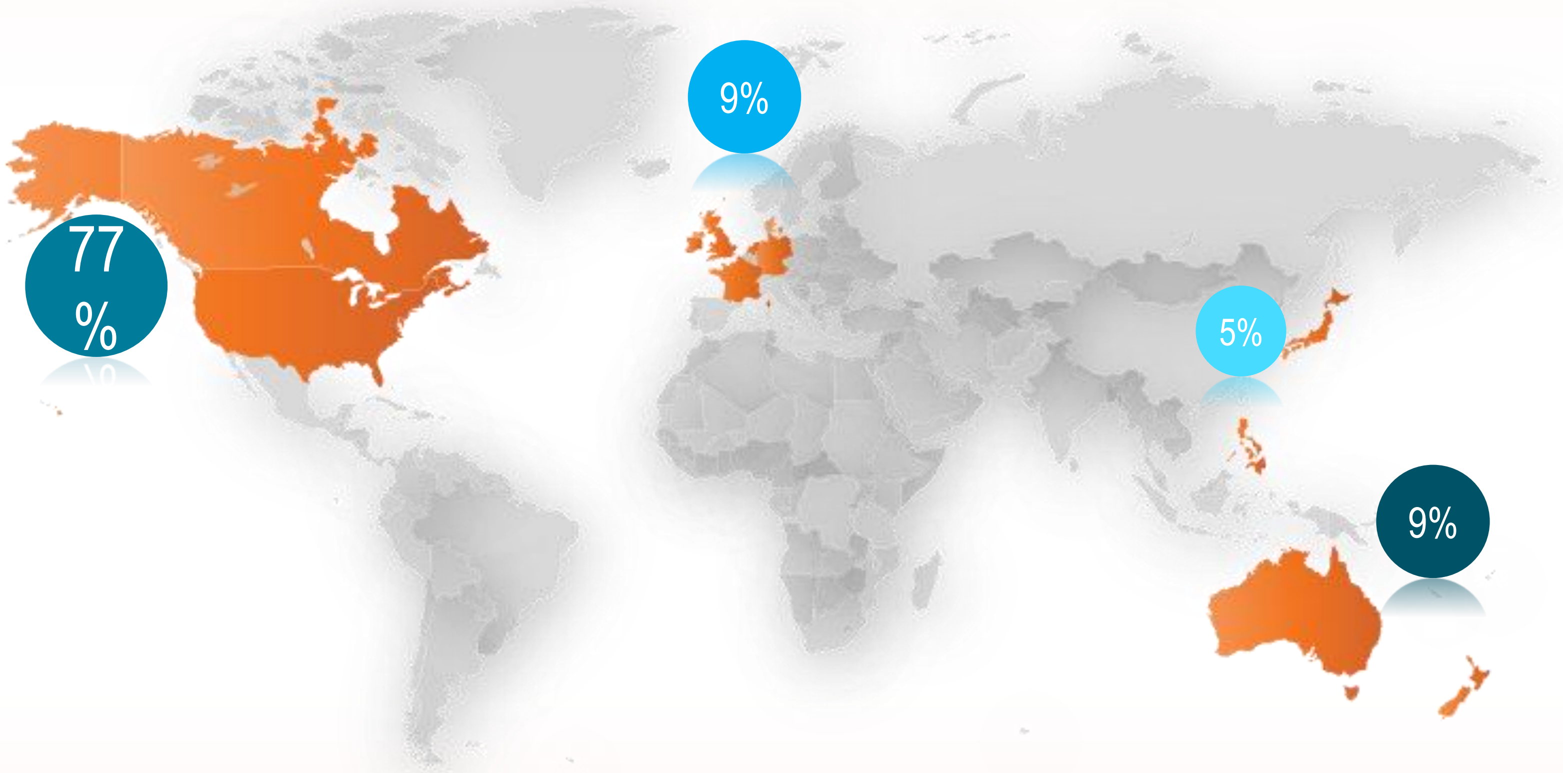
IT-BPM industry contributed 6% to total Philippine GDP by 2013

Note: GDP at current prices

Source: Philippine Statistical Authority (PSA); BSP; DOLE-BLES; team analysis

KEY GLOBAL MARKETS

Revenue Contribution by Regions (%, 100% = USD 18 BN+)



IBPAP, Tholons Analysis

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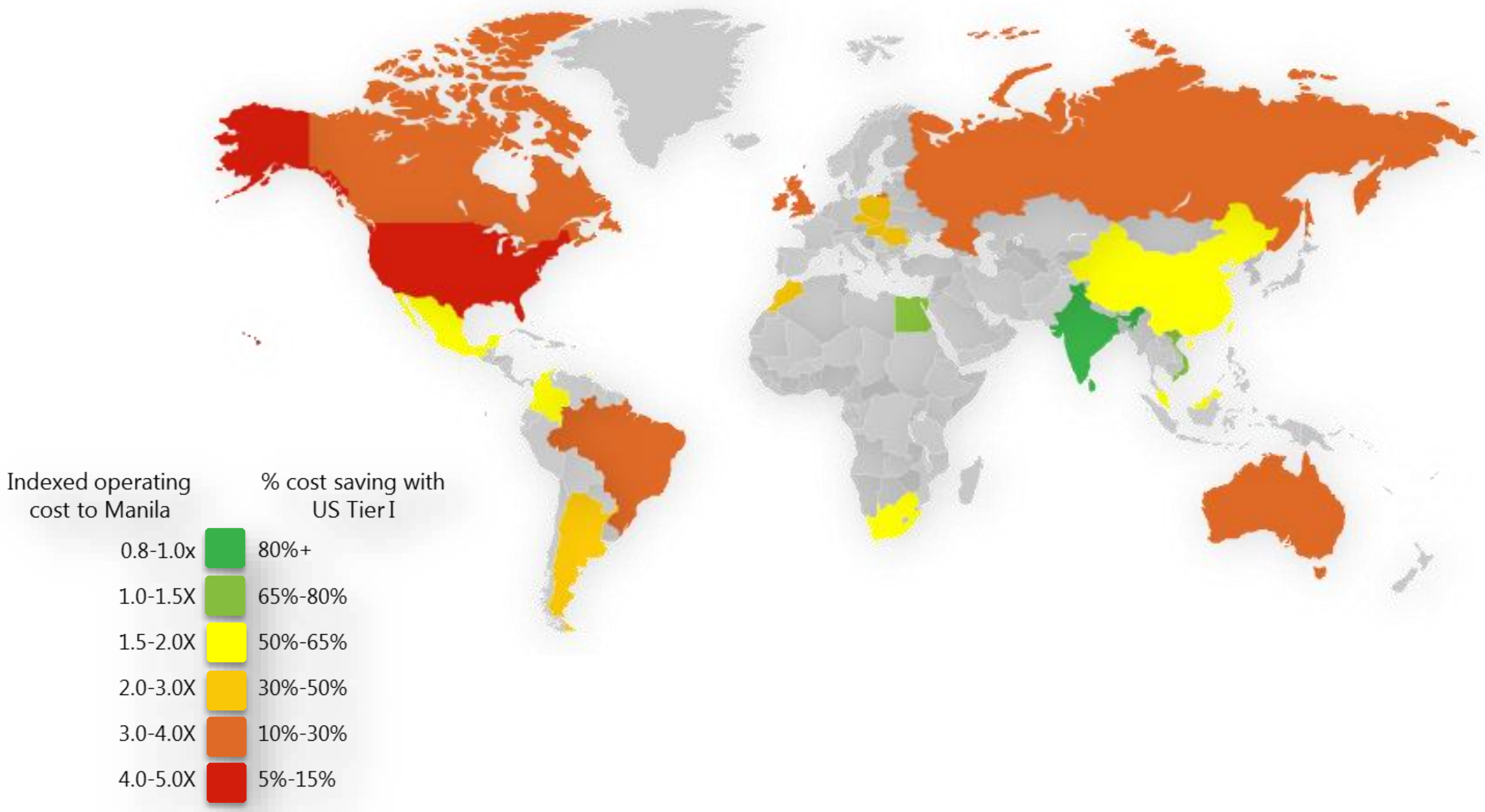
COST EFFECTIVENESS

Indexed Operating Costs per FTE per Annum (BPM Market Range)



Tholons Analysis

WHY THE PHILIPPINES?

Scalable Educated Talent Pool

Cost Competiveness

Excellent Infrastructure

Government Support & Public-Private Partnership

Proven Track Record

TALENT POOL

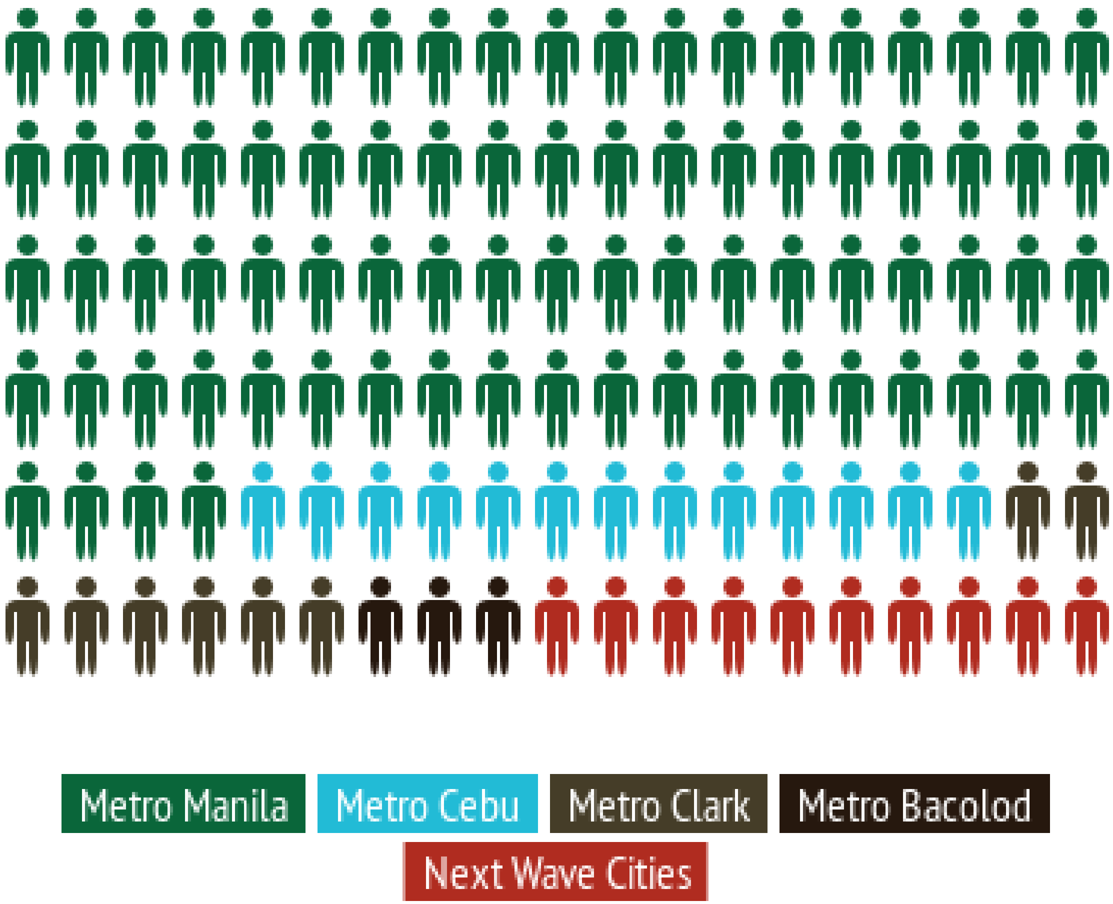
Number of college degree graduates	2013 Projection	2016 Projection
Medical and natural sciences, allied fields	158,159	183,459
Business, accounting, and related fields	119,526	129,168
Social and behavioral sciences, education	67,474	65,558
Engineering and architecture	57,799	63,191
IT-related and mathematics	57,921	65,420
Fine arts, masscom, humanities	13,549	14,673
TOTAL Tertiary level	533,273	584,474

- 500,000+ college graduates per year
- 3,000+ CPAs
- English proficiency & other languages
- Affinity with Western culture
- Customer service orientation
- Highly trainable
- Cost effective
- High level of commitment and loyalty

	Pop	Labor force	Unemp rate	Literacy
World	7,111M	3,302M	6.0%	83.7%
India	1,221M	487M	8.5%	61.0%
China	1,350M	799M	6.5%	92.2%
Brazil	201M	106M	5.5%	88.6%
Philippines	105M	41M	7.0%	92.6%

IBPAP, Tholons Analysis

THE SCALE ADVANTAGE



- 300k employed outside of Metro Manila

- Domestic Growth + Impact Sourcing pushing up employment in Next Wave Cities

- 140k employed in 3 Centers of Excellence

IBPAP, Tholons Analysis

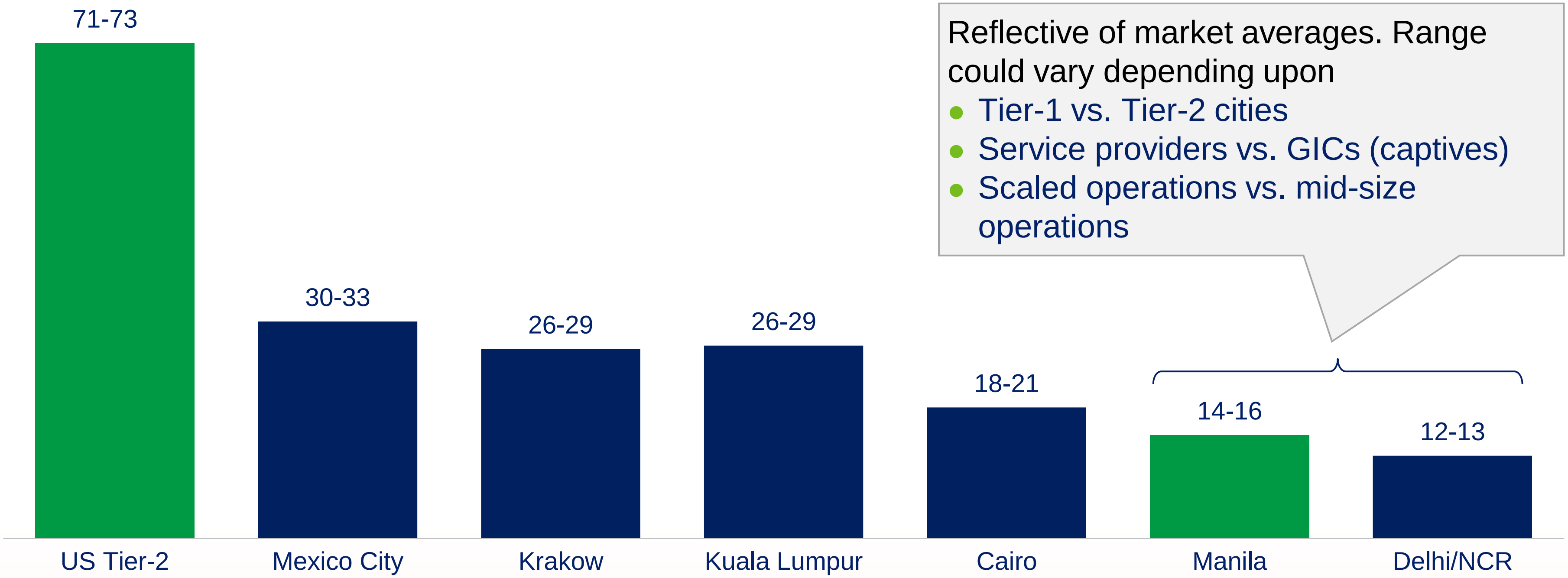
COST COMPETIVENESS – VOICE SERVICES

Direct operating cost[1] per FTE for English voice work
2013; US$ '000 per annum per FTE

MARKET AVERAGES

ENGLISH LANGUAGE VOICE EXAMPLE

Reflective of market averages. Range could vary depending upon
- Tier-1 vs. Tier-2 cities
- Service providers vs. GICs (captives)
- Scaled operations vs. mid-size operations



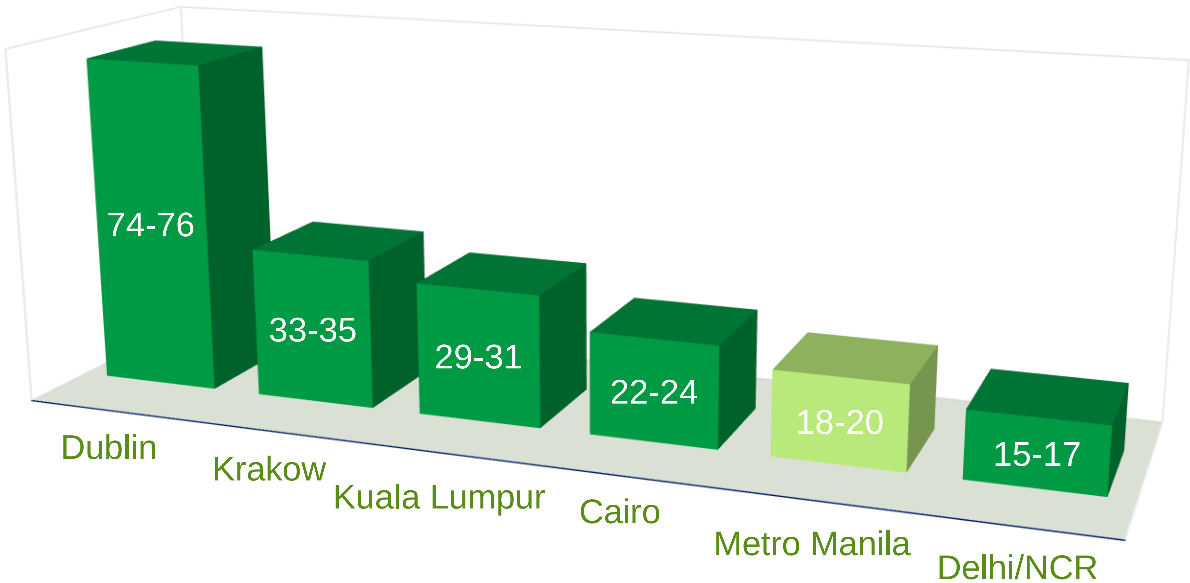
Philippines is one of the lowest cost destinations for English voice work and comparable to India

COST COMPETIVENESS – NON-VOICE

Direct operating cost[1] per FTE for F&A transactional work
2012; US$ '000s per annum per FTE

MARKET AVERAGES

FAO EXAMPLE



1 Ongoing costs only; excludes margins/mark-ups, centralized corporate overheads, initial investment, set-up costs, and travel costs
Note: Exchange rates for local currencies with respect to the U.S. Dollar have been averaged for 18 months from 1-Jan-2011 to 30-July-2012
Source: Everest Group (2012)

IBPAP, Tholons Analysis

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SALARY COMPARISON – SOFTWARE & IT

Graphic Designer	
Annual Salary in US Dollars	
COUNTRY	SALARY
Philippines	5,657.71
India	11,000.00
Malaysia	12,084.52
Hong Kong	14,625.27
Germany	24,052.92
UK	31,783.96
New Zealand	35,549.96
Italy	39,846.10
Japan	40,006.70
Ireland	40,867.83
Canada	44,000.00
Netherlands	54,144.93
Belgium	54,298.13
USA	57,000.00
Spain	59,598.95
Australia	64,000.00
Switzerland	96,306.28

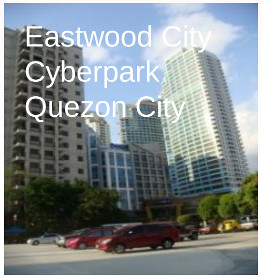
Software Developer	
Annual Salary in US Dollars	
COUNTRY	SALARY
Philippines	7,521.81
India	14,000.00
Malaysia	15,392.85
Japan	31,245.72
Spain	31,883.11
Italy	32,472.89
Hong Kong	34,317.56
UK	43,682.42
Belgium	46,647.21
Ireland	46,959.47
New Zealand	50,423.05
Netherlands	56,680.92
Germany	57,581.76
Denmark	58,237.00
Canada	64,000.00
Switzerland	69,741.50
USA	94,000.00
Australia	106,000.00

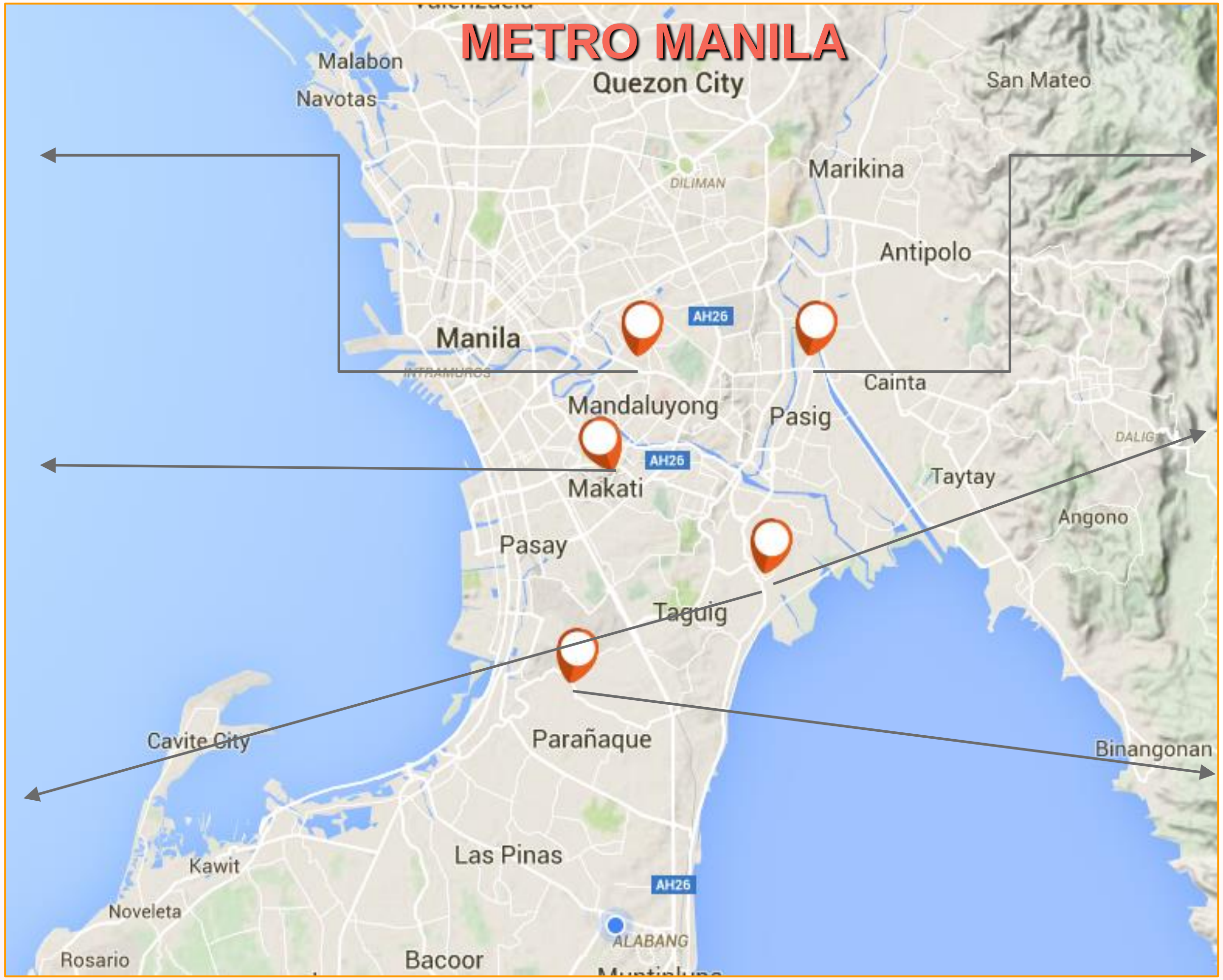
Web Developer	
Annual Salary in US Dollars	
COUNTRY	SALARY
Philippines	6,783.83
Malaysia	7,655.37
India	12,000.00
Spain	31,962.36
UK	34,124.34
Belgium	34,571.72
Hong Kong	34,638.38
New Zealand	46,610
Ireland	47,451.28
Netherlands	50,218.75
Denmark	50,770.00
Germany	52,163.32
Italy	52,218.26
Canada	60,000.00
USA	76,000.00
Japan	85,929.53
Australia	87,000.00

Sr. Web Developer	
Annual Salary in US Dollars	
COUNTRY	SALARY
Philippines	9,054.33
Malaysia	19,124.36
India	30,758.10
Italy	30,758.00
Hong Kong	34,638.38
UK	52,134.56
Spain	52,697.89
Netherlands	57,438.36
Ireland	61,159.00
Canada	69,000.00
Denmark	69,225.00
Germany	71,540.91
Switzerland	97,617.70
USA	107,000.00
Australia	115,000.00

INFRASTRUCTURE ADVANTAGE

Lowest rental rates in the region; dedicated IT parks right in the center of business districts





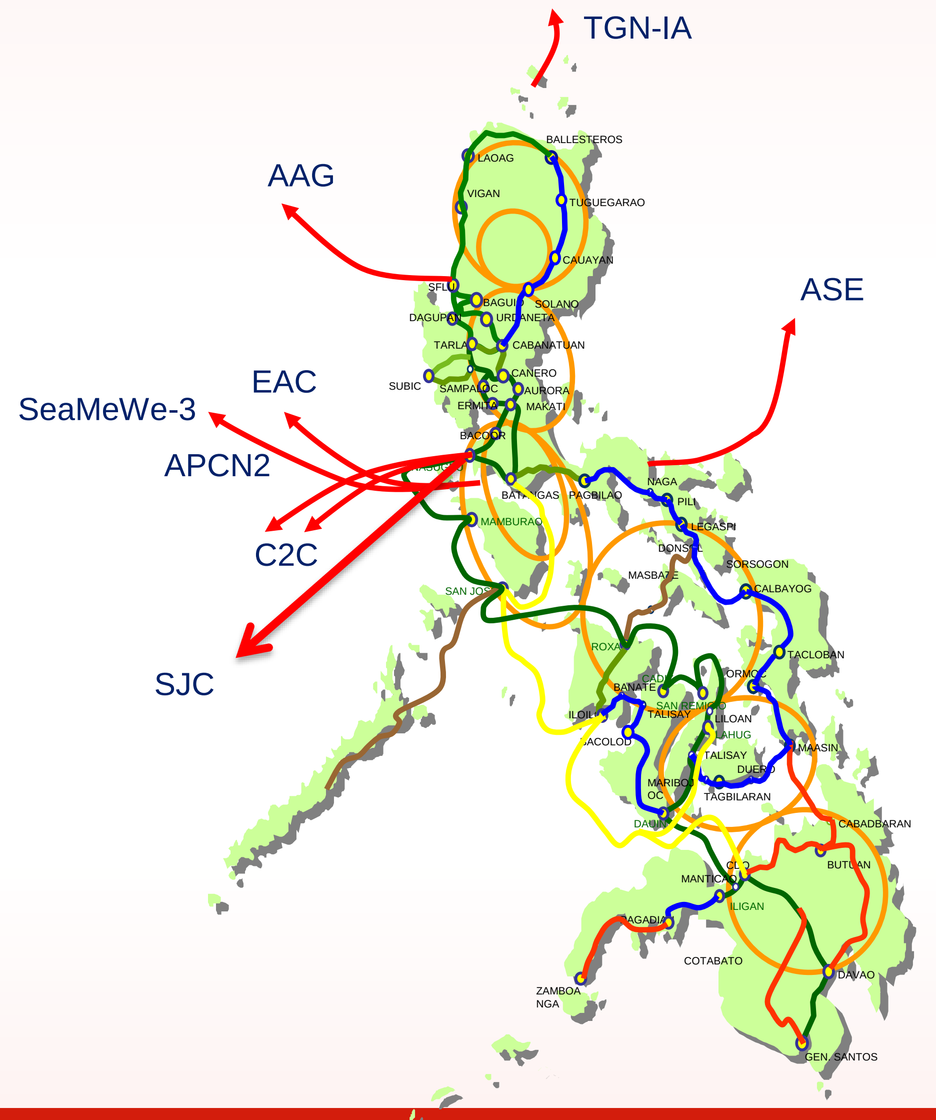
RELIABLE & REDUNDANT CONNECTIVITY

Transmission Backbone Networks

- PLDT Digital Fiber Optic Network (DFON)
- Globe Telecom Fiber Optic Backbone Network (FOBN)
- TelicPhil (BayanTel) Nationwide Digital Transmission Network (NDTN)

Cable Landing Stations

- Ballesteros, Cagayan
- Tanza, Cavite
- Nasugbu, Batangas
- Bauang, La Union
- Daet, Camarines Norte



IBPAP®
IT & Business Process Association
PHILIPPINES

THE NEXT WAVE CITIES

2012 Next Wave Cities

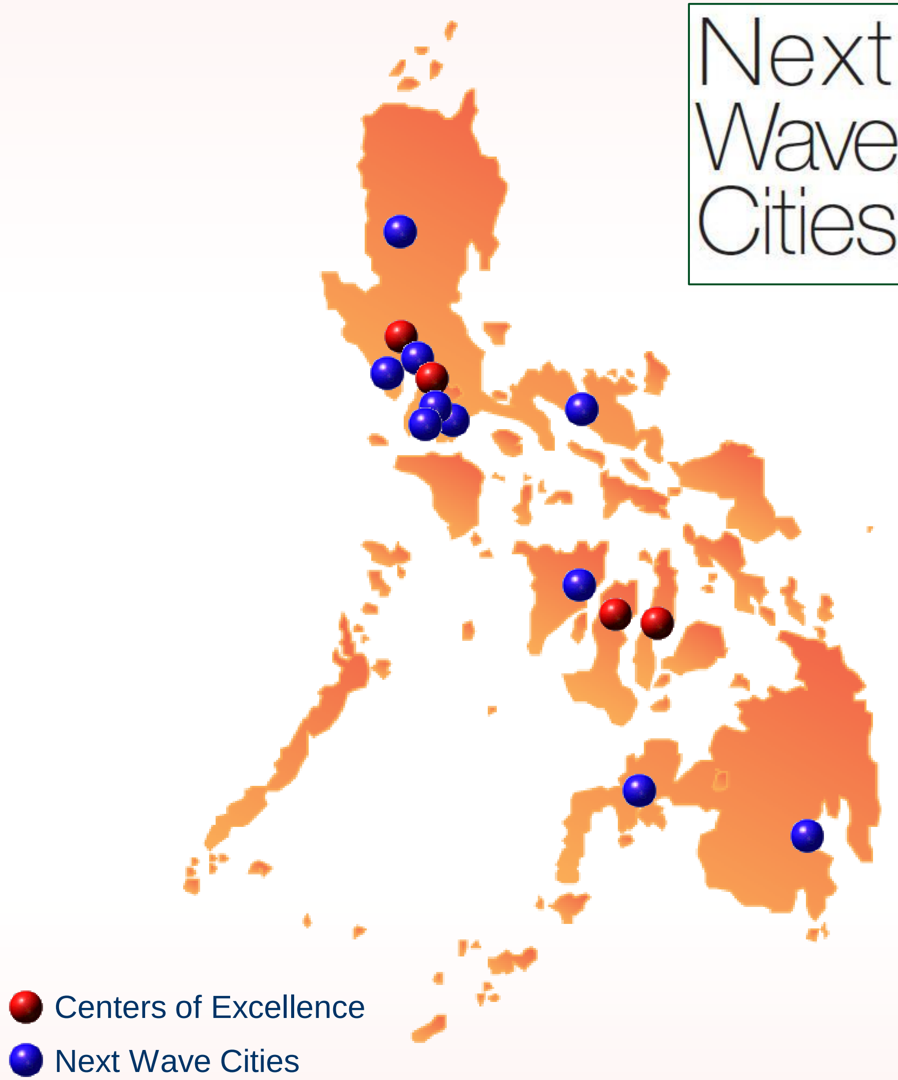
Next Wave Cities™

Centers of Excellence

- Metro Manila
- Metro Cebu
- Metro Clark
- Metro Bacolod

Next Wave Cities

✓ Baguio City
✓ Davao City
✓ Dumaguete
✓ Iloilo
✓ Lipa City
✓ Metro Bulacan
✓ Metro Cavite
✓ Metro Laguna
✓ Metro Naga
✓ Metro Rizal



GOVERNMENT INCENTIVES

<table>
<tr><th>INCENTIVE</th><th>BOI
(Executive Order No. 226, as amended)</th><th>PEZA
(Republic Act No. 7916, as amended)</th><th>CDC / SBMA
(Republic Act No. 7227 – Bases Conversion Devt Authority)</th></tr>
<tr><td>Income Tax Holiday (ITH)</td><td colspan="2">4 – 6 years (max of 8 years)</td><td rowspan="2">▪ Exempted from all local and national taxes - value-added taxes, franchise taxes, excise and ad valorem taxes)</td></tr>
<tr><td>ITH Bonus</td><td colspan="2">3 years provided the firm meets certain conditions</td></tr>
<tr><td>Special Tax Rate of 5% on Gross Income</td><td></td><td colspan="2">Special Tax Rate of 5% on Gross Income</td></tr>
<tr><td>Importation of Capital Equipment, Spare Parts and Supplies</td><td>0% duty-free</td><td colspan="2">Tax and Duty-Free</td></tr>
<tr><td>Wharfage Dues and Export Tax, Duty, Impost and Fees</td><td colspan="2">Exempted</td><td>None</td></tr>
<tr><td>Simplication of Customs Procedures</td><td colspan="3">Available</td></tr>
<tr><td>Employment of Foreign Nationals</td><td colspan="3">▪ Foreign nationals may be employed in supervisory, technical or advisory positions within 5 years from a project’s registration, extendible for limited periods. The positions of president, general manager, and treasurer or their equivalents, of foreign-owned registered firms may be retained by foreign nationals for a longer period.
▪ All foreign employees may bring with them their spouses and unmarried children under 21 years of age.</td></tr>
</table>

GOVERNMENT PARTNERSHIPS

ICT OFFICE

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF SCIENCE AND TECHNOLOGY
INFORMATION AND COMMUNICATIONS TECHNOLOGY OFFICE

dti
DEPARTMENT OF TRADE & INDUSTRY PHILIPPINES

boi PHILIPPINES
BOARD OF INVESTMENTS

PEZA

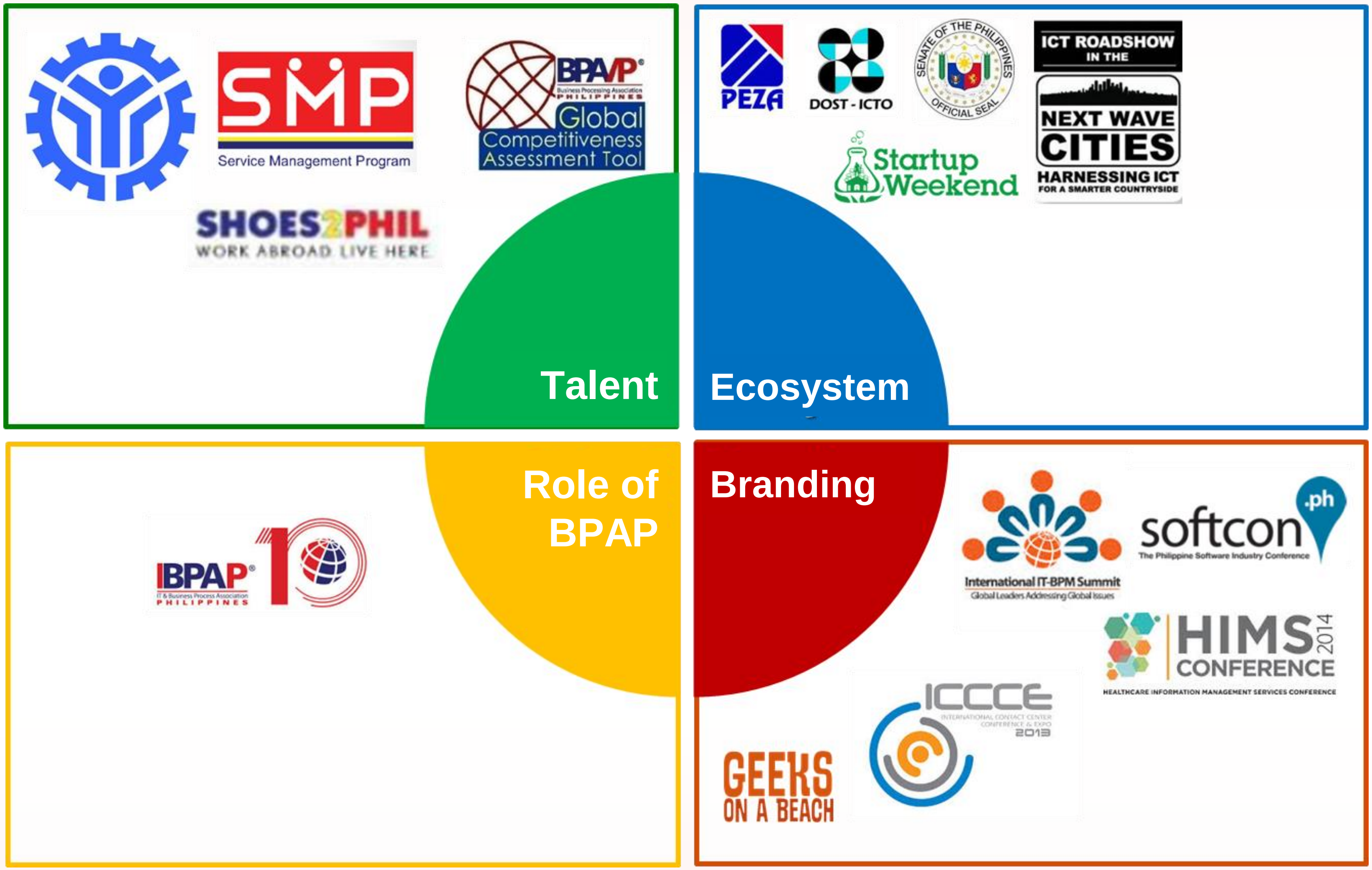
DOLE

COMMISSION ON HIGHER EDUCATION
1994
OFFICE OF THE PRESIDENT OF THE PHILIPPINES

DepED
DEPARTMENT OF EDUCATION

TESDA

ACHIEVING THE VISION



IBPAP, Tholons Analysis

1 Ongoing costs only; excludes margins/mark-ups, centralized corporate overheads, initial investment, set-up costs, and travel costs

Note: Exchange rates for local currencies with respect to the U.S. Dollar have been averaged for 12 months from Sep 2012 to Sep 2013

Source: Everest Group (2013)

INDUSTRY CHALLENGES

HIRE RATE 7-10%

- Middle Management – Availability and Experience
- Niche Skills, ie Investment Banking
- Growth of Tourism Industry
- Change of Leadership in 2016
- Changing Policies and Regulations
- Growth outside Metro Manila
- Emergence of other Countries
- Rise of New Technologies
- Impact of ASEAN Integration

IBPAP INTERVENTIONS

Service Management Program

Targets by end of Project:
685 Teachers trained in SMP
2,800 Teachers trained in Language Tracks
20,000 Students enrolled

e-Service Management Program

Knowledge Hubs Project

Asian Development Bank

Department of Finance

University of the Philippines Open University (UPOU)

Asian Institute of Management (AIM)

IBPAP INTERVENTIONS

Global Competitiveness Assessment Tool

BASIC SKILLS

- Learning Ability (Verbal and Numerical)
- English Proficiency
- Perceptual Speed and Accuracy
- Computer Literacy

BEHAVIORAL (SERVICE ORIENTATION)

- Communication
- Learning Orientation
- Courtesy
- Empathy
- Reliability
- Responsiveness

CONDUCTED ACROSS 3,000 AGENTS AND 20,000 STUDENTS

IBPAP®
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PHILIPPINES

1 Ongoing costs only; excludes margins/mark-ups, centralized corporate overheads, initial investment, set-up costs, and travel costs

Note: Exchange rates for local currencies with respect to the U.S. Dollar have been averaged for 12 months from Sep 2012 to Sep 2013 Source: Everest Group (2013)

MAIN AREAS OF FOCUS

Buy factors	Key issues
Suitable and abundant talent	• Need to recruit over one million new people into the industry to reach 10% market share • High percent of top talent in emerging areas outbound to other markets (e.g., nurses, engineering, accountants) • Mismatch in location density between providers and labor. Smaller labor pools not tapped
Operational performance	• Wage pressures emerging, reflecting accelerating growth and lack of transparency on wages • Competitiveness relative to established players (e.g., India) and emerging players (e.g., Vietnam) at-risk • Wage appear to be growing faster than billing rates, creating imperatives for operational excellence, scale and migration to high value services
Quality infrastructure	• Availability emerging as major issue – NCR rental space only available to reach 68% of revenue target – Given market uncertainty, facilities being built only on commitment, slowing time-to-market • Rental rates rising sharply in Makati Central Business District
Conducive business environment	• Need to ensure that current incentive regime continues to sustain competitiveness • Most locators concentrated in NCR; other cities may not be O&O-ready • Under resourced industry association • Good investor support in pre-investment phase; potential to improve in execution phase
Risk perception	• Persistent issues around critical risk factors that affect outsourcing decision (e.g., IP protection, data privacy)

US$ 21.3 billion

2015 IT-BPM Revenue Forecast

Target is $ 25 billion in 2016

1.19 Million

2015 Direct Employment Forecast

Target is $ 1.3M in 2016
Accounting for 9% of the GDP

Thank you

IT & Business Process Association PHILIPPINES