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**South Africa's  
Outsourcing Hotspot Trio**





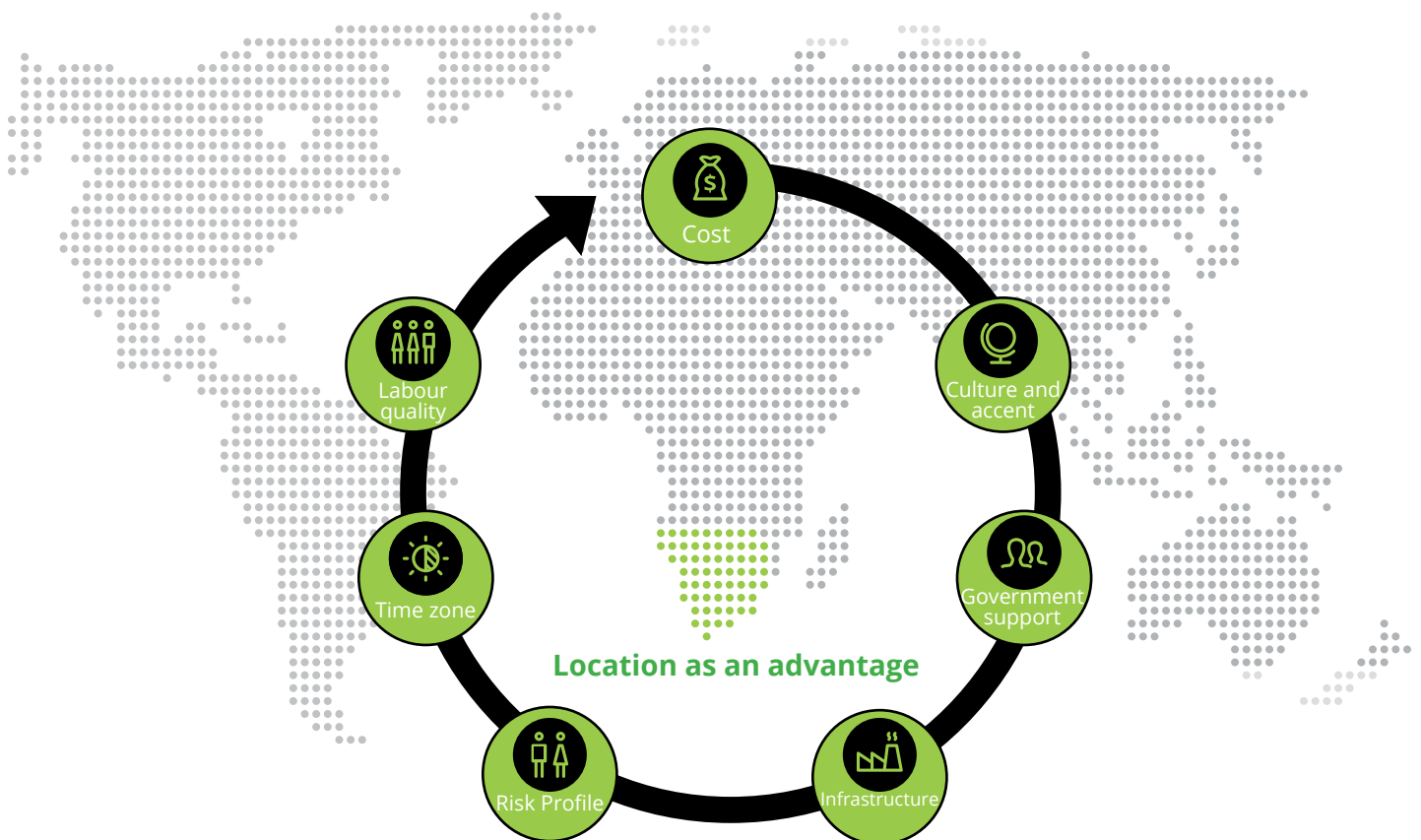
South Africa has been able to establish itself as an emerging offshoring destination for voice as well as non-voice services. The industry now needs to focus on moving up the value chain to offer sophisticated and value-driven services and project itself as a quality destination rather than as a low-cost destination.

South African government has played a vital role in developing the BPO market by providing incentives such as free office spaces, computers, and internet to BPO service providers in the country. Indeed, it has identified BPO as a GDP enabler and employment creator.

In recent times, South Africa has gained prominence as a preferred outsourcing destination while competing with locations such as Ireland, Paraguay, Malaysia and Poland. In the 2015 Tholons Top 100 Outsourcing Destinations report, which ranks cities in terms of outsourcing attractiveness, three South African cities make the cut – Johannesburg (21), Cape Town (57) and Durban (100).

The presence of large-service buyers such as ASDA, Amazon, Old Mutual, Carphone, Lufthansa, British Gas and Virgin Mobile, along with global service providers such as Accenture, WNS, Capital, Genpact, CSC and Teleperformance enable SA to establish a robust supply-demand equilibrium. In fact, a combination of factors such as cost effectiveness, government support, time zone and cultural similarities and the like has helped South Africa project itself as an emerging outsourcing destination.

The selection of an outsourcing destination is a crucial decision process in choosing an outsourcing partner. This decision impacts the long-term success of outsourcing partnerships, hence, non-price factors become very important as cost advantage is no longer the most important objective in outsourcing partnerships. Companies are now expecting more value, enhanced performance, better service and innovation from the potential outsourcing destination.



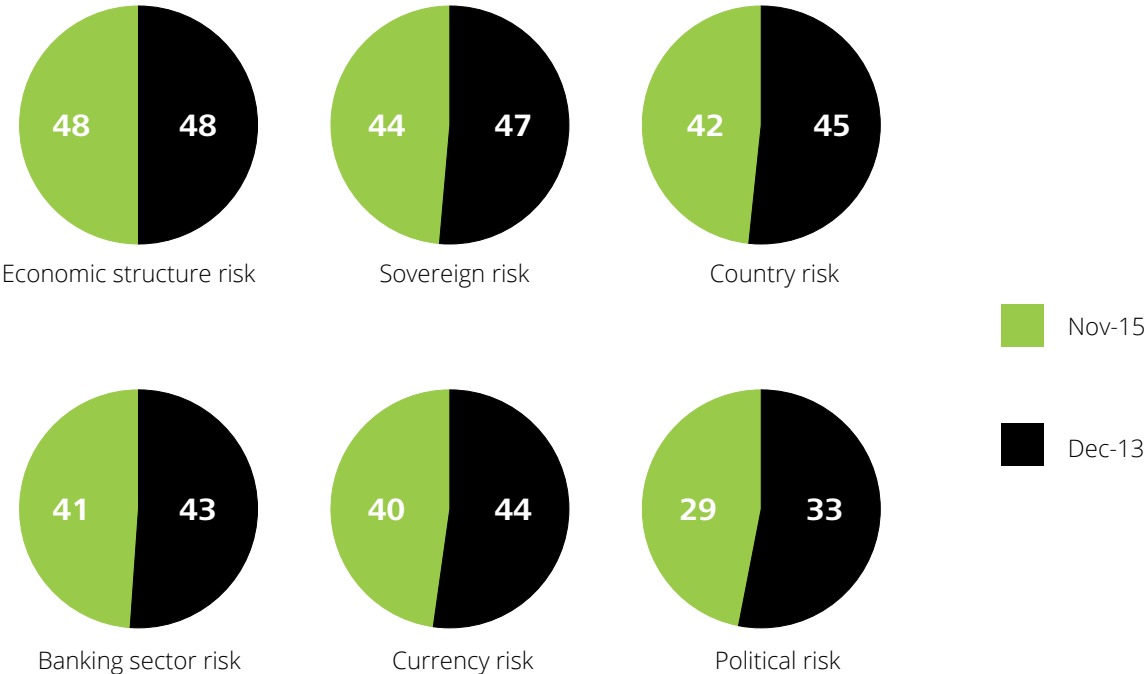
**Cost:** South Africa’s cost-competitiveness works in its favour. The country offers 40-45% lower cost compared to near-shore locations in the UK (Northern Ireland etc.) and 10-20% lower than locations in Central and Eastern Europe (Czech Republic, Hungary, Romania).

**Cultural alignment and accent neutrality:** Drawing on its colonial history, South Africa is culturally very similar to western countries, especially on business protocols, institutional design, legal and educational systems etc., talent in service delivery shows a strong cultural connect with clients in the UK and European countries, in terms of communication and comprehension. This capability is particularly relevant and critical when it comes to process improvements. Neutral accent also helps in better communication with the clients.

**Government support:** The South African government has been very supportive towards the development of the BPO industry. It has put in place a set of incentives to stimulate the sector. For instance, it provides cheaper and widely available bandwidth capacity to the BPO sector.

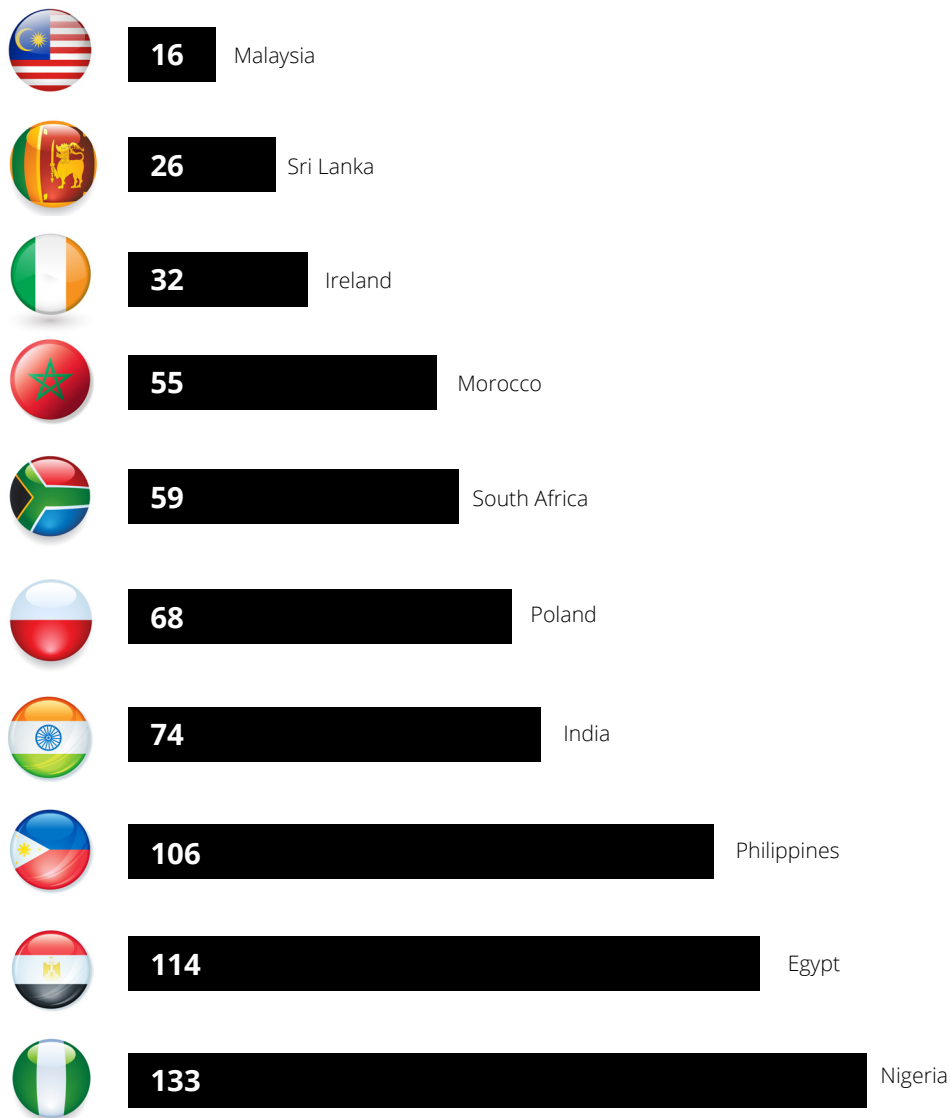
**Risk Profile:** Overall country risk-rating for South Africa in 2015 was BB. The overall country risk is a simple average of the scores for sovereign risk, currency risk and banking sector risk. In terms of the overall risk, there has not been any positive rating change; however, in terms of individual risks all parameters have improved since 2013.

*South Africa Risk Rating*



(Source: EIU), Note. Ratings are derived from scores as follows: 100-89 = D; 92-79 = C; 82-69 = CC; 72-59 = CCC; 62-49 = B; 52-39 = BB; 42-29 = BBB; 32-19 = A; 22-9 = AA; 12-0 = AAA.

**Infrastructure:** In terms of overall infrastructure as well, South Africa is placed better than India, Philippines, Egypt, Nigeria and Poland however, it lags behind Malaysia, Ireland, Sri Lanka and Morocco. The country is able to position itself as an outsourcing destination due to its quality of overall infrastructure.



(Source: World Economic Forum: Global Competitiveness Report 2015-2016)(Lower rank being good).

**Time zone:** South Africa has a strategically favourable time zone. The time difference is two hours (winter) and one hour (summer) with the UK and one hour with continental Europe.

**Quality of labour:** South Africa has a steady supply of quality labour as a result of its high secondary education enrolment and availability of specialised training services. The quality of accountants in South Africa is well-perceived in global communities. Professional qualifications (accountants and actuaries) are similar to those in the UK. This factor becomes significant when considering high-end outsourcing work such as FP&A, budgeting and planning, among others.



## Outsourcing Hotspot Trio

The mentioned factors combine to make Cape Town, Durban and Johannesburg the outsourcing hotspot trio for South Africa. These cities offer service capabilities not only limited to voice but also complex BPO, ITO, KPO and LPO services. Despite being distinctive in nature, the cities have complementary offerings.

### Cape Town

Among the three cities, Cape Town is the leader in terms of preferred outsourcing destinations, although it is ranked lower than Johannesburg in the Tholons list of outsourcing destinations (based on qualitative and quantitative aspects such as scale and quality of labour, infrastructure, risk profile, cost, quality of life etc.).

Cape Town has the availability of a large talent pool coming from three of the country's top universities – the University of Cape Town, The University of Stellenbosch and the University of the Western Cape, along with top FET colleges such as the False Bay College. The city also boasts linguistic capabilities other than English and an improving risk (security, regulatory and Intellectual property) profile.

Presence of good quality infrastructure (road, power, healthcare) also adds to the location advantages of the city.

Certain initial infrastructural challenges such as public transport of employees have been dealt with effectively to date.

Other factors helping the city include additional time zone coverage for clients based in Australia and New Zealand. Apart from the presence of multinationals, availability of service providers such as WNS, Serco and Capita and offshore outsourcing clients such as Shop Direct, O2 and iiNET make it capable of catering to the rising global demand. It also hosts captive centres of a number of companies such as BP, ASDA, Amazon, Lufthansa, Google and DHL, which further add to the city's outsourcing capability credentials.

Cape Town is expected to remain the most preferred location in terms of IT, HR and other shared services, and retains and further attracts international contact centre services.



## Durban

Durban has been a key contributor to South Africa's BPO segment since 2006. Lower cost of operations, infrastructure, presence of talent with linguistic capabilities and softer tone position Durban as a preferred location.

In terms of cost of operations, Durban is better placed than Cape Town – as per estimates, cost of operations in Durban is 5% lower than Cape Town. In terms of salaries, the city scores better than Johannesburg – salaries in Durban are 15-20% lower than those in Johannesburg.

Further, the quality of talent for sales and outbound campaigns is better, and labour competition lower, in Durban when compared to the other two locations. Easy transportation, and the presence of various ethnicities, a softer accent also works in favour of Durban. The development of a new BPO Park at Dube Trade Port is anticipated to add to Durban's prominence.

Durban predominantly caters to clients based in the UK (Carphone, TalkTalk) and Australia (Westfarmers Australia and Coles Insurance). It supports clients in the manufacturing, financial services, retail and telecom sectors. The primary focus of centres established here is the area of technical support.





## Johannesburg

The third member of the trio – Johannesburg – being one of the most populated areas within the Gauteng province, Johannesburg houses a substantial workforce.

Labour retention in Johannesburg has been higher compared to Cape Town and Durban. Tertiary education is also strong in Gauteng.

As a locational advantage, the majority of companies operating in Eastern and/or Southern Africa tend to establish their headquarters in Johannesburg, providing an opportunity for BPO service providers based in the city. Johannesburg's proximity to the administrative capital Pretoria, further boosts its locational advantage.

The city has the presence of industries such as manufacturing, finance, mining, telecom and media. The lowest non-labour cost within the triad and the development of Tshwane (easily accessible area between Johannesburg and Pretoria) also add to the competitive advantage of Johannesburg.

Johannesburg is primarily engaged in provision of voice and BPO services through the presence of service providers such as WNS and Genpact. Since 2012, Infosys and DHL have also been offering shared services in the voice and BPO domains to European as well as African service buyers.

In terms of overall services offered, Johannesburg outperforms Cape Town and Durban in terms of call centres, shared services as well as BPO services. The region's strength lies in Finance and Accounting, Customer Relationship Management (CRM), payroll and recruitment services. Johannesburg is also well equipped to provide services related to IT, procurement, KPO as well as HR BPO.

SA's value proposition is not only about cost, but about overall economic value, skilled workforce, high cultural compatibility and time zone overlap with European countries.

## Current scenario and future prospects

In terms of establishing itself as a quality destination for service buyers, South African BPO industry has moved from an embryonic to an infancy stage. Its service delivery can be classified into contact centre for the UK, complex non-voice BPO, and Africa-to-Africa shared services. Such services are extensively being used in support of the Telecom/ISPs sector for the UK as well as Australian firms. In particular, adoption of these services by UK firms has increased substantially in the recent past.

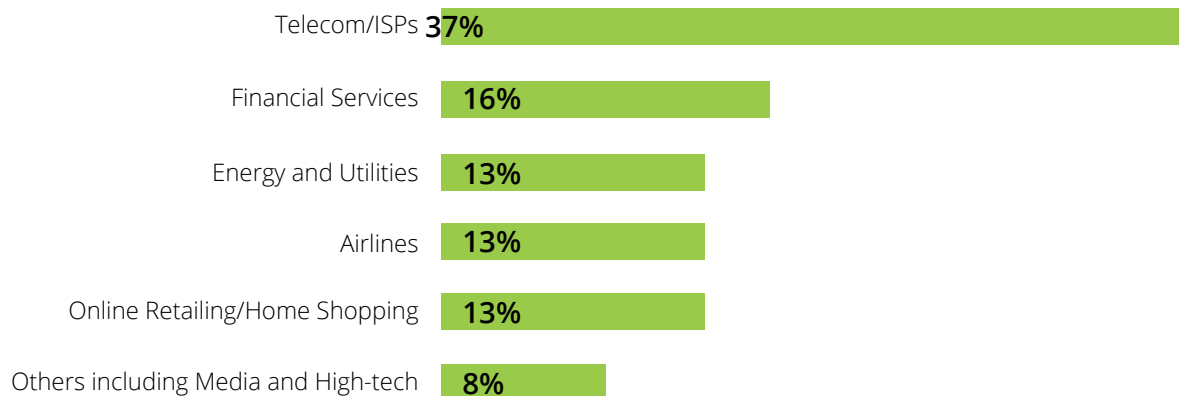
The blend of services South Africa offers is becoming more complex and sophisticated. UK-based utilities are using South Africa contact centre delivery to support billing and meter issues, outages and debt collection. The banking sector uses South African delivery centres for application support and collections, while the insurance sector uses these for inbound and outbound sales.

Apart from contact centre services, South Africa also accounts for international service delivery pertaining to the financial services industry. The country is also being considered as a prospective location within an organisation's international delivery network for back-office shared services in areas of F&A and HR for "Africa-to-Africa" support, with organisations gradually using South Africa as the heart for their African shared services hubs. The majority of the financial services provided are specific to the banking and insurance industries. The country is also being considered as part of organisations' global delivery network for back-office shared services. These services include finance and accounting, and human resources for Africa-to-Africa support.

Political stability and relative maturity of skills for transactional shared services are another set of prominent reasons that position South Africa as a preferred destination.

Future prospects for South Africa growing as a preferred outsourcing destination look promising as a number of factors used in deciding an outsourcing location are in favour of South Africa. Due to an uncertain macro-economic climate, coupled with deficiency of local talent and high cost of personnel, particularly in IT and accounting, clients are looking for business efficiency and cost management. South Africa can soon see expansion in the high-value, high-margin BPO services. It is expected that the offering will be niche and not to the scale of competitors such as India and Philippines due to differences in population size. Buyers have begun to consider sophisticated non-voice and KPO/LPO services along with the existing voice services.

### Organisations using SA contact centre services by sector (%)



(Source: Analysis of South Africa as a BPO Delivery Location (BPeSA-Nelson Hall Report 2015))

In fact, KPO services will be niche in nature and picking up the right niche market will be the key to success. Again, since the scale will not be as big as other competitors, a domain-centric focus in verticals such as Finance and Healthcare can make the difference for the South African BPO industry. Despite a number of advantages, however, South Africa needs to overcome some challenges, such as matching skill demand and supply, relatively higher telecom costs, to seal its place as an unparalleled outsourcing hub. Government initiatives need to be targeted towards specific sectors instead of the BPO sector as a whole.

Government, industry participants and vendors need to work in tandem to come up with credible service portfolios. Managing the supply of skilled labour in the face of increasing demand for South African services might prove to be challenging. Market players such as government, higher education institutes, as well as service providers and buyers need to collaborate to anticipate the demand and prepare for an adequate skilled workforce. Service providers need to invest in capabilities and market their high-end services delivered from South Africa.

**Marketing and projecting South Africa as a quality offshore location may prove to be critical for the growth of the BPO industry. Matching the demand with adequate supply of talent will also be a key success factor.**

Importantly, South Africa needs to project itself as a quality destination rather than as a low-cost destination. For service buyers to capture market share it is necessary to have a service portfolio that balances voice and non-voice services (KPO/LPO services). Service providers are moving towards high-end, high-margin services; however, voice services still remain strong in South Africa, hence these services should not be completely discarded from the portfolio.

# Conclusion

Boosted by positive factors such as supply of quality labour, better overall quality of infrastructure, improving risk profile, cultural affinity and accent neutrality, lower cost of services, government support, and time zone, South Africa has been able to establish itself as the next emerging outsourcing hub. The trio of Cape Town, Durban and Johannesburg has, together, helped South Africa offer an array of voice and non-voice BPO services, as well as KPO and LPO services.

Due to similarities with the European legal system, LPO services can be targeted to be delivered from South Africa in large volumes. At present, the use of South African contact centres by the financial sector is low. Low usage of these contact centres by the financial industry presents an opportunity for the wide supply of talent to be tapped for the sector.

South African BPO market should focus to maintain its service advantage in the voice domain, while simultaneously enhancing value in non-voice and BPO, KPO/LPO service offerings in terms of quality and economic value.

As the global demand around non-voice, BPO, KPO/LPO services begins to rise, choosing the correct niche market will become strategically important as the local players will be competing with some of the world's largest outsourcing service providers. Service providers need to project their sophistication and width of offerings properly in front of the buyers. As South Africa is not the cheapest offshore location, its value proposition should lie in establishing itself as a destination delivering higher economic value and better services instead of merely cost savings.





## Contact

For more information, please contact



**Wendy Smith**

Director

Business-Process-as-a-Service (BPaaS)

Tel: +27 (0) 214 275 456

Email: [wsmith@deloitte.co.za](mailto:wsmith@deloitte.co.za)

For further information, visit our website at [www.deloitte.com/za/bpaas](http://www.deloitte.com/za/bpaas)



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