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2012 Tholons Top 100 Outsourcing Destinations

January 2012

Regional Dynamics

South Asia

The Tholons 2012 Top 100 Outsourcing Destinations report sees that the South Asian region remains as the premier offshore destination for services outsourcing. In the face of a continued global economic recession, there has been a developing paradigm shift among suppliers and clients within the industry. While cost remains a crucial component, more providers and clients are looking into the transformative impact of IT-enabled solutions in business operations and decision-making. As such, the current landscape has been characterized by the delivery of high-value and more efficient process delivery and increasing technology adoption, such as the Cloud. This dynamic has surely cultivated a more competitive market landscape, with locations like India seen to have thrived most. India in 2011 reached a commanding 55% of the addressable global offshoring market boasting of high-value, end-to-end services in ADM, R&D, as well as Business Analytics, on top of established capabilities in Contact Support Services. Meanwhile, positive socio-political developments in Sri Lanka driven by the country's improving security conditions are attracting more locators focused on FAO and Software Development, and tapping its vast pool of accountants and software engineers.

In this year's report, 14 cities are included from the South Asian region, with 6 cities included among the top 10 emerged locations. The city of Bangalore serves as the top city not just in the region, but also across global locations in the report. Meanwhile, alternative locations in India have shown narrowing gaps, indicating equally competitive, if not similar, propositions amongst the delivery centers of the sub-continent.

Country	City	2012 Rank	Movement from last year
India	Bangalore	1	0
India	Mumbai	2	0
India	Delhi NCR	3	0
India	Chennai	5	0
India	Hyderabad	6	0
India	Pune	7	↑1
Sri Lanka	Colombo	19	↑1
India	Chandigarh	24	↑2
India	Kolkata	25	↓2
India	Coimbatore	29	↑3
India	Jaipur	37	↑4
India	Bhubaneswar	53	↑5
India	Thiruvananthapuram	66	↑1
India	Ahmedabad	68	↑4 ¹

This narrowing distribution among locations in the region also indicates an increasing focus on the development of Tier II locations to meet rising global demands, and to combat saturation in

¹ The brown highlighted rows in the tables indicate the biggest city gainers.

India's Tier I cities. In this year's report, there was an overall upward movement among rankings for the South Asian region. For instance, the cities of Bhubaneswar and Jaipur serve as the biggest gainers in this year's rankings, moving up 5 and 4 places respectively. Continued government support in Bhubaneswar's IT-BPO development is seen in the development of an innovation university, augmenting more than 1,000 private training institutes as well as within the city. Such dynamics propelled the city towards the 53rd spot this year. Meanwhile, Jaipur, moving up to 37th place this year, is becoming known as one of India's fastest growing IT Services hubs. Producing more than 6,000 technical graduates, the city is currently home to companies like Genpact, Cisco, and Wipro continuously exploring opportunities in the city, contributing to its rising IT-BPO capabilities.

The city of Bangalore served as the leading location in the region because of the city's mature service outsourcing ecosystem. For instance, with more than 100,000 graduates produced annually from institutes like the Indian Institute of Science and the Indian Institute of Management (IIM), the city has been a hub for high-end services in ADM, FAO, and R&D. In terms of infrastructure, local government is developing more road networks with other locations like Mysore, serving as funnel for employable labor into Bangalore. In addition, the city's domestic landscape is continuously expanding with the location of domestic providers such as Sparsh BPO, which delivers multilingual contact support services, collection, and sales services.

As such, outsourcing in the region has been growing. Today, locations in South Asia are experiencing a continuing stream of investments from outsourced service providers. For instance, in India, HP has recently expanded its operations with the opening of a delivery center in Bangalore, aimed to provide round-the-clock managed services in imaging and printing. Also, cloud-based services are on the rise as Wipro in India aims to expand domestic market penetration through the deployment of cloud-based ERP solutions such as human resources management system, dealer management system, hospital information system, vendor portal and learning systems, focusing on specific vertical needs. This further attests to the strong capabilities of the location in providing high-value solutions to across vertical specific industries.

On the other hand, in Sri Lanka, Indian provider Mphasis set up its delivery in the city of Colombo center last year, providing high-value FAO services such as risk management and compliance monitoring services through the implementation of core banking solutions. Growth has also been accelerated by the conclusion of the 30-year civil strife in the northwestern region of the country paving the way for recovery and rehabilitation, serving to attract investments into the country. These positive developments in the country serves to move Colombo up one spot to 19th place this year, and remain as one of the top emerging cities in the report.

The region's growth, however, is not without challenges. One of these is high attrition rates. Attrition rates in India and Sri Lanka have remained in double-digit figures, around 19% and 12% respectively, indicating a continuous challenge for governments and industry associations to develop incentive schemes that aim to retain resources. Also, perceptions remain a challenge, with India and Sri Lanka scoring 3.3 and 3.2 out of the highest 10 respectively in Transparency International's Corruption Perceptions Index (CPI). Along with crafting a growth plan for each of these locations, governments must strive to abate adverse perceptions in these countries and highlight their core strengths and offerings for outsourcing. Finally, physical infrastructure and saturation issues continue to be areas of concerns, especially for Tier I cities in India. Though the

government has done a commendable job in addressing these issues, the *pace of change*, is not necessarily at the same speed which global market demand requires.

Future Outlook

As technology adoption increases and processes refined, South Asia retains its place as the leading destination for services outsourcing globally. On a global perspective, implementation of outsourced services focuses on delivering business impact, while keeping cost in consideration. This includes the growth and implementation of Cloud-based solutions, enabling payment-by-subscription schemes and platform-based solutions – thus refining and evolving the service delivery process of mature destinations such as South Asia. As the foremost location for outsourcing, the South Asian region serves as the cradle for developments in outsourcing service delivery. Known for high-value, end-to-end services, and in strong capabilities for R&D and innovation, India would surely serve to be one of the first implementers and drivers of process improvement such as *vertical-specific BPO* and increased technological implementations especially in the growth of Cloud-based services.

As indicated in this year's report, South Asia is not without challenges to overcome. Attrition and perception issues will remain as areas that need immediate actions. In addressing these, governments and industry stakeholders in India and Sri Lanka should be proactive in enacting countermeasures, mainly by highlighting on current location strengths in driving ongoing industry growth and improving business conditions in each of the locations. Also, collaborative efforts must remain strong in tackling industry-related issues, and specific to infrastructure, security and data legislation and the overall up-skilling of its human resources.

Latin America

About a quarter of the Tholons 2012 Top 100 Outsourcing Locations come from Latin America, which proves how the entire region is realizing and intensifying its capabilities in delivering IT-BPO services. Latin America has been showcasing its capabilities as a key outsourcing destination for multilingual BPO services, as well as select KPO and ITO processes. This development on a regional scale resulted in an overall upward surge in the rankings of nearly two-thirds of the Latin American cities covered in the Top 100 List.

The list included the deep investigation of top outsourcing cities from rising countries such as Brazil, Costa Rica, Chile, Uruguay, and Colombia. Although not having emerged cities for this year's list, Latin America has three cities in the Top 10 Emerging list – São Paulo (13th), Buenos Aires (15th), and San José (18th). São Paulo leads the Latin American outsourcing destinations list as it moves 2 notches up, marking a cut between East Asia's Beijing (12th) and Dalian (14th). In addition, a commendable feat is seen in the city of Cali, Colombia, making an entrance for this year (98th). The inclusion of Cali in the list is attributed to the city's overall support in developing an IT-BPO industry through the launch of free trade zones, and in general also signifies Colombia's rise as a service outsourcing hotspot in Latin America. Tholons foresees Colombia to emerge as one of the most promising service delivery countries in coming years.

Country	City	2012 Rank	Movement from last year
Brazil	São Paulo	13	↑2
Argentina	Buenos Aires	15	↓2
Costa Rica	San José	18	↑7
Chile	Santiago	22	↑2
Brazil	Curitiba	23	↓4
Brazil	Rio de Janeiro	30	0
Mexico	Mexico City	39	↓3
Mexico	Monterrey	41	↑1
Brazil	Brasilia	42	↑2
Uruguay	Montevideo	43	↑7
Mexico	Guadalajara	47	↑1
Colombia	Bogotá	55	↑9
Colombia	Medellin	60	↑8
Peru	Lima	64	↑2
Argentina	Córdoba	72	↓1
Brazil	Recife	75	0
Chile	Valparaiso	82	↑7
Colombia	Bucaramanga	85	↓3
Paraguay	Asunción	88	↓5
Brazil	Campinas	90	↑6
Colombia	Cali	98	-

The rationale for such development in the global outsourcing space is attributed to various factors. First, the regional and domestic markets in Latin America are collectively growing, led by regional giant Brazil. More outsourcing opportunities within the region are unfolding, which has enabled domestic companies to realize their potentials in delivering outsourced services. Consequently, the fulfillment of the domestic markets has become the foundation for many Latin American service providers in enhancing their delivery capabilities in the global offshore and nearshore markets.

Further, in tapping this enlarging regional market, global service providers have started locating in the region. NASSCOM reports that in 2010, a total of 24 delivery centers were set up in Latin America, which was comparable to the number of delivery centers established in the Philippines and other parts of Asia. Indian Pure Play companies have also continued their expansion in the region. For instance, TCS now has seven delivery centers in the region, while Wipro has three.

A microcosm of interplay is seen in the top outsourcing city for the region, São Paulo, Brazil. With expertise in high value services, São Paulo now hosts Genpact which targets the developing Brazilian market. Genpact's delivery center in the city provides F&A services to Astra Zeneca, a biopharmaceutical company. Aside from this, São Paulo has also capabilities in clinical analysis and laboratory tests, proven by DASA's (Diagnosticos da America S.A.) services to Amil Participacoes S.A., the largest healthcare company in Brazil. These examples of expansion and array of services validate São Paulo's progress in 2012. Industry growth in the city has also

spread to nearby cities such as Campinas. The city recorded a 6-place progression, attributed to a rapidly improving business ecosystem. Campinas is now home to notable providers such as Capgemini, IBM, ACS, among others. The city now also has more progressive business and fiscal policies, such as favorable tax incentives for service providers locating in the city's Technology Cluster.

Chile and Uruguay – having high quality labor force attested by various international service providers – experienced upward movements in the List. These two countries bank on its highly skilled talent pipeline, which has enabled the flourishing of high value KPO and ITO services. Scale however, is a mid-term concern for these two locations.

Meanwhile, the entrance of San José, Costa Rica in the emerging list, as well as becoming the third most feasible city for outsourcing in the region, highlights how the city surpassed competing destinations, by capitalizing on its technical delivery capabilities. In 2011, outsourcing operations in San José included the expansion of Aegis by hiring additional 400 bilingual employees. By building a new facility in Pavas, San José, Concentrix also expanded in the city and aims to hire 150 new agents. Realizing Costa Rica's strength for ITO services, IBM likewise announced a US\$300 million investment in the country in order to intensify the company's offering in cloud computing. Such an investment is set to provide 1,000 jobs by 2014. Intel and HP, on the other hand, are already well-embedded in the Costa Rican IT Services landscape.

In addition, Colombia's Bogotá and Medellín showed notable progress. These two cities are the biggest movers in the list, accelerating to 9 places and 8 places up respectively in the rankings. Such a feat denotes how these Colombian cities have been showing their capabilities in delivering a broad spectrum of IT-BPO services to the international market. As the Tholons 2012 Top 100 Outsourcing Destinations report mentions, Bogotá and Medellín both improved security conditions which encouraged various companies to create new investments as well as expand in these cities. The current government of Colombia has extended the strict adherence to safety and security policies of the past administration, which has provided for a significantly more conducive (and predictable) business environment. Such initiatives have also created better perceptions on the overall social risk profile of the country. The positive risk perceptions certainly unveiled the feasibility of these two cities for services outsourcing.

Nevertheless, Latin America still possesses challenges that need time and focused strategies to be addressed. Although countries like Colombia have been recording improvements in overall security conditions, other contributing factors hindered accelerated movements among the top cities in the region. Latin America continually wrestles with negative risk as well as pressures from inflation. One country that the risk component has significantly affected is Mexico. The prevailing negative security conditions in its lead outsourcing city, Mexico City, has been preventing service providers to expand *within the city* while pushing them to locate to other Mexican cities or in many cases, outside Mexico altogether. The downgrade of Mexico City translated to a marginal increase in Monterrey's and Guadalajara's rankings.

Meanwhile, São Paulo in Brazil is held back by increasing labor costs. This may curtail the progression of São Paulo towards the emerged cities list. In addition, Argentina's lingering fiscal problems, coupled with political risks, likewise have caused large providers rethink expansion plans in the country. Given this, service providers may now be more likely to source operations from similar profiled destinations like Peru, which despite of ongoing political movements, is fast

realizing its potential in delivering IT enabled Services (ITeS). Tholons views Peru to be an upcoming player in the region, especially for voice-based BPO services. These dynamics are reflected in the rankings of these cities, as Argentine cities fell one to two ranks with Peru's Lima moving 2 places up.

Future Outlook

Establishing a strong presence in Latin America serves as the gateway to realize the gains from the region's domestic market as well as from the global outsourcing market. Despite the challenges and inhibitors of the previous year, Latin America still managed to become one of the most promising regions for IT-BPO services. Hence, effecting better mandate and changes on the critical development areas will foster the fruition of even greater benefits from the industry.

Tholons sees that Latin America will become a stronger destination for IT - BPO in the coming years. With this in mind, it is important to note specific countries and cities which will become active agents in catalyzing the region's maturity for outsourcing. Such locations possess strengths in core components which will become the primary anchor in developing a robust outsourcing industry.

Costa Rica will see further positive movements in the coming years, as the global IT-BPO market moves towards more vertical-specific high value services. Service providers will be more persuaded to locate in the country, in order to make most of the country's skilled labor force for F&A and ITO processes. Moreover, Costa Rica is now exerting increased efforts to attract more investments in the Creative Services Outsourcing space.

Colombia is also poised to move up in the rankings. With its program *Transformación Productiva*, the entire country has acknowledged IT-BPO as a key growth industry. In the case of Colombia, stimulating the industry means a focused strategy on its KPO and ITO segments. This will be realized through implementing more effective training and capacity building programs – a wide-scale initiative that the country has begun to initiate.

Chile's Santiago is another city that will be under careful consideration in years ahead, as the city will possibly vie for a place in the next survey of the Top 10 Emerging Cities list. The sustained drive to hone expertise in vertical-specific processes will be the key point for Santiago's further progression.

On the other hand, Brazil, Mexico and Argentina need to address internal risk concerns, from the social, economic and political fronts - to regain lost momentum. Without a proactive stance to control inflation, curb negative risk conditions and manage perceptions on these countries, upstart destinations such as Peru and smaller nations in Central America will be poised to capitalize on the lost market opportunity from these three larger destinations.

The rankings for the Latin American region also reveal heightened country-level competition. This competition paves way for the *vitality* of the region's services outsourcing industry, marking the varying competencies of each country. The oscillation of the industry dynamics in the countries marks the positive results for the entire region – identifying both the regional leads and next wave countries for outsourcing. Without doubt, Latin America will be one of the more, *if not the most*, promising service delivery cluster in the world in the near-term.

South East Asia

The Tholons 2012 Top 100 Outsourcing Destinations report once again eyes Southeast Asia as a dominant force in the global outsourcing landscape. The past year has set the stage for a determined push to accelerate the IT-BPO industry in all 12 cities joining the Top 100 - comprising a mix of established, emerging, and on the radar locations from the 6 highly competitive South East Asian countries.

Country	City	2012 Rank	Movement
Philippines	Manila NCR	4	0
Philippines	Cebu	9	0
Vietnam	Ho Chi Minh	17	↓1
Vietnam	Hanoi	21	0
Malaysia	Kuala Lumpur	28	↑3
Singapore	Singapore	35	↑4
Indonesia	Jakarta	62	0
Philippines	Davao	69	0
Malaysia	Penang	77	↑2
Philippines	Santa Rosa, Laguna	86	↑2
Thailand	Bangkok	87	↓10
Philippines	Iloilo	92	↑6

In the past year, Tholons has seen Southeast Asia's foremost locations steadily building their *individual outsourcing identities*. Service delivery maturity has paved the way for niche specializations, establishing each country's expertise: Contact Support Services continues to be a pillar in the region particularly in the Philippines. Meanwhile, FAO and Back-office process outsourcing spaces have been experiencing significant gains due to the region's established BFSI industries and high value output particularly in Singapore and Malaysia. IT Services, on the other hand, are being established in emerging services outsourcing countries such as Vietnam and Indonesia, each becoming viable, Tier II alternatives to China and India. For instance, the city of Hanoi in Vietnam now has approximately 17,600 FTEs in its ITO industry. The region is also benefitting from the increased adoption of Cloud-based services as well as the consolidation of smaller IT - BPO service providers which has increased headcount and overall capabilities of large providers.

For instance, the city of Hanoi in Vietnam now has approximately 17,600 FTEs in its ITO industry. Meanwhile, the city of Ho Chi Minh experiences a 1 spot decline in the rankings despite being the home to Vietnam's software development industry. Such dynamics among Vietnamese locations is due to perceived inactivity among Vietnamese cities the past year. While dubbed as a next-wave location mainly for ITO, investors report that lingering challenges especially in attaining a scale of capable labor as around 40% of the total labor force of the country had training prior to attaining employment, according to the Ministry of Labor. Meanwhile, industry players admit that the extent of operations has been very small-scale and local companies dominate the

Vietnamese IT - BPO market. Reports by the Ho Chih Minh City Computer Association (HCA), revenue from software and IT services in 2008 totaled around US\$680 million, including \$424 million from software, with service providers consisting of only around 15 people per company.

Aimed at rivaling India in the global outsourcing landscape, Indonesia highly relies on the capabilities of the city of Jakarta. The city retains its 62nd spot this year in the face of strong movements among other locations like Bogota and Medellin in Colombia, both moving 9 places up at 55th and 60th places respectively. Meanwhile, Jakarta's retention is seen in conscious effort by government to refine outsourcing industry conditions, as the Minister of Manpower and Migration aims to revise the outsourcing work contract system through the rearrangement of the regulations and supervision for the implementation of the outsourcing system and training courses for the workers, assuring gains for the existing labor pool.

Significant shifts in the region are primarily being experienced at the bottom end of the rankings. Bangkok experienced the biggest decline in rankings, dropping a further 10 places (after continuous ranking plunges in recent years) due to the drastic impact that recent natural risks such as severe flooding have caused to the business operations in the city. Iloilo, on the other hand, experienced a significant rise as aggressive development in infrastructure and capabilities development are pursued. Other than these cities, it has been generally a good year for the Southeast Asian region as an IT-BPO location with most cities maintaining or increasing their ranks.

Manila NCR once again garners the top spot in Southeast Asian rankings of the Tholons 2012 Top 100 Outsourcing Destinations Report further reinforcing the city's reputation as the region's premier voice-based BPO. Some highlights for the Manila NCR's growth include the city's 10.6% increase in IT - BPO employees from the previous year. It also remains as the outsourcing hotbed of the Philippines with major delivery centers from companies like HP, IBM, Dell, Convergys, and Teleperformance located in the city. Interestingly, it has been reported that the Philippines has recently surpassed India as the call center capital of the world with an estimated 400,000 call center agents compared to India's 350,000.

In addition, the neighboring countries Singapore and Malaysia have both experienced upward movements in the rankings. Being an active funnel of skilled talent in the region, Singapore City manages to climb 4 places higher, achieving 35th rank. Singapore City remains to be an important high value BPO and KPO center in the region. Likewise, Kuala Lumpur, Malaysia's Tier 1 outsourcing location, is ranked 28th. Kuala Lumpur's lower labor costs are the primary reasons for the city's upward movements, together with improving business conditions for outsourcing. Invest KL is an organization which supports business opportunities like Creative Multimedia Content and Islamic Banking, which are anchors for an accelerated growth in its IT - BPO industry. Penang also possesses such improving outsourcing ecosystem through its infrastructure and skilled labor pool. The investment of IHS, a US-based business information services company, aims to have contact support, finance, research and analytics, and IT services in Penang. Such investment proves the city's prowess as another BPO hub in Malaysia.

Serving to inhibit the region's growth in the IT - BPO industry, labor pool shortages have become increasingly pronounced as the regional growth has been hard pressed to keep up with global demand. Multinational companies are finding it increasingly difficult to find and retain capable employees – inducing higher churn and attrition rates, which at the same time, increasing hiring

and retention costs. In many cases, this has resulted in greater initiatives by service providers to train fresh graduates or reskill lateral hires themselves, an exercise becoming increasingly common albeit more costly.

Future Outlook

Addressing talent pool shortages will be the most critical issue in the Southeast Asian region’s IT-BPO industry as a whole. These should be immediately addressed to further drive the growth of the services outsourcing industry. This is especially significant as widespread cost-cutting measures brought upon by the recession in the US and UK markets are being pursued, which in turn, are driving up the demand for outsourcing. One of the better case studies of such skills development initiatives can be found in Manila NCR as the national government has recognized the urgent need to ramp up its talent supply. The Technical Education and Skills Development Authority (TESDA) of the Philippines, for example, has been continuously providing Finishing Courses for Call Center Agents targeted to near-hires in the Contact Support space.

On the other hand, Tholons sees that the region’s current niche specializations will continue to grow and pave the way for the development of higher-value services in South East Asia. As confidence and maturity builds, process and delivery innovation will thrive as well. Tholons sees this as necessitating Southeast Asia’s smooth transition up the services value chain.

Eastern Europe

Eastern Europe continues to emerge as a stellar outsourcing destination, especially for higher value services. Of the 21 Eastern European cities included in the Top 100 List, two cities are part of the Top 10 Emerging Cities for the Tholons 2012 Top 100 Outsourcing Destinations report. The city of Kraków in Poland remains as the top emerging location for services outsourcing.

Tholons surveyed countries such as Poland, the Czech Republic, Hungary, Russia, Romania and Ukraine to analyze prevailing regional dynamics, key challenges, and the possible outlook for the development of the IT-BPO industry in the region. The 2012 Top 100 Outsourcing Destinations saw the entry of four new Eastern European cities – Lviv (91st), Cluj-Napoca (96th), Minsk (99th), and Zagreb (100th). At the same time, the Czech Republic’s Tier 1 location – Prague – improves its rankings and moves up to the 10th emerging city rank for this year’s list.

While the regional list reveals minimal movements among Eastern European cities from the previous year’s rankings, this does not directly translate to the region’s inactivity in outsourcing. Rather, it reflects the widening list of global competition that Eastern European locations have to contend with. For instance, South Asia’s outsourcing dynamics are oscillating from Tier 1 to Tier 2 locations. Indian Tier 2 cities like Jaipur, Coimbatore, and Bhubaneswar moves three to five places up this year’s rankings as global service providers realize the capabilities of these cities as supplementary locations for Tier 1 cities.

Country	City	2012 Rank	Movement from last year
Ireland	Dublin	8	↓1
Poland	Kraków	11	0

Czech Republic	Prague	20	↑2
Hungary	Budapest	27	0
Czech Republic	Brno	31	↑3
Russia	St. Petersburg	33	0
Poland	Warsaw	38	0
Romania	Bucharest	44	↓1
Russia	Moscow	46	0
Slovakia	Bratislava	50	↓1
Bulgaria	Sofia	51	0
Estonia	Tallinn	52	0
Slovenia	Ljubljana	54	0
Ukraine	Kyiv	56	0
Russia	Nizhniy Novgorod	65	↓1
Poland	Wroclaw	78	↑6
Ukraine	Lviv	91	-
Russia	Novosibirsk	93	↑4
Serbia	Belgrade	95	0
Romania	Cluj-Napoca	96	-
Belarus	Minsk	99	-
Croatia	Zagreb	100	-

NASSCOM figures indicate that the region captured a 20% share of the total number of delivery centers set up in 2010, only next to that of India. Of these delivery centers, around 65% was located in Tier 2 cities. This is reflected in the upward movement of Tier 2 locations in Eastern Europe, as seen in Wroclaw as the biggest gainer city in the list. In 2011, Ernst & Young opened a shared service center in the city, targeting to employ 250 Finance and Accounting practitioners.

The Tholons 2012 Top 100 Outsourcing Destinations report also mentions that the strength of services outsourcing in the Eastern Europe can be primarily attributed to its supply of a technically skilled labor pool - recording 500 to 1,500 tertiary graduates for every 100,000 population. For instance, Czech Republic has almost 920 tertiary graduates for every 100,000 people in the country. The country's engineering and related graduates are around 17% of its tertiary Type A graduates, according to CzechInvest. Due to this labor supply advantage, the region has become the immediate choice for many Western European service buyers of high value processes, such as those found in the R&D and ITO spaces. A real-world testament to this trend is the investment of manufacturing giant Gardner Denver, currently building a shared services center in the city of Brno (31st Rank). Driving such investment was the "city's suitable conditions for doing business" – which included the supply of F&A talent from the city and nearby locations and CzechInvest's support for the investment. This investment is projected to employ 100 people by the end of 2013.

Kraków, the top city of the region, maintains its competitiveness through its skilled labor force, churning out 36,000 graduates annually. Coupled with quality infrastructure and government support, Kraków has gained the confidence of service providers already established in the city. One example is Shell's acknowledgement of the city's capabilities – establishing a shared service

center in the city. With 1,500 employees, Shell's shared services center in the city delivers F&A, HR, and Customer Support services.

Government and private industry support is also robust in the region. This is seen mainly in the presence of outsourcing organizations and related institutional bodies that serve to aid in setting industry direction and growth. Government incentives and support come in the form of Free Economic Zones or Special Economic Zones, providing 0% tax rates and tax holidays, benefiting investor companies. For example, more than half of 50 multinational companies in Hungary have already established in its industrial parks. As ITD Hungary accounted in 2009, the exports ratio of companies located in these industrial parks reached about 64%.

However, these positive developments have somewhat been hampered by the ongoing financial crisis in the Eurozone, presenting significant challenges towards industry growth in the region. A slow-down on Western Europe's economies will have a ripple effect on the competitiveness of Eastern Europe, since the former is a major trading partner of Eastern Europe, and as Western Europe is a major client region for Eastern European Service providers. This may spur detrimental perception on the stability of Eastern Europe's overall business environment, and consequently its outsourcing ecosystem.

As such, segmented challenges in each country occur. For instance, Russia is trying to capture its own domestic market and vie for a share in the global ITO market; the country struggling to enhance its data privacy and security measures. Such challenges, directly resonates to the overall ITO climate in Russia, deterring service providers to locate in the country. Bulgaria also faces social issues, which may become detrimental in maintaining attractiveness for possible service providers.

Future Outlook

The Tholons 2012 Top 100 Outsourcing Destinations report for this year presents lead countries in Europe as well as those which need to use better strategies to catch up with other locations in the list. Lead countries such as Poland and the Czech Republic will become instrumental in leading the overall industry growth for Eastern Europe. With the Czech Republic's Prague and Brno continually moving up the ranks, intensified efforts in attracting more locators within these cities are needed. On the other hand, the position of Kraków, Poland may face stiffer competition especially from Chinese cities like Beijing (11th) and Dalian (14th) which are also proving capabilities for outsourcing. However, the city of Wroclaw in Poland is a notably improving location for services outsourcing, given its big movement in the rankings.

Smaller players like Estonia, Serbia and Croatia are seen to face competition from the region as well as from other global locations. These countries' inclusion in this year's list marks a continual pursuit in developing a strong outsourcing industry for the whole region. Effective identification of unique value propositions and selling points is needed for these countries to spur upward movement in the rankings.

The current Eurozone crisis may present itself as a bane, and the challenge for Eastern Europe lies in how the region can weather through this period of uncertainty. As expected cost pressures are bound to shift the decision-making of clients in Western Europe, Eastern Europe should leverage its strengths in reaping the benefits while satisfying the client needs through quality

services. Nevertheless, if the traditional market may seem reclusive for outsourcing, Eastern Europe should devise alternatives to penetrate other client markets beyond Western Europe, especially those which require higher value ITO and KPO services.

Thus, tactful strategic planning would be the operative move for Eastern Europe, developing its IT-BPO industry in this time of economic uncertainty. It highlights the need for the region to deliberately identify which service providers and client markets to target while in the midst of crisis. Eastern Europe may also look into attracting Indian Pure Plays to enter the market in order to widen its service delivery portfolio.

As the global IT - BPO industry escalates to higher value services, Eastern Europe has already established the necessary precursors to maximize the gains in complex services. Eastern Europe produces highly skilled talent, continually provides supporting physical and IT infrastructures, and consistently enhancing governmental support for the industry. In the coming years, the most considerable challenges for the region will be seen in how it can prudently and proactively navigate through Europe's current fiscal crisis, while at the same time, maintain developmental gains of the region's services outsourcing sector.

About Tholons

Tholons is a Services Globalization and Investment Advisory firm that combines "Best of Breed" consulting experience with deep execution expertise and investment insights to deliver truly effective services to its clients. Tholons offers a detailed understanding of business processes and combines it with practical hands-on expertise in executing the strategy. Tholons draws upon the considerable experience of a hand-picked team, which has successfully formulated and executed globalization strategies to unlock value for Global Fortune 1000 companies. Service providers leverage Tholons expertise to optimize their global delivery model. Tholons advisors engage with government bodies to build compelling strategies for making countries attractive destination for outsourcing.

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