

Call Center Capital of the World

Remittance income from Filipino workers overseas – a historical mainstay of the Philippine economy – has long been criticized as an unsustainable growth model, fueling additional concerns about a national “brain drain.” Luckily, economic salvation can be found in the nation’s burgeoning business process outsourcing (BPO) industry

By **Jennifer Khoo**

Travelling abroad for better earnings prospects and then sending money home is hardly a new economic concept. But getting workers to stay in their homeland has always been a challenge for the Philippines, a country with the 15th largest labor force in the world, and not nearly enough domestic employment opportunities available.

In 2015, nearly three million Filipinos left home to find work abroad and sent around US\$28 billion back to the Philippines, an amount equal to one tenth of the country’s GDP that year.



This stream of revenue, known as remittance income, has watered the country's economy for over two decades, carrying it delicately through two global recessions.

A slowing remittance economy

According to figures published by money transfer operator Transfer-Wise, the Philippines was the third largest recipient of remittance money globally in 2015, after India and China.

But compared with previous years, remittances from OFWs (overseas

Filipino workers) have been growing at a much slower rate since 2012, exacerbated by last year's drop in global oil prices and the subsequent tightening of labor markets among oil-exporting, remittance-source countries in the Gulf region, where a significant number of OFWs are based.

The sensitivity of remittance income to external economic variables has led to its criticism as an unsustainable economic model. Furthermore, the Philippine government has become concerned that long-term, continued export of the nation's best and brightest could result in a "brain drain" within various industry sectors and professions.

Although the ingrained practice of travelling abroad for better earnings prospects isn't likely to disappear from the Philippines anytime soon, a promising solution to its talent export problem is revealing itself in the nation's thriving Business Process Outsourcing (BPO) industry.

The booming BPO sector

The Philippine BPO sector, which consists of outsourced "back office" services (largely call centers and IT outsourcing services), has been on the rise in recent years.

According to the IT and Business Process Management (IT-BPM) Roadmap for 2012-16 published by the industry group IT and BPO Association of the Philippines (IBPAP), the



country's BPO industry accounted for just 0.075 percent of GDP in 2000, rising swiftly to reach 2.4 percent in 2005, 4.9 percent in 2011, and 5.4 percent in 2012.

In 2015, the industry breached its target revenue by US\$1 billion, registering revenues of almost US\$22 billion, and is expected to generate an estimated US\$25 billion by the end of 2016.

The growth potential is staggering, and is slowly drawing the attention of multinationals. In September this year, global payments technology firm Visa, chose the Philippines as one of its four 24/7 service centers around the world.

Jose Mari Mercado, president of the IBPAP, told local media that if the projected growth rate of BPO remains consistent, then the revenue generated by the BPO industry will eventually surpass OFW remittances in 2017.

Solution to the talent export problem?

Employing 101,000 workers in 2004 and 900,000 in 2013, the growth of the BPO industry has had the knock-on

effect of creating more jobs annually within the country, especially for those with good English language communication skills and IT skills.

The government hopes that the increasing number of job opportunities will help to address the country's talent export problem.

But the mere prospect of available jobs isn't always enough to entice some of the more skilled Filipinos to stay put and find work on native soil. Often times the decision to stay or leave boils down to a trade-off between occupational prestige and earnings potential.

For example, many Filipinos who are highly-skilled college degree-holders, accept positions abroad as domestic workers, simply due the fact that they can earn up to three times more than what they would earn working in a professional role at home, let alone in a BPO call center.

English-language advantage

Ranked as the number two global sourcing destination in 2016 behind India, according to the latest Tholons' Top 100 Outsourcing Destinations

report, the Philippines continues to show serious promise in the global BPO industry.

The country's BPO success story can be largely attributed to the high English-language proficiency of its workforce.

Equipped with a youthful, 95 percent-literate population which have good communication skills in American-accented English due to a strong history of US influence in the country, it is no wonder that the nation is known as the "call center capital of the world," outperforming even India in the realm of voice-centric services.

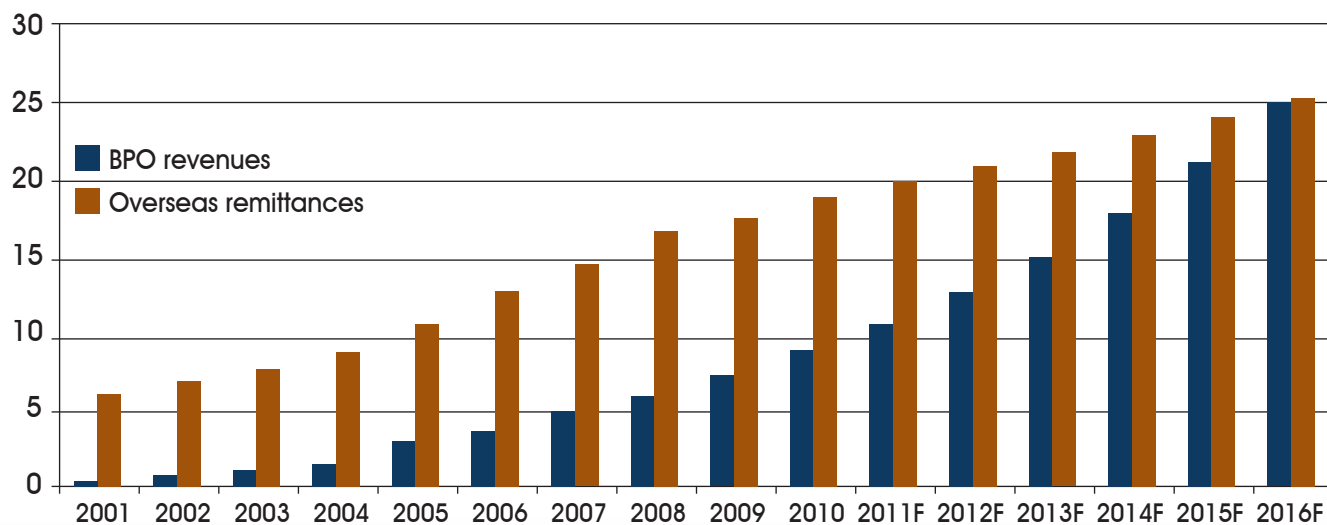
"Americans prefer the Filipino English accent over the hard Indian accent that's why American, British, New Zealand, and Australian companies prefer Philippines as the place to process business," British Sky Broadband Manager John Wells told local media late last year.

Rising costs and the 'Next Wave Cities'

Another contributor to the Philippines' success in BPO is its global cost advantage. But this is being threatened

The Philippines BPO and Overseas Remittances Should Each Grow to \$25 Billion

In billions of dollars



Source – CLSA Asia-Pacific Markets, BSP, Business Processing Association of the Philippines (BPAP)

by rising office rental prices in prime business areas in Manila, like Makati city and Cebu City, where almost 70 percent of BPO service providers are located.

Because the outsourcing industry is so price-sensitive, any increase in rental prices has the potential to adversely affect the industry's critical need to provide a prime location for outsourcing based on a positive ratio of cost (such as office rents) to quality (availability of a skilled labor pool), according to global research company The Oxford Business Group.

In addition, the various natural disasters regularly experienced by the Philippines have put many BPO operators under pressure to distribute operations across the country, so that if there are power cuts due to flooding in Manila, for example, Davao is unlikely to be affected, and business can carry on as usual.

Given these considerations, the government is laying the groundwork to expand BPO operations from Manila into alternative, less-developed, lower-cost locations across the Philippine archipelago, collectively dubbed the "Next Wave Cities." Operators who are willing to relocate can continue taking advantage of the country's low rental costs.

Buffering, please wait

As far as challenges are concerned, the biggest is arguably that internet access speeds in the Philippines aren't fast enough to sustain the growth in its BPO industry.

Currently, Philippine connectivity speed ranks 21st among 22 Asian countries, and 176th out of 202 countries as of May 2015, according to the Net Index report, an index of web connectivity published by internet metrics company Ookla.

In addition, the report showed that the Philippines recorded an average download speed of 3.64mbps, which was far below the world average of 23.3mbps.

While the government has since introduced minimum connectivity

Top Outsourcing Destinations 2016

Rank 2016	Movement from 2015	Region	Country	City
1	-	Asia Pacific	India	Bangalore
2	-	Asia Pacific	Philippines	Manila (NCR)
3	-	Asia Pacific	India	Mumbai
4	-	Asia Pacific	India	Delhi (NCR)
5	-	Asia Pacific	India	Chennai
6	-	Asia Pacific	India	Hyderabad
7	+1	Asia Pacific	Philippines	Cebu City
8	-1	Asia Pacific	India	Pune
9	-	Europe	Poland	Kraków
10	+2	Europe	Ireland	Dublin
11	-	Americas	Costa Rica	San José
12	-2	Asia Pacific	China	Shanghai
13	-	Asia Pacific	China	Beijing
14	+1	Europe	Czech Republic	Prague
15	-1	Asia Pacific	China	Dalian
16	-	Asia Pacific	Sri Lanka	Colombo
17	+2	Asia Pacific	Malaysia	Kuala Lumpur
18	-	Asia Pacific	Vietnam	Ho Chi Minh City
19	+1	Asia Pacific	Vietnam	Hanoi
20	+1	Middle East and Africa	South Africa	Johannesburg
21	-4	Asia Pacific	China	Shenzhen
22	-	Asia Pacific	India	Chandigarh
23	-	Asia Pacific	India	Kolkata
24	+1	Europe	Hungary	Budapest
25	+5	Europe	Poland	Warsaw
26	-	Americas	Brazil	Curitiba
27	-3	Americas	Brazil	São Paulo
28	-1	Asia Pacific	Singapore	Singapore
29	-1	Americas	Chile	Santiago
30	+1	Asia Pacific	India	Coimbatore
31	-2	Europe	Czech Republic	Brno
32	-	Asia Pacific	China	Chengdu
33	-	Americas	Argentina	Buenos Aires
34	+1	Americas	Uruguay	Montevideo
35	+1	North America	Canada	Toronto
36	+1	Asia Pacific	India	Jaipur
37	-3	Europe	Russia	St. Petersburg
38	+5	Europe	U.K.	Belfast
39	-1	Asia Pacific	China	Guangzhou
40	+2	Middle East and Africa	Ghana	Accra

Source – Tholons Top 100 Outsourcing Destinations 2016



Makati city: Manila's vibrant financial district

speed requirements for telecoms firms and internet service providers, the Philippines' fractured geographical layout of over 7,000 islands, all susceptible to weather-induced power outages, makes it difficult (and expensive) to build fixed networks across the country.

Impact of Philippine-US relations

In light of recent political events involving the exchange of heated rhetoric between Philippine and American officials, there is concern over the future of both countries' long-standing and historically amicable relationship, and how this might impact FDI and the growth of Philippines' BPO industry.

Rick Santos, Chairman of CBRE Philippines, told local press in October last year that he believes the BPO sector will continue to thrive and that the country will not lose its attractiveness to foreign investors.

"The country provides a conducive environment for foreign investors – an excellent pool and low cost of skilled labor, outstanding customer service, a quality destination and one of the cheapest rental rates and highest yields in Asia," says Santos.

KPO: the next level

What will be interesting to observe is the country's expansion into what has been dubbed the "next level of outsourcing," i.e. Knowledge Process Outsourcing (KPO). Involving the outsourcing of knowledge-based, "back office" services like data analytics, software development and financial research, the skillsets required for employment in KPO will be much more specialized.

In contrast with the existing BPO industry, specifically in call-centers, where job opportunities are open to English-speaking degree holders of all disciplines, the KPO industry will place a higher value on professional degrees like medicine, IT, business, and engineering, and workers with these skillsets will be matched with relevant opportunities.

Where many college degree holders in the Philippines view call-center work as an undesirable last resort, the nation's expansion towards knowledge-based process outsourcing may incentivize the 40 percent of Filipino graduates with degrees in the aforementioned fields to think twice before going overseas.

There may be hope for the Philippines' slowing remittance economy after all.



Country Overview

- Named after King Philip II of Spain in the 16th century, the Philippines is a large archipelago of over 7,000 volcanic-formed islands surrounded by the South China Sea and the Pacific Ocean. Although a fully independent state since 1949, Spanish and American influences remain strong in the former colony, particularly where religion, language and government are concerned.
- Out of the nation's population of 96.5 million, over 90 percent identify with some branch of Christianity, making the Philippines the largest Christian nation in Asia, and one of the largest in the world
- English has been adopted alongside Tagalog as one of the country's two official spoken languages, and the government operates under a democratic US-style constitution.
- To this day, the Philippines remains a close ally of the US, which backs it unequivocally, particularly in matters of international defense and security.