



South Africa's BPO industry - *Pivoted for the next generation of service delivery*

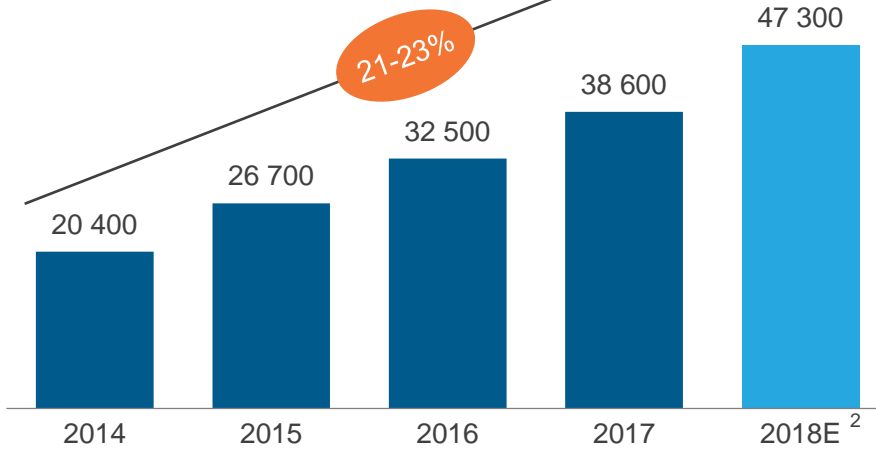
June 2018

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The global services market in South Africa is growing at a rapid rate of ~22% annually over the past four years

Global services¹ headcount and growth in South Africa
2014-2018(E); FTEs



- South Africa has witnessed high growth in the BPO industry over the past four years, growing by ~22% annually which is twice the global growth rate of the industry, and three times faster than India and the Philippines
- Many global and regional companies have set up or expanded their operations in South Africa; these companies represent a variety of industry verticals, such as technology and communications, financial services, legal and healthcare

Key companies providing global and regional services delivery from South Africa

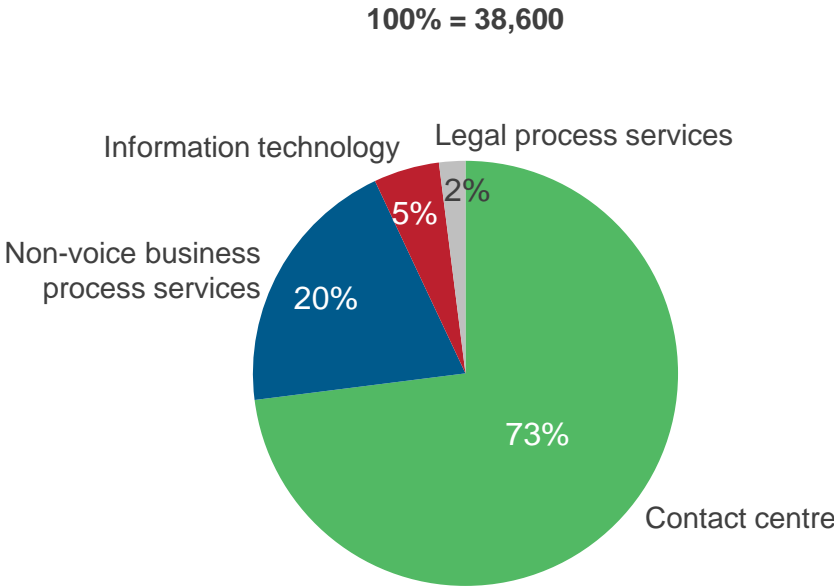
Key companies providing global and regional services delivery from South Africa include:

- Vodafone, American Express, TalkTalk, EXL, Teleperformance, WNS, Investec, OD*TY, Discovery, CCI SOUTH AFRICA, O'Keeffe & Swartz, OUT SURFACE, JD GROUP, CAPITEC BANK, Mindpearl
- IBM, Blake Associates, Computacenter, Lufthansa, GENPACT, Shell, Cognia, SAMSUNG, Wipro, SIGMA, webhelp, talksure, Clientèle LIFE, Outworx, PIXE faene, UTI, Standard Bank, MWEB
- Amazon, BankservAfrica, Infosys, AEGIS, COLLINSON GROUP, Hogan Lovells, GEN, CAPITA, DIGL, takealot.com, wongai, EQH, Sanlam, ALTRON, BYTES PEOPLE SOLUTIONS
- DXC technology, exigent, Watchstone, innovation group, IPREO, itlab, TENACITY, NIMBLE GROUP, COMIT TECHNOLOGIES, iContact, capfin, training room online, NEDBANK, Edcon, A20
- Accenture, Old Mutual, Barclays, mpc, M'BUNDELA CONTACT CENTER, miracle communications, SaluGrowth, AM, Synergy, NuDebt, JTC, DirectAxis, WOODWORKS, FOSCHINI, METROPOLITAN

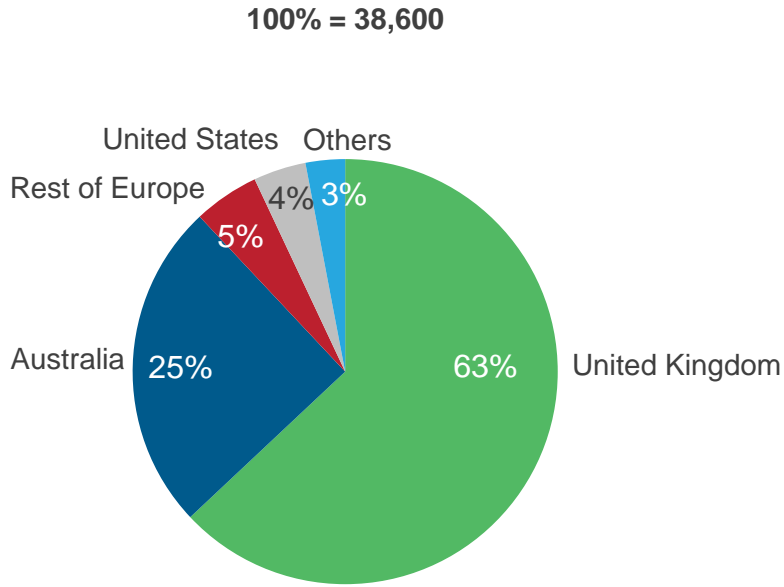
1 Reflects the BPO market (both business process and IT services) for global delivery in South Africa
2 Estimated figures for the year 2018
Source: BPESA, Everest Group (2018)

While contact centre delivery continues to play a dominant role in South Africa's value proposition, capabilities in other functions are fast growing

Global business services headcount | Breakup of headcount by functions delivered 2017¹; Number



Global business services market | Breakup of headcount by source geographies 2017¹; Percentage



- United Kingdom has been one of the major locations served out of South Africa for many years for customer support; this work is now evolving to include customer experience management from an omnichannel perspective. Other niche functions in the financial services space are also growing in terms of global delivery
- **Increasingly, Australia and the United States are also becoming key source geographies for South Africa as more and more companies look for a viable delivery location alternative to the Philippines and India**

¹ Represents end of year 2017
Source: BPESA, Everest Group (2018)

South Africa has a large availability of good quality English speaking talent with high empathy, cultural affinity, and niche domain skills, which have led to success in next generational service delivery

First world infrastructure and enabling environment

- High quality of life with superior business and operating environment infrastructure
- A wide variety of government support in areas of skill development and infrastructure incentives for increasing investment in the BPO sector
- Global contact center standards – ISO 18295 are based on South African standards (the global standard development was led by South Africa)

Evolving capabilities for next-gen services for digital contact centre

- South Africa is pivoting towards delivery of next-generation of contact center and digital services
- In the core strength of contact center, companies have successfully demonstrated capabilities for high quality multi-channel customer experience, supplemented by deep customer analytics



Good quality, English-speaking talent

- Availability of highly skilled, English-speaking talent pool with neutral accent and very high empathy levels
- Additional talent pool through impact sourcing
- Cultural affinity with the United Kingdom, Australia, and, increasingly, the United States
- Recognized domain knowledge in the banking and financial services sector
- Availability of talent across multiple global delivery location options across the country

Significant costs savings

- Cost of operations are at least 50-60% lower than those in England and Australia for both voice and non-voice work
- Incentives further reduce the costs to bring them in range of costs in the Philippines and India

Strong foundation in contact centre and niche areas of work

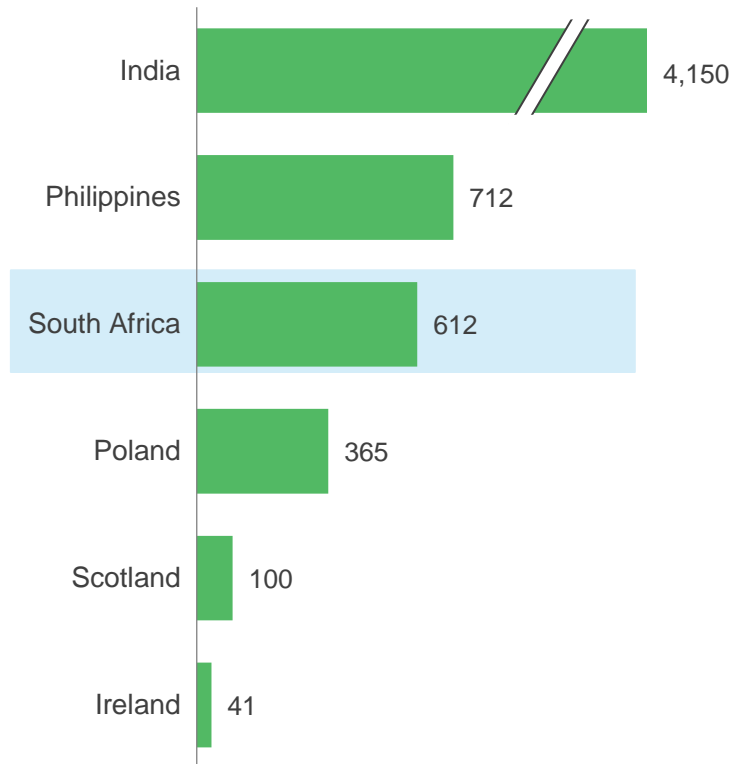
Apart from contact centre, which has been one of the key strengths of South Africa's BPO industry, the scope of international delivery has expanded into non-traditional areas of work, such as financial services, legal process services, and healthcare

One of South Africa's key advantages is the large talent pool with niche skill availability

Talent

Cost
Niche work
Next-gen work
Enabling environment

Annual supply of new talent for English language BPO
2017¹; '000s



- South Africa has a highly skilled, English speaking talent pool with a more neutral accent as compared to those in India and other offshore geographies – this makes it ideal for contact centre delivery to the United Kingdom and Australia, and increasingly, the United States
 - More than **60,000 graduates have IT, engineering and related degrees**, providing a large talent pool for IT infrastructure and development work
 - Additionally, **~5,000 students study law** in South Africa every year – this is reflected in the niche and high quality work that the LPO sector does
- Apart from Bachelors degree holders, South Africa also has a large skill base in financial services
 - South Africa is one of the **leaders in terms of availability of CFA charter holders and actuarial degree holders**; in fact, the latter is almost eight times that of India

¹ Represents end of year 2017

Note Includes all relevant degrees/qualifications for employment in the IT/BP sector

Source: Ministry of Higher Education websites, Law Society of South Africa, Everest Group (2018)

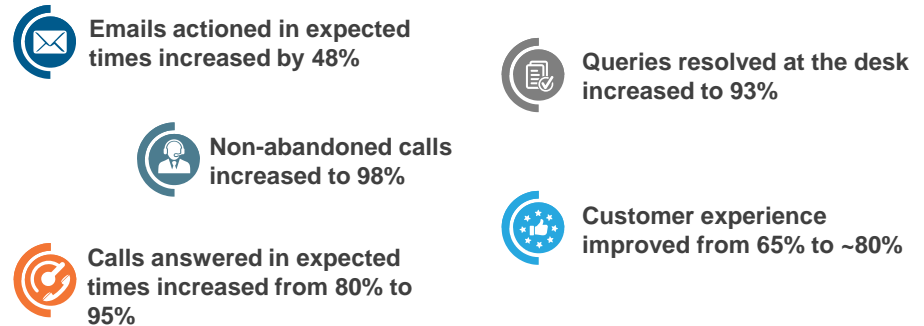
High empathy skills and greater cultural affinity have been rated as the top drivers for South Africa's excellent performance on service quality standards

Talent
Cost
Niche work
Next-gen work
Enabling environment

Drivers behind the high success rates of global contact centre/service desk delivery from South Africa

- High levels of empathy with the customer (which is often the missing ingredient at other delivery locations)
- Superior quality of English language capabilities, both written and spoken
- Availability of neutral accented English across the country

Company case study: A United Kingdom-based company witnessed a significant improvement in performance of service desk delivery SLAs upon offshoring to South Africa and rated agent quality as top reason



Company case study: A global BPO provider through its South Africa centre exceeded performance targets for a large United Kingdom-based property & casualty insurance client. The client specifically called out high empathy as the key driver of superior performance from South Africa

Success is measured in terms of Net Consultant Experience (First Notice of Loss):

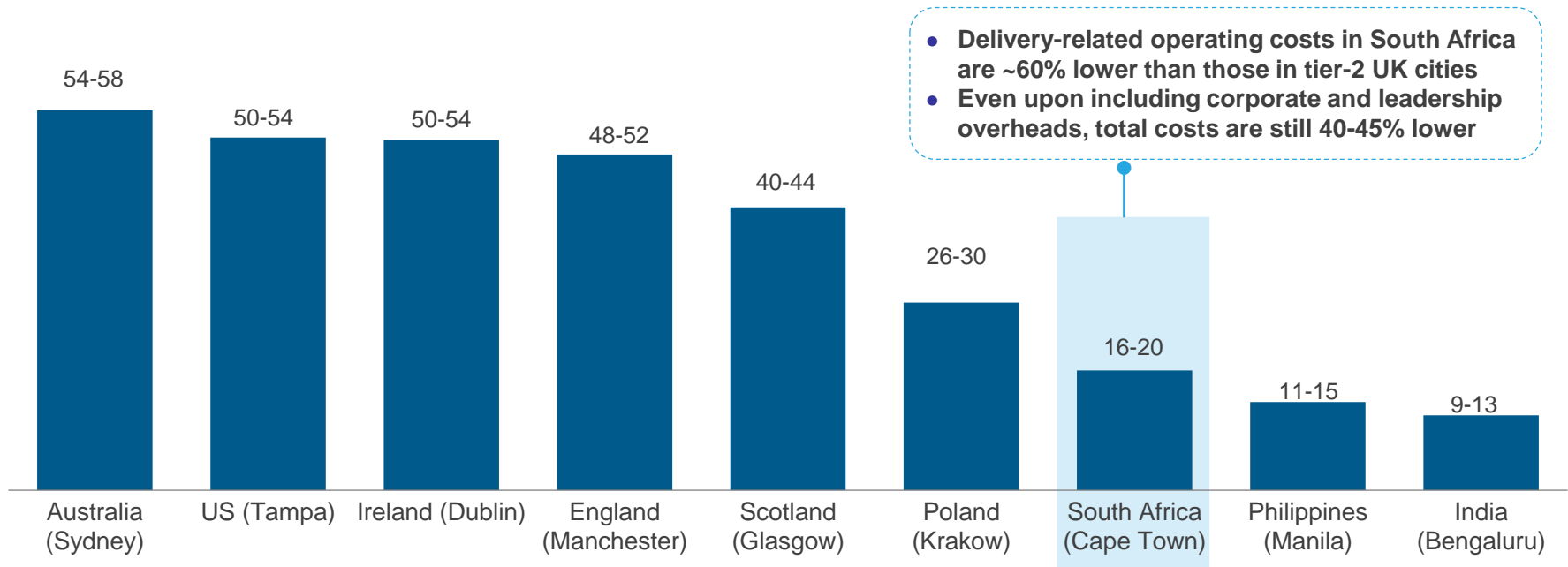
- Within 60 days of the project going live, the BPO provider in South Africa exceeded the target of 77% to reach 82%
- The performance was higher than that of India (the India team was managing this work for over a year and the performance was stagnant at 78%)
- Within few months, the South African performance was comparable to the onshore / UK performance of 88%

Source: Interviews with market players; Everest Group (2018)

South Africa offers significant cost arbitrage for contact centre delivery as compared to source geographies

Talent
Cost
 Niche work
 Next-gen work
 Enabling environment

Operating cost per FTE for Contact Centre¹
 2018; US\$ '000s per annum per FTE



- Operating cost is driven by people cost (salaries and benefits), facilities costs, telecom costs and other miscellaneous costs
- South Africa has one of the lowest cost of operations for English language contact centre delivery as compared to other onshore locations. This is primarily driven by low salaries (lower cost of living and lower competitive intensity for talent) and real estate costs as compared to other locations

¹ Operating costs reflective of market average delivery costs which include salaries, facilities, technology, etc. Experiences may differ from company to company. Costs exclude senior management costs, sales and corporate overheads, and impact of government incentives

Source: Everest Group (2018)

While voice-driven contact center has been the mainstay of the BPO industry, a large part of this sector is now moving towards an omnichannel delivery

Integrated view of customer-related information

Current adoption

- The transition to omnichannel contact centers is very evident in South Africa, with many players successfully demonstrating strong capabilities
- Companies are taking advantage of the inherent talent in the country to build a holistic experience for customers
 - Not only does it leverage the high quality voice skills, but it also makes use of written language skills which too are far better in South Africa as compared to peer locations

There are many interesting examples from the voice-based sector in South Africa which are indicative of high success of omnichannel adoption

A recruitment consulting company was able to achieve 95% success rate in providing video, chat, and voice training in the English language to clients in China, Japan, and Taiwan

- 95% of the language consultants achieved 95% or higher rating in terms of client satisfaction through omnichannel
- The complaints index ratio was very low at only 1:125 and the compliments index ratio was 1:10
- The client operated out of 4 other global sites, and after observing the exceptional success of the South Africa center, moved almost all of the global delivery work to South Africa



Source: Interviews with market players; Everest Group (2018)

There are strong capabilities in many industry-specific niche functions delivered from South Africa (page 1 of 2)



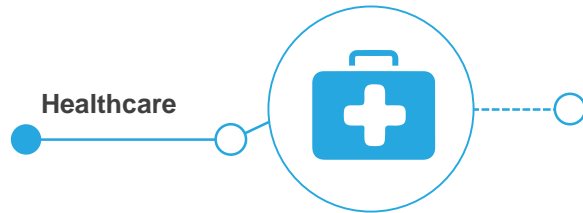
- South Africa has been known as a financial services destination, especially Johannesburg, which has attracted large banks such as Barclays, First National Bank, BNP Paribas, JP Morgan, Citibank and Mercantile Bank. However, other locations, such as Cape Town and Durban also have a significant presence of financial services institutions
- High availability of quality talent (including CAs, CFAs and actuaries) has been the key driver of success, and global banks are leveraging South Africa for delivery of complex work in the fields of asset management, life insurance, and fund accounting processes to the United Kingdom, Australia and now, the United States
 - In particular, voice processes in the insurance space, such as claims processing, commission handling, policy administration, etc. are delivered to a great extent from here due to the core strengths of customer empathy and good English language skills



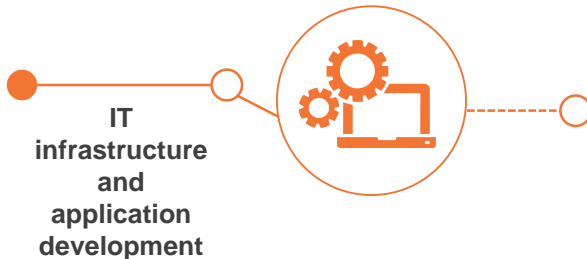
- There are multiple instances of Forbes 2000 law firms offshoring work to South Africa, particularly Cape Town
- On average, the country produces more than 4,000 legal graduates in a year which supplement the talent pool of ~25,000 practicing lawyers
- Typically, South Africa is a preferred destination for providing complex, bespoke legal services, particularly for financial services clients. The work ranges from contract drafting and management to document review. Many leading, specialist law firms, such as Radiant Law, Exigent Law, and Cognia Law are present here

Source: Interviews with market players; Everest Group (2018)

There are strong capabilities in many industry-specific niche functions delivered from South Africa (page 2 of 2)



- The healthcare industry provides a huge growth potential for international BPO delivery. There are already multiple private and public sector healthcare providers in the market, indicating that there is a ready source of talent for hiring purposes. There are more than 250,000 registered doctors, nurses, paramedics, students, etc. in this industry
- Large companies such as Discovery Health provide care management, insurance, and a variety of clinical services from key cities in South Africa (Johannesburg, Cape Town, Durban and Port Elizabeth)
- Healthcare companies are also using South Africa as an innovation hub e.g., Discovery Health employs a team of 35 data scientists for big data analytics, platform development, and business intelligence to improve the end-customer experience



- In the information technology space, South Africa has played an important role in the sphere of technical helpdesk and service desk due to its superior voice skills. Additionally, South Africa generates a large number of IT graduates who have the relevant technical skills, thus reducing the burden of significant training costs on the part of companies
- Many European and United Kingdom-headquartered companies, such as Computacenter and IT Lab have their centres here which are providing back-end infrastructure services (e.g., second/third line service desk, datacenter and hardware support services)
- Additionally, there is a fast-growing cluster of companies which is providing IT-focused solutions to various industry verticals in the form of website architecture and development, and application and platform development

Source: Interviews with market players; Everest Group (2018)

In the field of big data analytics, artificial intelligence and other digitally-driven segments, South Africa is displaying significant growth

Talent
Cost
Niche work
Next-gen work
Enabling environment

Current adoption

- In the area of digital adoption, there has been great emphasis on big data analytics and its impact on the global contact center industry in South Africa. There are many instances of call centres both building and using analytics tools and platforms for enhancing the end-customer experience
- Global companies are also leveraging robotic and desktop automation in order to enable their workforce to focus on more complex and value-added work; as opposed to the common perception about automation, the latter is expected to create more jobs rather than render the workforce redundant



Talent availability

- More than **60,000 students graduate** with **IT, engineering and other related degrees** in South Africa every year. This talent pool is trainable in specific skills as witnessed in the experiences of Amazon and Accenture that have paved the way for cloud infrastructure development, blockchain and artificial intelligence development



Collaboration with the ecosystem for fostering skill growth

- There has been a concerted effort to build more complex IT skills on the part of the central and provincial governments through collaboration with universities and the private sector
- This has resulted in development of new degrees in universities (such as the analytics degree in the University of Western Cape), training programs in geomatics, artificial intelligence, internet-of-things, cloud architecture, etc. (CapaCiTi tech skills and work readiness program), and development of dedicated startup spaces (Tshimologong Digital Innovation precinct)

Future growth

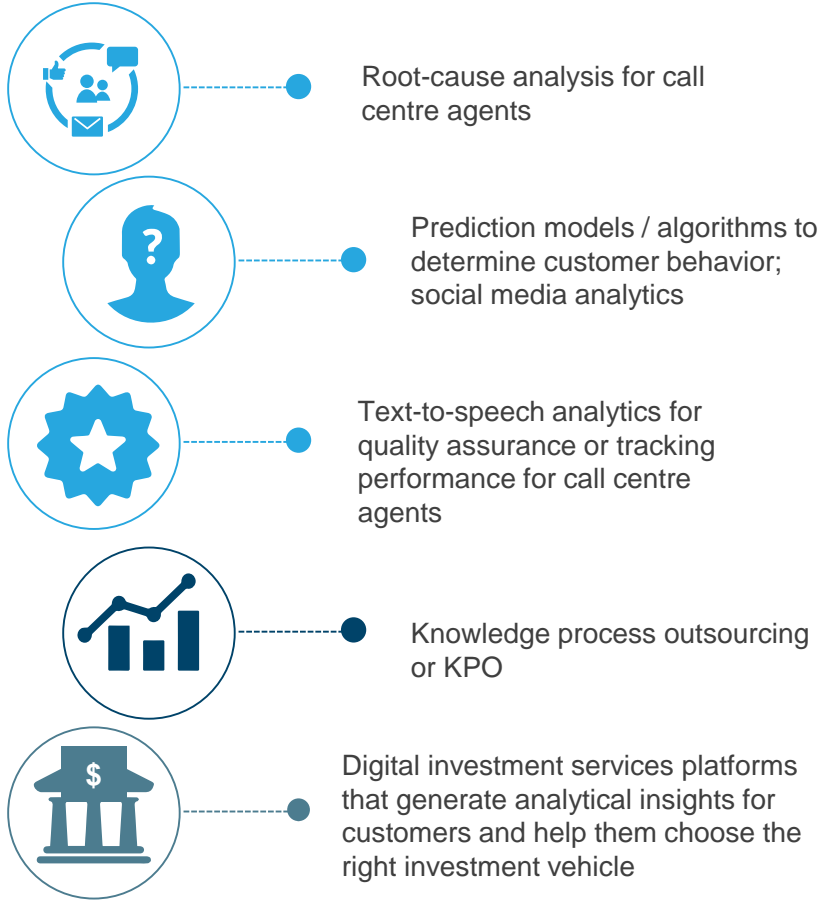
- Companies are looking to ramp up their scale in the field of analytics and social in South Africa – these skills will continue to be relevant, given the emphasis on customer experience management and building quality of performance in South Africa
- Additionally, companies are aligning with universities and training institutes for sourcing their talent requirements at a fraction of the recruitment cost – this will result in more degrees being offered to students and building up of the talent pipeline for digital in South Africa

Source: Interviews with market players; Everest Group (2018)

There are multiple instances of companies developing their own analytics solutions through quality in-house talent in South Africa

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Cost
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Types of analytics solutions delivered from South Africa



A technology startup in Cape Town is in the business of improving the global contact centre industry with its analytics products

- This startup provides a suite of services, amongst which measuring quality of agents on the basis of a number of performance indicators is the most sought after, followed by building prediction models/algorithms using machine learning
 - These models help determine the source of customer “churn” and future demand by analyzing various complaints and “pain points”
 - In analytics parlance, it helps measure the conflict DNA and predict end-pattern behaviour of customers by using sentiment analysis; this has also been useful for upselling, renewing contracts with clients, etc.
- The primary motivation behind these platforms and models is to improve the end-customer experience and reduce the number of calls – for many clients, these solutions have resulted in 10-15% reduction in calls

“*We have a team of five data scientists and 172 junior analysts (including software developers) in Cape Town who have performed miracles in developing these solutions.*”

- A technology startup”

Source: Interviews with market players; Everest Group (2018)

South Africa has been performing consistently well in terms of its business and operating environment, both amongst peers and as well as globally (page 1 of 2)

Talent
Cost
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Next-gen work

Enabling environment



South Africa is **second** in the “**Financial Services meeting business needs**” ranking among all offshore peers¹



In terms of technological readiness, South Africa ranks **11th** with respect to **Internet bandwidth**



South Africa ranks **first** in terms of **mobile phone subscriptions** (149.2 subscriptions per 100 people) among offshore peers



The South African **digital economy** is considered to be the most developed in Africa



South Africa has the **lowest tax policy risk** among offshore peers



South Africa was named as the “**Offshoring Destination of the Year**” at the 2016 Global Sourcing Association (GSA) awards ceremony



South Africa is ranked as one of the **top 10 tourist destinations** as per the Master Card tourism ratings and houses one of the **New 7 Wonders** of the world – Table Mountain



South Africa has one of the most favorable customer oriented legislations, **Protection of Personal Information Act (POPI)**, which regulates how companies handle, keep, and secure their customers’ information

Note Peers include India, the Philippines, Poland, Ireland, and Scotland

¹ Ranks the support that banking systems offer for setting up new businesses

Source: The Global Information Technology Report 2016, Global Competitiveness Index 2016-2017, Digital Evolution Index, Economist Intelligence Unit 2017

South Africa has been performing consistently well in terms of its business and operating environment, both amongst peers and as well as globally (page 2 of 2)

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South Africa has been ranked at the **6th best place** for people working overseas in the largest ever global survey of expats



South African universities rank highly in global university rankings; **Gordon University of Business Science** is placed in the **top 50 rankings** by The Financial Times



South Africa ranks **first** in **mobile network coverage** (as percentage of population) among offshore peers



South Africa ranks **first** in the “**extent of staff training**” among offshore peers



South Africa's **air infrastructure** is **10th** in the world



South Africa ranks **first** in terms of “**number of days to enforce a contract**” among offshore peers



South Africa ranks **first** in terms of **strength of auditing and reporting standards** globally



South Africa ranks **second** among peers in terms of the **Environment Index**, which comprises rankings of political & regulatory environment and business & innovation environment

Note Peers include India, the Philippines, Poland, Ireland, and Scotland
Source: The Global Information Technology Report 2016, Expat Experience survey

South Africa provides a robust enabling environment for the BPO industry to flourish (page 1 of 2)

Talent
Cost
Niche work
Next-gen work

Enabling environment

National-level incentives programs

- **Business Process Services (BPS)** incentive scheme offers a lump sum cash incentive per job created in the global offshoring/outsourcing sector for a minimum number of jobs created. Alternatively, it offers a percentage bonus for each job, if the number of jobs created exceeds the minimum number
- **Employment tax incentives** are aimed at encouraging employers to hire young work seekers through a cost-sharing mechanism with the government
- **Seda Technology Programme** offers grants to provide technology support to small and women-owned enterprises
- **Special Economic Zone (SEZ) incentives** include a slew of building and rental allowances, corporate tax, and employment incentives upon setting up in a SEZ

Infrastructure development

- SEZs offer state-of-the-art infrastructure, tax incentives, rebates and a duty-free zone for smooth business operations
- In some cities, such as Tshwane, Durban, and Port Elizabeth, the government has built BPO parks which are self-sustaining units providing the necessary ICT infrastructure, training and development support as well as reporting and performance management

Digital-specific support initiatives

- **Work readiness and tech skills development** programmes have been instituted through a collaborative effort between universities, training institutes, and private sector in South Africa. The most prominent amongst these is the Cape Innovation and Technology Initiative which trains students in IT infrastructure, cloud, big data analytics, and now, cybersecurity and artificial intelligence skills
- **Digital Innovation Precinct and ImpaCT** are other initiatives in Johannesburg that are focused on providing additional training and education for software engineering, game development, data science, and other digital skills

Source: the dti, BPESA, industry-specific websites, Everest Group (2018)

South Africa provides a robust enabling environment for the BPO industry to flourish (page 2 of 2)

Talent
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Skills development programs

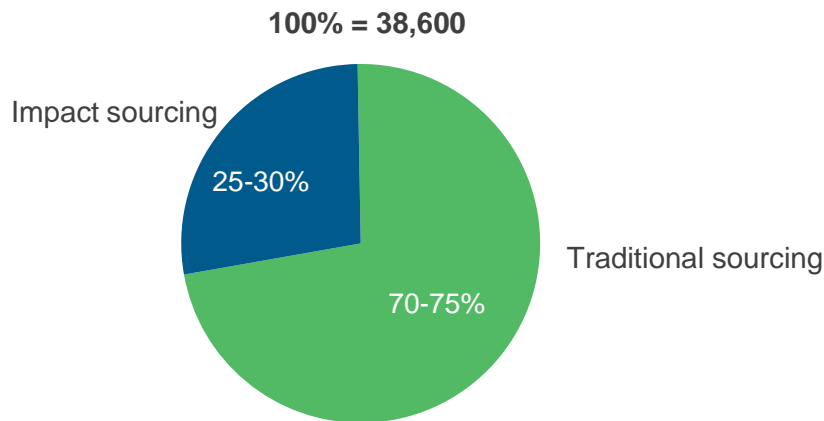
- **Learnership programmes are disbursed by SETAs.** These are work-based learning programmes related to a specific field of work, comprising both theoretical and practical training. While these are available at the national level, some cities in South Africa and various private sector companies (in association with training institutes) have developed their own programmes. Some new initiatives are as follows:
 - Implementation of 200 call centre learnerships in the Western Cape through impact sourcing
 - Development of community-based contact centres in nine provinces to build a skills pipeline
- **Jobs Fund** co-finances various organizations (public, private, NGOs, etc.) for projects that are expected to result in subsequent job creation. One of the most successful examples is that of the Harambee Youth Accelerator which is an impact sourcing project
- **Monyetla Work Readiness Programme** is specifically focused on the domestic BPS and offshoring sector, which is accredited by either BankSETA, FASSETT, MICT SETA, IN SETA or Services SETA. The training programme is led by employers (including recruitment agencies and training providers) to ensure that at least 70% of successful beneficiaries are employed for at least one year
- **Skills supply chain programmes** are instituted at the city-level (Tshwane, Durban, and Cape Town) and provide funding support for targeted skills supply chain capacitation
- **Leadership trainings by TULA Leadership Academy** are increasingly becoming prevalent in the BPO industry which focus on building team leaders with knowledge on operational roles and responsibilities, performance measurement and management, workforce management, attrition, business continuity management, among others
- **Impact sourcing programmes** have been introduced by training institutes such as Harambee, Career Box, and Maharishi, which collaborate with private sector companies to bring down youth unemployment and target the vast talent potential in the country for the BPO sector
- Industry-wide initiatives are led by BPESA which include:
 - **Facilitating collaboration** between the private and public sector across the skills supply chain to share knowledge and work on targeted projects to gear it for future skill requirements
 - **Development of a skills portal**, which enables BPO operators and suppliers of skills development services to interact via a single platform
 - **Skills forums** wherein BPESA facilitates quarterly forums across the country for skills practioners to create a networking and knowledge sharing forum regarding the skills supply chain



Source: the dti, BPESA, industry-specific websites, Everest Group (2018)

Impact Sourcing is an integral component of the South African BPO industry which offers a key source of talent

South Africa global services market size – breakdown by talent sourcing model 2017; Number of FTEs



- Impact sourcing is more than one-fourth of the global services market in South Africa. This is mainly driven by the contact centre industry which hires a large proportion of unemployed high school graduates (who qualify as IS workers)
- There has been an uptick in the number of companies hiring IS workers which is a reflection of the increasing number of programmes which the government is putting place. Additionally, companies are now aware that they have the opportunity to make a greater social impact and that the talent pool IS offers is usually more stable
- South Africa also offers a very comprehensive ecosystem of enterprises, service providers, training academies and industry support which assists in identifying, training, and hiring impact workers

Source: Interview with market players, Everest Group (2018)

BPESA in South Africa along with the Rockefeller Foundation has played an important role in championing the Global Impact Sourcing Foundation which is a collaboration between businesses for creating jobs amongst the disadvantaged community. This foundation connects buyers and suppliers through the world's first Impact Sourcing Supplier Directory, provides support to companies for measuring Impact Sourcing programmes and evaluates the effect of these programmes on society

Company case study

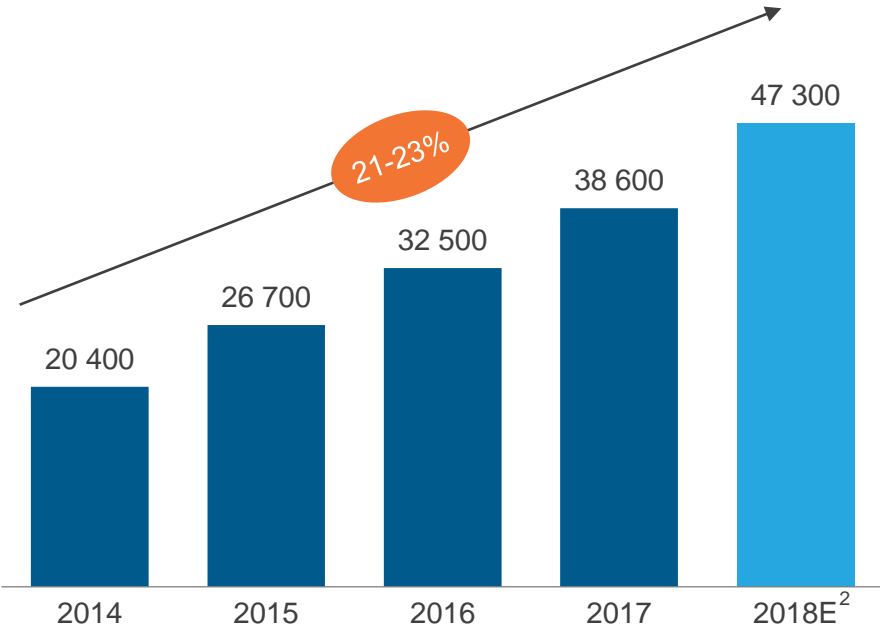
- A leading customer experience and BPO company has successfully implemented the Impact Sourcing programme in partnership with Harambee
- It monitored the impact worker performance during its pilot programme and recorded exceptional results
 - Punctuality, attendance and attrition amongst impact workers was better than the site average
 - Additionally, from a performance metric perspective, across call types and compliance, there was no difference between impact workers and the site average
- This company has been hiring impact workers from Harambee in batches and has reaped benefits in terms of revenue appreciation, stable service delivery, and better client experience

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The global services market in South Africa is growing at a rapid rate of ~22% annually over the past four years

Global business services¹ headcount and growth
2014-2018(E); FTEs



- While the **global IT/BP services** industry has been experiencing **slow growth** due to macroeconomic slowdown and geopolitical uncertainties, **South Africa has witnessed consistently high growth over the past four years**
 - This is also indicative of the fact that it is steadily becoming an **established location** for delivery of a **multitude of functions**
- It is expected that this **growth will continue** in the near future driven by adoption of **digital- and technology-focused solutions**

¹ Reflects the BPO market (both business process and IT services) for global delivery in South Africa

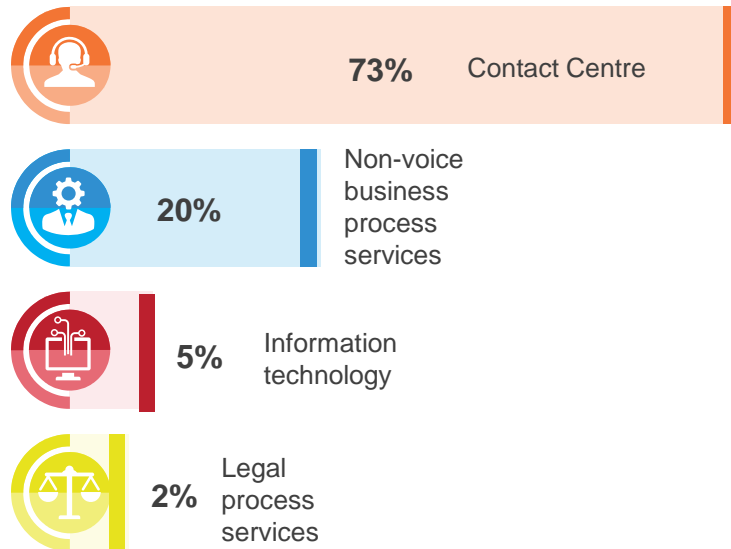
² Estimated figures for the year 2018

Source: BPESA, Everest Group (2018)

In the recent years, South Africa has been witnessing steady growth in non-traditional functions and sectors, such as information technology and banking

Global business services headcount | Breakup of headcount by functions delivered 2017¹; Number

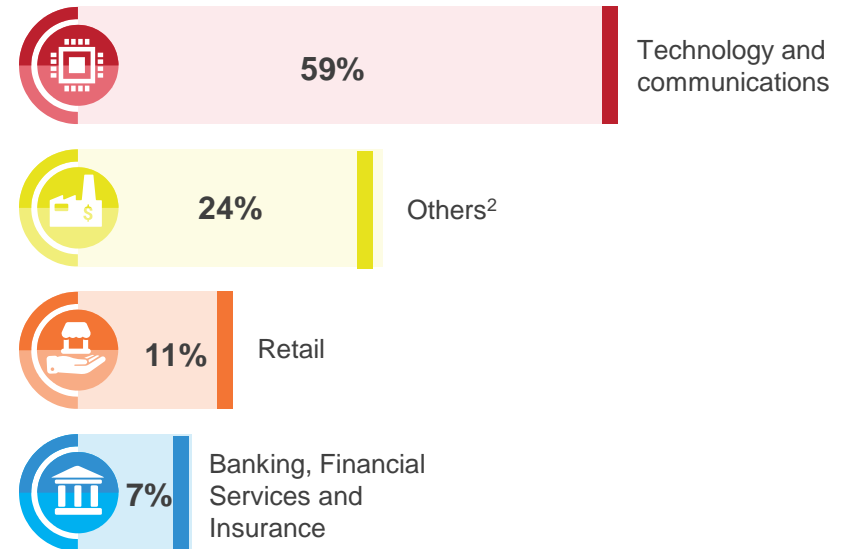
100% = 38,600



“South Africa's flexible talent pool, world-class infrastructure, government incentives and a favorable exchange rate presents an excellent opportunity for international companies to outsource their contact centre operations to service providers in the country”
-A global BPO provider”

Global business services headcount | Breakup of headcount by industries served 2017¹; Number

100% = 38,600



“The South African banking industry will see major shifts this year from a competitive and operational perspective. The rise of Fintechs and digital banks will see conventional banks adapting to their competitors practices, and in some cases, acquiring them”
-A leading BFSI company”

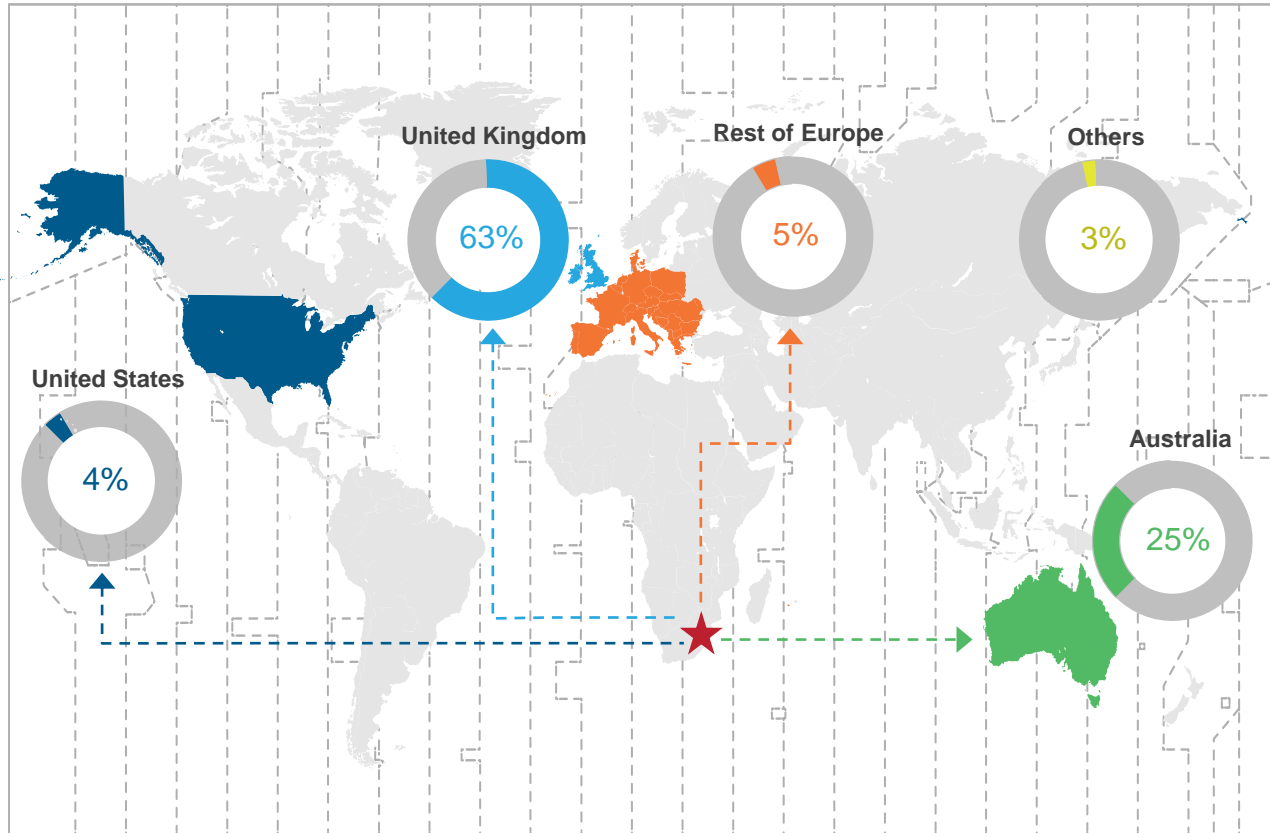
¹ Represents end of year 2017
Source: BPESA, Everest Group (2018)

There are many brands in South Africa which focus on both global and regional delivery



United Kingdom has traditionally been the key client geography; however, South African providers are increasingly delivering work to Australia and the United States

Global business services market | Breakup of headcount by source geographies
2018; Percentage



- South Africa serves countries spanning multiple time zones for BPO delivery
- United Kingdom and Australia have leveraged South Africa for many years for customer support; this work is evolving to include customer experience management (upskilling, retention, chats and social media interaction, customer analytics, etc.)
- Companies in the United States also have setups in South Africa in spite of time zone concerns – the quality of talent and lower cost of operations in South Africa supersedes these concerns


Source: BPESA, Everest Group (2018)

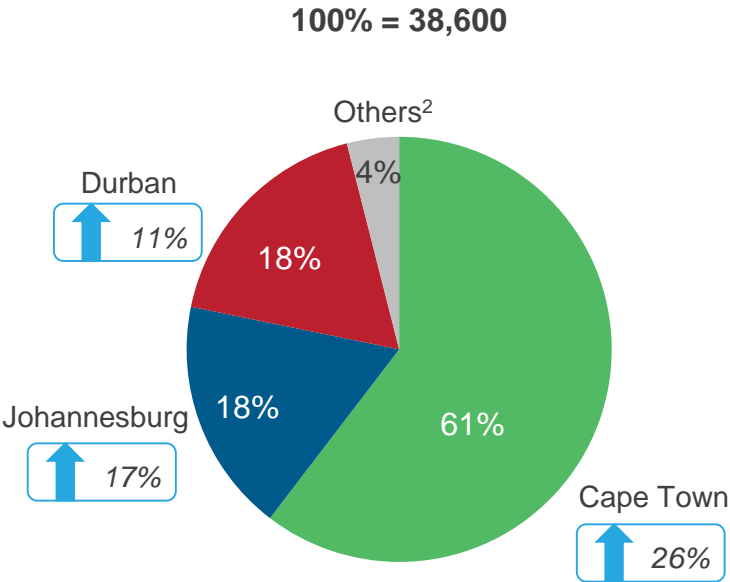
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While the majority of the global business services headcount is concentrated in Cape Town, other locations are growing at a fast pace

Global business services headcount | Breakup of headcount by delivery locations 2017¹; Number

 XX% Compound annual growth rate from 2014 - 2017



- All the delivery locations in South Africa have been showcasing double digit growth over the past five years
- Cape Town has traditionally been the leading location for global business services delivery due to its large and varied talent pool, superior infrastructure, and high quality of life
- However, many service providers and even enterprises have set up global delivery centres in Johannesburg, and Durban which have their unique value propositions
- Given increasing levels of concentration risk in the more established locations, companies are now looking to locations such as Tshwane and Port Elizabeth which are heavily investing in infrastructure and skill development programmes targeted towards this sector

1 Represents end of year 2017
 2 Includes Tshwane and Pietermaritzburg
 Source: BPESA, Everest Group (2018)


Key cities leveraged for global services delivery

Cape Town



Characteristics	Value
Population	3.78 million
Working age population (in %)	69.60%
GDP (in billion rand)	283.28
Key universities/colleges	University of Cape Town, Cape Peninsula University of Technology, University of the Western Cape
Transport infrastructure	Extensive network of road/bus and air infrastructure with 115 international flights to London, Sydney and Tampa, daily
Others	<ul style="list-style-type: none"> • Cape Town is the capital of the Western Cape province and is also the legislative capital in South Africa • Located on the coast, this city offers a superior quality of life and is home to a large and multicultural community, including expatriates • Characterized by low poverty levels, easy access to schools and healthcare, and high levels of safety and security

IT-BP facts




Entry-level talent pool

More than 50,000 relevant degree holders are available for hire at the entry-level every year



Employed talent pool

Cape Town has the highest employed talent pool in the global BPS sector at 23,500 FTEs



Cost savings

Cape Town offers 65-70% lower costs than a tier-2 city in England for contact centre work



Names of key companies

Amazon, Barclays, Carphone Warehouse Group, Cognia Law, Computacenter, DXC Technology, Direct Line Group, Exigent, IBM, iiNet, Ipreo, iSelect, JP Morgan Chase, Laser, Merchants, Old Mutual Group, Pixelfaerie, Symantec, WNS

Source: BPESA, Everest Group (2018)

Cape Town is the most mature location in South Africa for global business services characterized by sizeable and skilled talent pool and superior business infrastructure

“Cape Town’s value proposition is underpinned by high quality standards, relevant skills and the potential to deliver complex and non-complex processes as well as cost savings”
- Leading financial services player



“The main reason for coming to Cape Town was the pool of talent, with regards to the employees that we could hire”
-Global BPO service provider

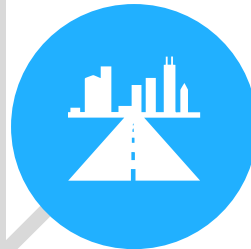
Mature location for services delivery

Largest location in South Africa (represents 60% of total national headcount) for international BPS delivery & gaining global recognition for being a startup hub. Significant strides are being made in the areas of Fintech, eHealth, Traveltech and education



Ease of doing business

Has the highest rankings for dealing with construction permits and getting electricity amongst the key cities in South Africa



Concerted skill development initiatives in the BPO space

Cape Town (and the Western Cape) is continually moving forward on the upskilling/re-skilling agenda through the following:

- Skills incubation programme instituted by the City of Cape Town, the Department of Economic Development and EOH introducing 200 Call Centre Learnerships
- Be-spoke programmes for developing IT, cloud infrastructure and next-generational digital skills through the CapaCiti initiative

Business-ready infrastructure

- Development of superior infrastructure as compared to other cities since 2000 after institution of the Smart City strategy
- This has evolved into the Digital City Strategy focusing on broadband fiber networks, online municipal transactions, and setting up of open data portals for smooth business set up

Source: Everest Group (2018)

Key cities leveraged for global business services delivery

Johannesburg



Characteristics	Value
Population	4.3 million
Working age population (in %)	72.7%
GDP (in billion rand)	455
Key universities/colleges	University of Johannesburg, University of Witswatersrand, University of Pretoria
Transport infrastructure	Superior quality transport infrastructure, particularly in the business district, characterized by cheap taxi cabs, increased rail connectivity through the Gautrain railway system, and international air connectivity (two airports and 141 flights to London, Sydney and Tampa, daily)
Others	<ul style="list-style-type: none"> Johannesburg is the economic hub of South Africa, characterized by a booming financial services industry, large talent pool, and lowest percentage of NEA or Not Economically Active population in South Africa. It is also the seat of the constitutional court Originally small, its international BPO industry is growing fast, given increasing concentration risk in Cape Town

IT-BP facts

 Entry-level talent pool	More than 55,000 relevant degree holders are available for hire at the entry-level every year	 Cost savings	Johannesburg offers 60-65% lower costs than a tier-2 city in England for contact centre work
 Employed talent pool	Johannesburg has the second highest employed talent pool in the global BPS sector at ~7,000 FTEs	 Names of key companies	Accenture, Barclays/ABSA, British Airways, Bosch, BMW, Chevron, Cognizant, Deloitte, DHL Express, Ford, Genpact, Hogan Lovells, IBM, RCI Bank, Rio Tinto, South32

Source: BPESA, Everest Group (2018)

Johannesburg is increasingly becoming the new hub for international BPO delivery, driven by a large talent pool and substantial investment in digital skills

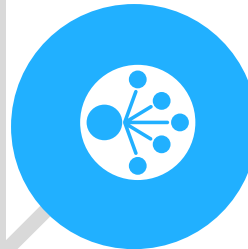
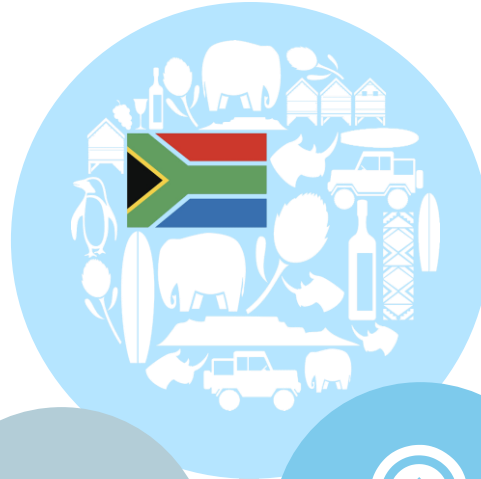
“...although other companies may have said that Cape Town is marginally cheaper than Johannesburg, our experience has been exactly the opposite. Johannesburg is perfectly suited for our needs, both in terms of cost and the skills that we hire”
-Merchants”

Growing talent pool for global BPO delivery

Johannesburg has the largest relevant talent pool for BPO delivery (including first degree holders) in South Africa; companies such as Accenture are increasingly tapping into this for delivery of next-generational skills

Ease of doing business

Has the highest rankings for starting a business and registering property in South Africa



“Johannesburg offers a huge talent pool with varied delivery in the KPO, ITO and BPO space; there is massive potential for growth here”
-Harambee”

Concerted skill development initiatives for digital delivery

- Digital learning programme initiated by the Joburg Centre for Software Engineering which focuses on developing games, applications and other ICT artifacts
- Digital Innovation Precinct set up by the University of Witwatersrand and ICT companies to promote entrepreneurship and innovation through skills training

Delivery of varied functions in the BPO space

- Due to the heavy focus on financial services, Johannesburg offers niche skills that are not readily available elsewhere in this domain
- This has developed an ecosystem conducive to growth in other functions, ranging from multilingual voice to social media analytics

Source: Everest Group (2018)




Key cities leveraged for global business services delivery

Durban



Characteristics	Value
Population	3.4 million
Working age population (in %)	70%
GDP (in billion rand)	279
Key universities/colleges	University of KwaZulu-Natal, Durban University of Technology
Transport infrastructure	Established and advanced transport infrastructure characterized by good quality roads and railway system, and international air and trade ports. Additionally, direct flights to London have been introduced by British Airways, complimenting the existing 84 flights to London, Sydney and Tampa
Others	<ul style="list-style-type: none"> Durban has been one of the leading locations for manufacturing and trade purposes and this has contributed to its growth as an international BPO location. It is characterized by a large talent pool and low cost It offers good quality of life at a much lower cost as compared to Cape Town, and hence, is becoming a favored destination for expats

IT-BP facts

 Entry-level talent pool	More than 54,000 relevant degree holders are available for hire at the entry-level every year	 Cost savings	Durban offers the lowest cost of operations in South Africa and ~70% lower costs than a tier-2 city in England for contact centre work
 Employed talent pool	Durban has the third largest employed talent pool in the global BPS sector at ~6,800 FTEs	 Names of key companies	Aegis, BCX, CCI, <i>Deloitte (domestic)</i> , Discovery Health, EOH, <i>EY (domestic)</i> , Igniton Group, Outworx, Telesure, Unilever, WNS

Source: BPESA, Everest Group (2018)

Durban offers quality skills in the contact centre space, especially for sales work, but is also focusing on increasing growth in niche functions

“

“For the United Kingdom, in particular, there has been a stigma around the Indian accent. South Africa, as a destination, because it has such a neutral accent, especially Durbanites have such a neutral accent, means the UK population is receptive to speaking to individuals from South Africa, and in particular, Durban”

-a UK-based contact centre

”

Superior quality of life

Durban offers the best quality of life in South Africa as per the Mercer Quality of Living Survey 2018. Additionally, it is ranked highly in terms of city cleanliness

Ease of doing business

Has the third highest rankings for enforcing contracts and power infrastructure in South Africa



“

“Durban has its act together in the BPO space and is expected to grow the fastest among all the cities in South Africa”

-Outsurance

”

Concerted focus on development of the technology sector

- Development of an Innovation and Technology Business Incubator (InvoTech) funded by the Durban University of Technology and Small Enterprise Development Agency
- Set up of Durban Technology Hub or SmartXchange which provides enterprise development services to SMEs in the ICT sector

Unique labor pool characteristics for contact centre delivery

- The contact centre industry has thrived in Durban, mainly due to the neutral accent and superior English speaking skills
- Additionally, the labor pool is characterized as being good at “sales processes”, due to cultural reasons, which has made it an attractive choice for sales work in the voice space

Source: Everest Group (2018)

There are other locations in South Africa that are attracting increased foreign investment in the BPO space

Port Elizabeth



Characteristics	Value
Population	1.1 million
Working age population (in %)	68.5%
GDP (in billion rand)	120
Key universities/colleges	Nelson Mandela University, Port Elizabeth University

Key characteristics of the BPO industry

Entry-level talent pool



Availability of ~15,000 graduates per year. Due to higher unemployment levels as compared to the rest of the country, a greater percentage of the student population opts for higher education degrees implying that there is skilled talent to be found here

Industrial Development Zone



The Coega Industrial Development Zone has played an important role in contributing to Port Elizabeth's value proposition. It offers a self sustaining eco system and a BPO Park, complete with telecom infrastructure and training facilities geared towards services export. Already present in the BPO Park are WNS and Discovery Health

Quick fact

Port Elizabeth offers superior clinical and nursing skills which are not easily available in other cities in South Africa

Source: BPESA, Interviews with market players, Everest Group (2018)

Tshwane



Characteristics	Value
Population	2.9 million
Working age population (in %)	72%
GDP (in billion rand)	272
Key universities/colleges	University of Pretoria, University of South Africa, Tshwane University of Technology

Key characteristics of the BPO industry

Entry-level talent pool



Availability of ~81,000 graduates per year. It has the largest entry-level talent pool among all locations in South Africa given the prevalence of a large number of universities and colleges. The Tshwane University of Technology has the largest number of students in South Africa

Tshwane BPO Park



The Tshwane BPO Park is a project slated to accelerate BPO industry growth by attracting public and private investment into the sector. It offers plug-and-play infrastructure, software capabilities, training facilities and can house ~3,000 agents

Quick fact

Skills development programmes are being aggressively developed in Tshwane in conjunction with BPESA that will boost the skills pipeline significantly in the near future

Table of contents

- Summary of South Africa's BPO value proposition
- Current South Africa BPO landscape
- Key locations leveraged for global services delivery
- **Details of South Africa's BPO value proposition**
- Appendix

South Africa has a large availability of good quality English speaking talent with high empathy, cultural affinity, and niche domain skills, which have led to success in next generational service delivery

First world infrastructure and enabling environment

- High quality of life with superior business and operating environment infrastructure
- A wide variety of government support in areas of skill development and infrastructure incentives for increasing investment in the BPO sector
- Global contact center standards – ISO 18295 are based on South African standards (the global standard development was led by South Africa)

Evolving capabilities for next-gen services for digital contact centre

- South Africa is pivoting towards delivery of next-generation of contact center and digital services
- In the core strength of contact center, companies have successfully demonstrated capabilities for high quality multi-channel customer experience, supplemented by deep customer analytics



Good quality, English-speaking talent

- Availability of highly skilled, English-speaking talent pool with neutral accent and very high empathy levels
- Additional talent pool through impact sourcing
- Cultural affinity with the United Kingdom, Australia, and, increasingly, the United States
- Recognized domain knowledge in the banking and financial services sector
- Availability of talent across multiple global delivery location options across the country

Significant costs savings

- Cost of operations are at least 50-60% lower than those in England and Australia for both voice and non-voice work
- Incentives further reduce the costs to bring them in range of costs in the Philippines and India

Strong foundation in contact centre and niche areas of work

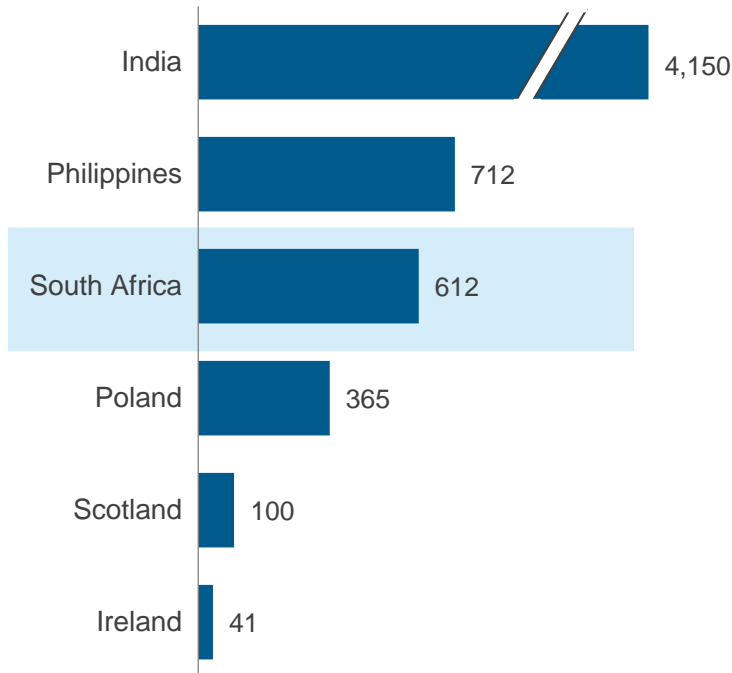
Apart from contact centre, which has been one of the key strengths of South Africa's BPO industry, the scope of international delivery has expanded into non-traditional areas of work, such as financial services, legal process services, and healthcare

South Africa is one of the leaders in terms of entry level talent pool for business process delivery

Talent

Cost
Niche work
Next-gen work
Enabling environment

Annual supply of new talent for English language BPO
2017¹; '000s



“

“South Africa has natural English language capabilities. The neutral English accent and the ability to provide a personal touch to customers are the biggest factors which made us choose South Africa as an offshoring destination”
-A global BPO provider”

”

- South Africa has a **highly skilled, English speaking talent pool**. It has been ranked third among all African countries in terms of English-speaking skills²
 - Additionally, people in South Africa have a more **neutral accent** as compared to those in India and other offshore geographies – this makes it ideal for **contact centre delivery to the United Kingdom and Australia**
- Increasingly, the central and provincial governments in South Africa are introducing **learning and skill development programmes** at the graduate level that are focused on futuristic, digital-ready skills; some of these involve **new certification courses** in leading public universities

1 Represents end of year 2017

2 World Linguistic Society (2017)

Note Includes all relevant degrees/qualifications for employment in the IT/BP sector

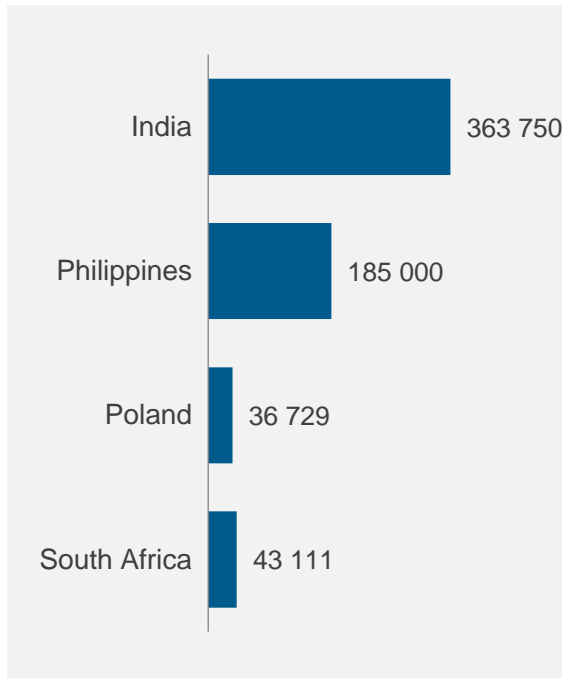
Source: Ministry of Higher Education websites, Everest Group (2018)

Additionally, South Africa is distinctive in specialized skills, particularly in the financial services domain

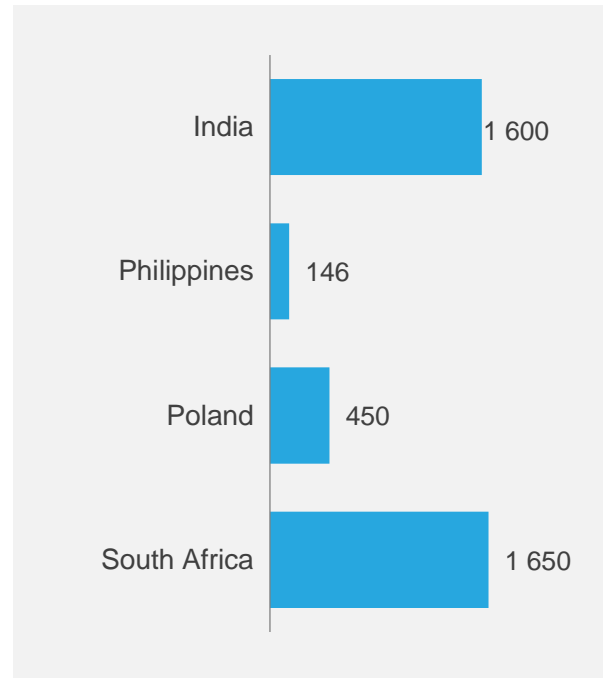
Talent

Cost
Niche work
Next-gen work
Enabling environment

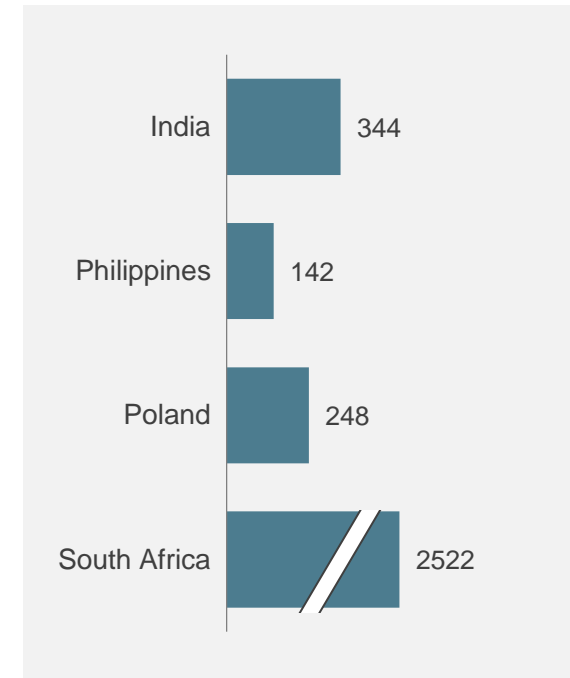
Number of Chartered Accountants
2017; Total number



Number of CFA charter holders
2017; Total number



Number of fully qualified actuaries
2017; Total number



- Apart from Bachelors degree holders, South Africa also has a **large skill base in financial services** – this is mainly driven by high domestic, and now international, delivery in the banking and insurance space
- **South Africa** is one of the **leaders** in terms of availability of **CFA charter holders** and **actuarial degree holders**; in fact, the latter is almost **eight times that of India**

Source: National CA Institutes, National CFA Institutes, National Actuarial Societies

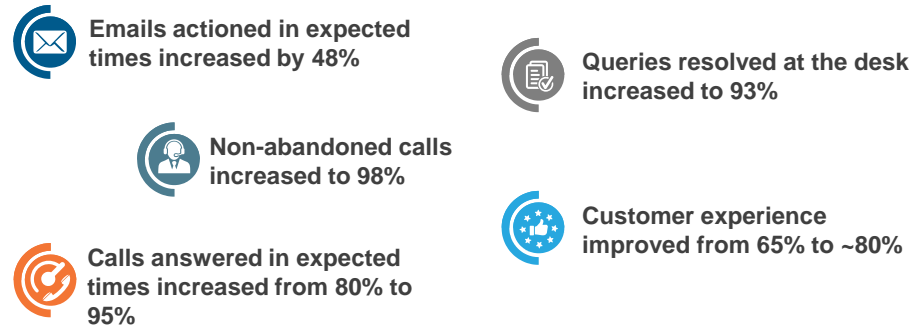
High empathy skills and greater cultural affinity have been rated as the top drivers for South Africa's excellent performance on service quality standards

Talent
Cost
Niche work
Next-gen work
Enabling environment

Drivers behind the high success rates of global contact centre/service desk delivery from South Africa

- High levels of empathy with the customer (which is often the missing ingredient at other delivery locations)
- Superior quality of English language capabilities, both written and spoken
- Availability of neutral accented English across the country

Company case study: A UK-based company witnessed a significant improvement in performance of service desk delivery SLAs upon offshoring to South Africa and rated agent quality as top reason



Company case study: A global BPO provider through its South Africa centre exceeded performance targets for a large UK-based property & casualty insurance client. The client specifically called out high empathy as the key driver of superior performance from South Africa

Success is measured in terms of Net Consultant Experience (First Notice of Loss):

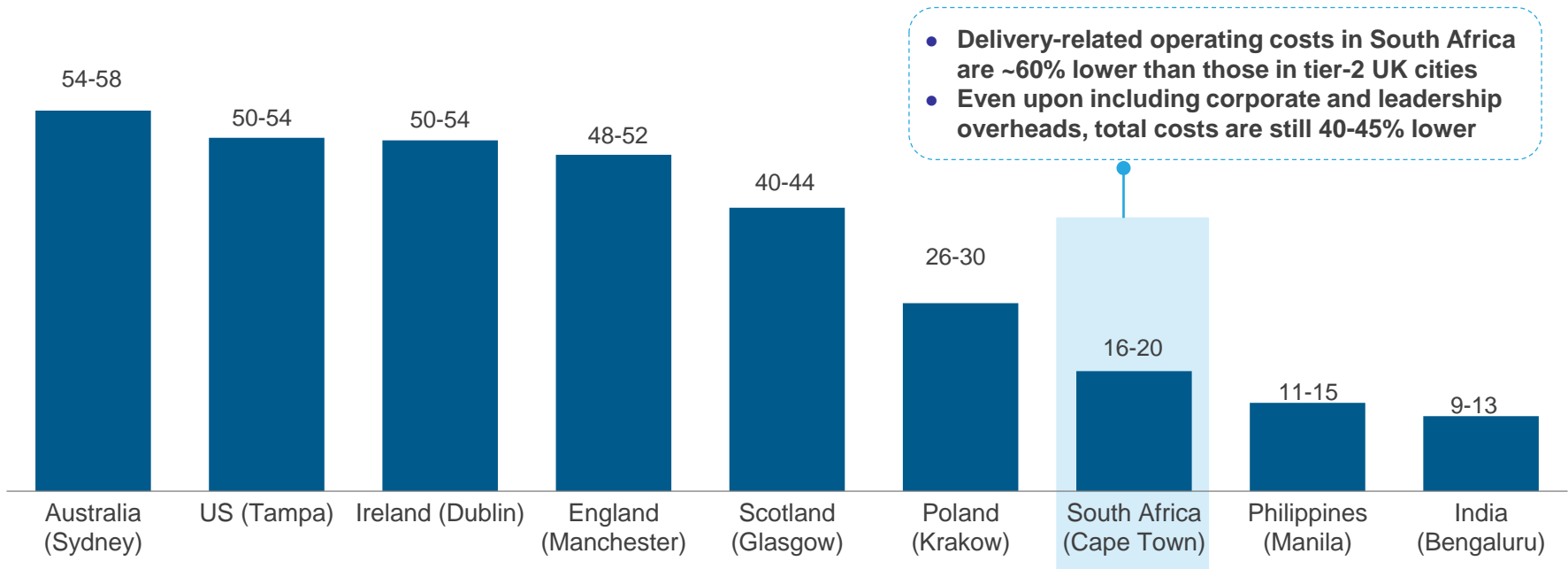
- Within 60 days of the project going live, the BPO provider in South Africa exceeded the target of 77% to reach 82%
- The performance was higher than that of India (the India team was managing this work for over a year and the performance was stagnant at 78%)
- Within few months, the South African performance was comparable to the onshore / UK performance of 88%

Source: Interviews with market players; Everest Group (2018)

South Africa offers significant cost arbitrage for contact centre delivery as compared to source geographies

Talent
Cost
 Niche work
 Next-gen work
 Enabling environment

Operating cost per FTE for Contact Centre¹
 2018; US\$ '000s per annum per FTE



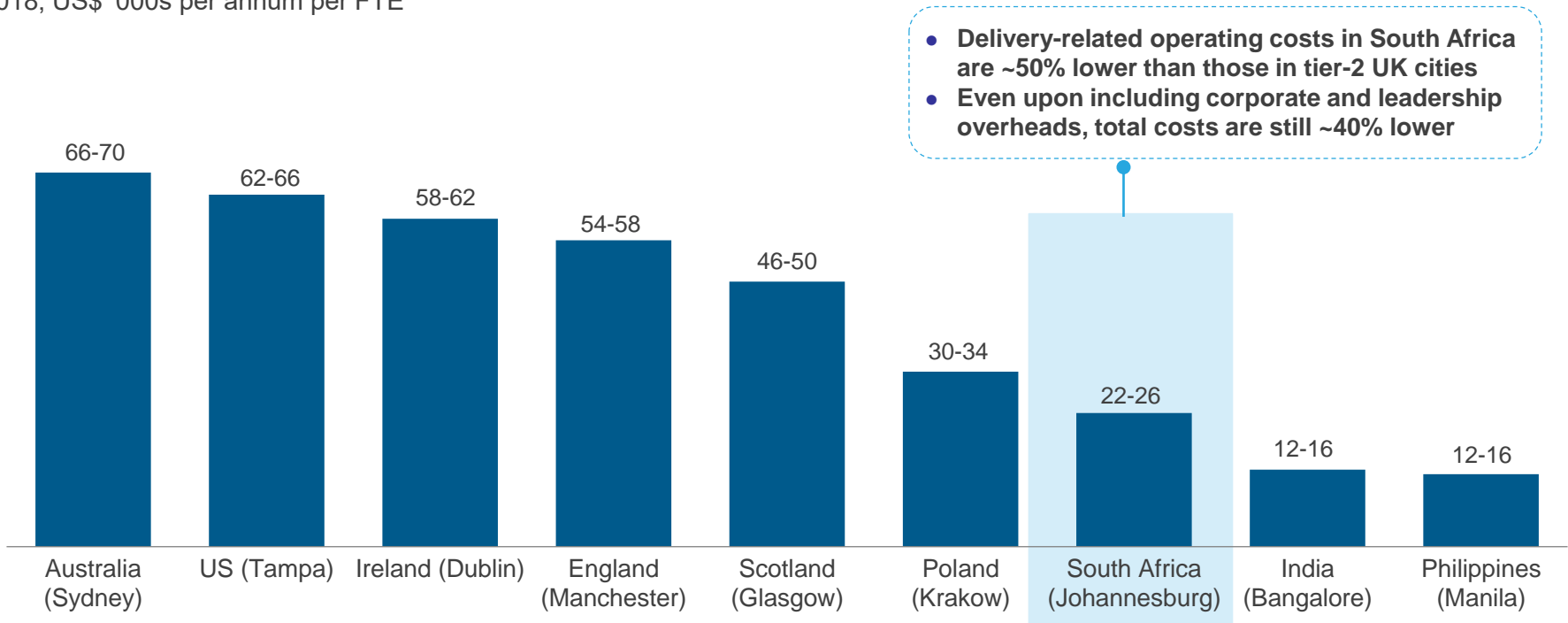
- Operating cost is driven by people cost (salaries and benefits), facilities costs, telecom costs and other miscellaneous costs
- South Africa has one of the lowest cost of operations for English language contact centre delivery as compared to other onshore locations. This is primarily driven by low salaries (lower cost of living and lower competitive intensity for talent) and real estate costs as compared to other locations

¹ Operating costs reflective of market average delivery costs which include salaries, facilities, technology, etc. Experiences may differ from company to company. Costs exclude senior management costs, sales and corporate overheads, and impact of government incentives

Source: Everest Group (2018)

South Africa offers significant cost arbitrage for non-voice BPO service delivery as compared to source geographies

Operating cost per FTE for non-voice BPO¹
 2018; US\$ '000s per annum per FTE



Operating costs in South Africa are **less than 50% of the costs in tier-2 cities** in the United States and England and **20-30% lower** than those in **Central & Eastern Europe** (e.g., Poland). Upon including sales and corporate overheads and the impact of government incentives in South Africa, the cost arbitrage remains similar

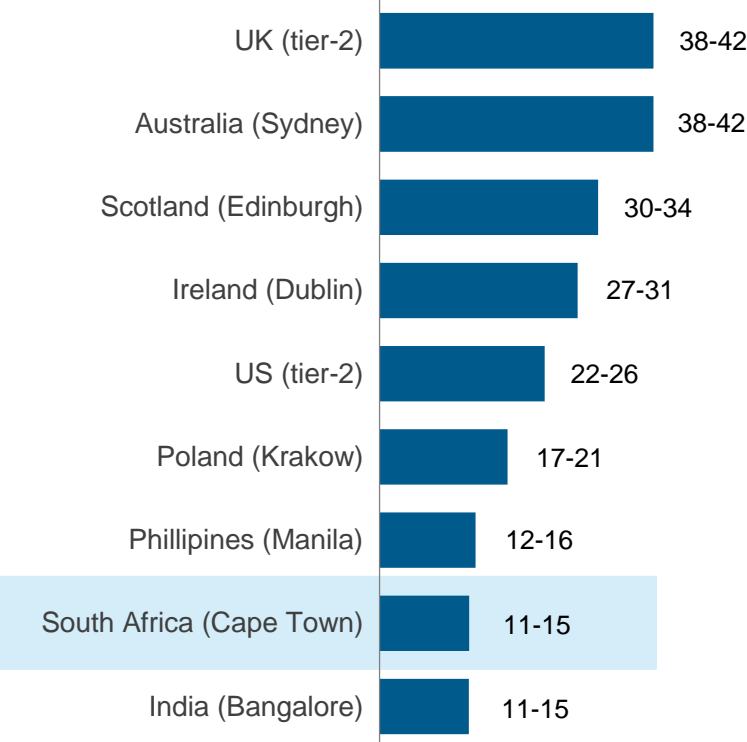
¹ Operating costs reflective of market average delivery costs which include salaries, facilities, technology, etc. Experiences may differ from company to company. Costs exclude senior management costs, sales and corporate overheads, and impact of government incentives

Source: Everest Group (2018)

South Africa offers quality infrastructure at low rental rates as compared to other locations

Talent
Cost
 Niche work
 Next-gen work
 Enabling environment

Rentals per square feet per annum
 2017; US\$



- South Africa’s economy moved out of recession in 2017 which resulted in growth in the financial and business services sector. The government has also undertaken **further expansions in the real estate sector** to match the increasing demand for quality office space
- **New office developments** are being added to the pipeline which have led to decline in vacancy rates, indicating **overall confidence in the business climate** of South Africa

Source: JLL office reports, CBRE office reports, Everest Group (2018)

Across different verticals and functions, South Africa provides significant cost savings

Talent
Cost
Niche work
Next-gen work
Enabling environment

“Our South African center offers at least 40-50% cost savings over our UK operations; combined with cost savings, customer engagement and empathy make a strong case for offshoring to South Africa”
- A UK-based contact centre company

“Cost of labour is favourable in the country and government also offers incentives that make it attractive for companies to establish businesses in the local market”
- A global financial services firm

“While recruitment costs are 10-15% of salary cost in South Africa, hiring through training institutes has brought down this cost significantly; that is one of the vital aspects of its value proposition”
- A leading global BPO company

“South Africa offers first-world infrastructure; additionally, low rental rates make it a highly favourable destination when compared with other low-cost destinations”
-A leading banking and financial services captive

“BPS incentives played a critical role in reducing the cost gap between South Africa and its competitors. The South African value proposition is now even more compelling, as it enabled local companies bidding for UK contracts to offer a more cost-competitive proposal when compared with other offshore destinations”

- A South African BPO provider

“In the insurance business, South Africa offers at least 15-20% salary advantage over Australia and the United Kingdom, and overall 50% cost advantage”

- A leading insurance services provider

“In the field of recruitment and training, South Africa is at least 45% cheaper than the United Kingdom and 75-80% cheaper than Australia – the savings are phenomenal here”

- A leading recruitment and training solutions provider

Source: Interviews with market players; Everest Group (2018)

Companies in South Africa are adopting the omnichannel approach and using automation for customer experience management

Talent
Cost
Niche work
Next-gen work
Enabling environment

Company case study

- A leading staffing solutions and BPO service provider built a specialized team for providing English language training through omnichannel to clients in East Asian countries (China, Taiwan, Japan, etc.)
 - It has trained a team of ~800 FTEs that teaches students / clients through the media of video, voice, chat, and email
 - The tutors engage one to six clients in one session which ranges from 25-45 minutes
 - Tutors are expected to familiarize themselves with the course content before the start of the session – this content varies according to the class
 - Additionally, they also provide technical helpdesk support in case of any issues
- This program has been very successful, with 1 million clients availing these services per year. 95% of the language consultants achieve greater than 95% customer satisfaction rating. Additionally, the complaints index ratio is only 1:125 whereas the compliments index ratio is 1:10

Integrated view
of customer-
related
information



Goal-driven
collaboration
across channels

**South African
contact centers are
evolving to engage
customers through
voice, email, chat,
social media, and
self-service**

Support multiple
channels
in collaboration with
agents



A 360 degree view of
all customer
touchpoints



- Companies in South Africa are increasingly leveraging robotic desktop automation and chatbots for making the customer experience more efficient and streamlined
 - A leading insurance outsourcing provider which has clients in the United Kingdom and Australia has developed its own digital investment portal through an opensource platform. This is powered by a chatbot that operates as a “robo advisor” for providing bespoke insurance options to clients
 - A global contact center solutions provider employs two chatbots in South Africa for both internal and external clients in the United Kingdom, Australia, and the United States

Source: Interviews with market players; Everest Group (2018)

South Africa has carved a strong niche for itself in delivering complex financial services within the BFSI sector

Talent
Cost
Niche work
Next-gen work
Enabling environment

- South Africa has been known as a financial services destination and this has attracted large banks such as Barclays, First National Bank, BNP Paribas, JP Morgan, Citibank, and Mercantile Bank
- Due to the availability of high quality talent (including CAs, CFAs, and actuaries), global banks are increasingly leveraging this country for delivery of asset management, life insurance, and fund accounting processes to the United Kingdom, Australia and now, the United States
- Additionally, South Africa has witnessed great leverage for the delivery of insurance services, specifically in the voice domain, due to high levels of empathy, good quality English language skills, and neutral accent

Functions typically outsourced/offshored to South Africa	Process
Life insurance	<ul style="list-style-type: none"> • New business capture • Premium collections • Policy administration • Claims processing • Commission handling
Fund administration	<ul style="list-style-type: none"> • Investment & portfolio administration • Client reporting • Finance
Asset management	<ul style="list-style-type: none"> • Fund accounting • Business analysis • Client services

Company case studies

A leading UK merchant banking group leverages South Africa for the delivery of fund accounting and administration work

- The South African in-house centre serves third party asset managers and corporate clients in both the United Kingdom and Europe. Processes include fund accounting, financial reporting, and client relationship management
- The Cape Town centre is not just a cost centre for this group, but has its own business development personnel and follows a broader agenda:
 - It provides a third-party asset manager, supporting 17 of their investment funds
 - It also supports the entire finance function for a UK-based wealth manager

A UK insurance services provider is delivering a variety of voice and non-voice services, ranging from insurance to roadside assistance to countries across the globe from South Africa

- This company provides a range of insurance services related to automotive care and individual health insurance. One of the key services that it provides is voice-based roadside assistance for clients not only in the United Kingdom and Australia but also in the United States and Canada

“We have found South Africa to be a good location for collections, claims processing, and underwriting work in the insurance space. Additionally, empathy comes naturally to South Africans, which makes it ideal for providing roadside assistance. If you are in a bind and calling for your insurance details, a South African will always ask first if you are safe and well, and then, for your insurance number. Empathy cannot be taught”

-EXL

Source: BPESA: Analysis of South Africa as a BPO Delivery Location 2015; Interviews with market players; Everest Group (2018)

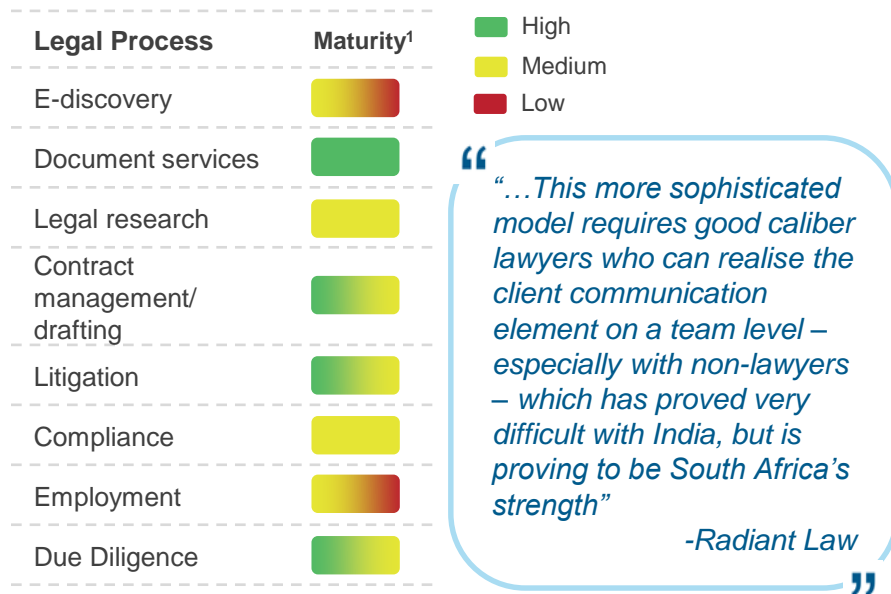
South Africa's legal sector has traditionally been its strong suit and plays a key role in the global legal services market

Talent
Cost
Niche work
Next-gen work
Enabling environment

The legal process services industry in South Africa comprises ~25,000 lawyers and paralegals; for many years, companies have been leveraging this large talent pool for international delivery. Some of the key characteristics that work in its favor are:

- **Similarities of South African law with Commonwealth Law**
- **Large talent pool** of lawyers with superior language skills
- **Cultural compatibility** and empathy
- **Time zone** advantages

There are a multitude of legal skills¹ available in South Africa that international companies are taking advantage of



Company case studies

A leading UK-based law firm shifted delivery of certain paralegal activities from India to South Africa

- In 2012, this company chose an Indian legal service provider for outsourcing certain paralegal activities. However, the experience was less than satisfactory and it moved to a South African provider called Exigent
- The law firm did not treat Exigent as a vendor but more like a partner with which it could resolve issues together. Additionally, they worked together to build its technological capabilities and develop contract automation solutions

Another UK-based law firm took a conscious decision to set up a global in-house center in South Africa rather than in Northern Ireland or Poland

- The company found that South Africa had the necessary skills for complex or judgment-intensive legal work, such as commercial contract management, litigation documents review, and investigations review
- Additionally, due to the large presence of the financial sector, South Africa had certain unique skills for loan documentation, structuring products for investment banks, etc., that could not be found easily in other offshore/nearshore locations

¹ Based on evidence of players delivering these functions and complexity of work supported

Source: Interviews with market players, “South Africa’s Maturing BPO Service Advantage: Case Studies of Success 2013”, LSE; Everest Group (2018)

The healthcare industry in South Africa is a fast-growing sector and offers many hidden opportunities for global companies to invest in

Talent
Cost
Niche work
Next-gen work
Enabling environment



Healthcare industry facts



- Traditionally, the healthcare industry in South Africa has been one of the strongest in the continent, with the public sector providing healthcare for 80% of the population and accounting for approximately 48% of total healthcare spending
- However, the private sector also plays an important role in this market, servicing around 20% of the population and accounting for more than 50% of the spending. This offers great potential for other companies to enter this space, not only to service the South African consumer base, which will continue to be the focus of the government, but also to serve international customers



- As of August 2017, there were ~250,000 registrants with the Health Professions Council of South Africa (HPCSA) including doctors and specialists across a variety of practices, paramedics, students, and research assistants. This provides a vast talent pool for employment in the healthcare BPO sector



- Large domestic healthcare companies have set up operations across multiple locations in South Africa. Apart from Gauteng and the Western Cape, the provinces of KwaZulu Natal and Eastern Cape are increasingly being leveraged for quality talent
- Particularly for the healthcare BPO sector, locations such as Port Elizabeth are becoming relevant as they offer talent with graduate degrees in nursing and clinical specialists, which are not as easily available in bigger cities

Company case study

- One of South Africa's leading medical insurance providers delivers insurance, wealth planning, care management, and a variety of related clinical services for the local market; it has ~4,000 resources
- It is one of the pioneers in terms of adoption of digitization in the healthcare industry through virtual platform-based customer experience and other digital marketing tools, and is building centers of excellence for digital innovation. For instance, it has one of the largest data science teams (~35 FTEs) in the country for building analytics tools in-house that help better serve customers

Source: Interviews with market players; Everest Group (2018)

Information technology and innovation | In the IT sector, South Africa has kept pace with the increasing global demand for digitalization (page 1 of 4)

Talent
Cost
Niche work
Next-gen work
Enabling environment

- In South Africa, the Information Technology (IT) sector is characterised by a large entry-level talent pool of more than 60,000 engineers who graduate from technology-focused universities every year
- Traditionally, the major segment of the IT sector in South Africa was focused on service desk and end-user support; however, companies are increasingly looking to source software development talent from this country
- There are many examples of both domestic and international companies, such as Amazon, Computacenter, DCX Technologies, and DigiOutsource, which are providing software development and maintenance support from here
- Additionally, universities are also collaborating with provincial governments to set up IT hubs and software communities, which bring together programmers, designers, developers, and entrepreneurs to build technologies of the future

“

“All our technology is developed in South Africa – we hire software developers through hackathons. We are witnessing a transformation in this market where the demand for these skills is growing exponentially”

–A leading technology service provider

”

Source: Interviews with market players; Everest Group (2018)

Company case studies

A large global technology company developed its cloud platform in South Africa in 2005 in Cape Town

- The Cape Town Development Centre helped the company build its cloud offering and provides developers with access to cloud infrastructure services based on the company's back-end technology platform
- Additionally, this team owns the services and user interfaces required to deliver various support features to its customers, such as information retrieval, data mining, and building scalable systems

A local South African company, set up in 2012, provides a variety of tech-focused marketing solutions to its clients

- This South Africa-based company works for international clients to build customer experience and facilitate marketing efforts through the following:
 - *Building websites*: Designing, maintaining and implementing website architecture, and proposing new website solutions for clients
 - *Customer management*: These include building call, chat, and email management systems
 - *Business intelligence*: Building business intelligence and reporting solutions based on client requirements

A leading customer service provider developed a Contact Centre as a Service (CCaaS) platform in partnership with Avaya

- The CCaaS platform offers access to the provider's clients to contact centre applications on a pay-as-you use basis
- This has resulted in up to 40% reduction in client IT delivery costs, 15% margin improvement, 60% reduction in technology deployment times, and 45% reduction in corporate office telephony costs

Information technology and innovation | Increasingly, South Africa is joining the race for developing autonomic platforms and artificial intelligence solutions (page 2 of 4)

Talent
Cost
Niche work
Next-gen work
Enabling environment



Companies are increasingly building local capabilities in South Africa for developing innovative ideas and digital solutions for their clients. While this industry is nascent, it is growing fast as companies expand their investments in training and hiring talent for the same

“*South Africa’s digital landscape is evolving rapidly. If this evolution continues at its current rate, South Africa has the potential to grow into a strong digital economy. It is a prime candidate for becoming a “Stand Out” nation in the future.*”
-A burgeoning startup”

Company case studies

A global technology services provider set up a digital lab in Johannesburg in 2017 to help clients with digital business transformation

- The digital lab accelerates innovation by applying rapid development approaches including Agile methodologies and DevOps. Clients can also experiment with disruptive technologies such as artificial intelligence, blockchain, and cloud architectures
- Additionally, the Johannesburg lab is one of the only studios in offshore locations which collaborates with other studios in Sydney, Singapore, Silicon Valley, Paris, Milan, London, Kronburg, and other key locations

A leading financial services company in South Africa developed a retail investment service through a digital investment platform

- This platform is a do-it-yourself investment goals calculator which also offers algorithmic investment strategies and professional human advice through a chatbot. This platform was built using an open source platform
- Additionally, the platform also includes a social investment service, which allows friends and family to invest collectively towards a shared goal

“*(Regarding South Africa) By leveraging agile teams, a startup culture, and multi-speed, microservice, and cloud-based architectures, organisations will see more value quickly and lead in the new digital world.*”
- A leading technology service provider”

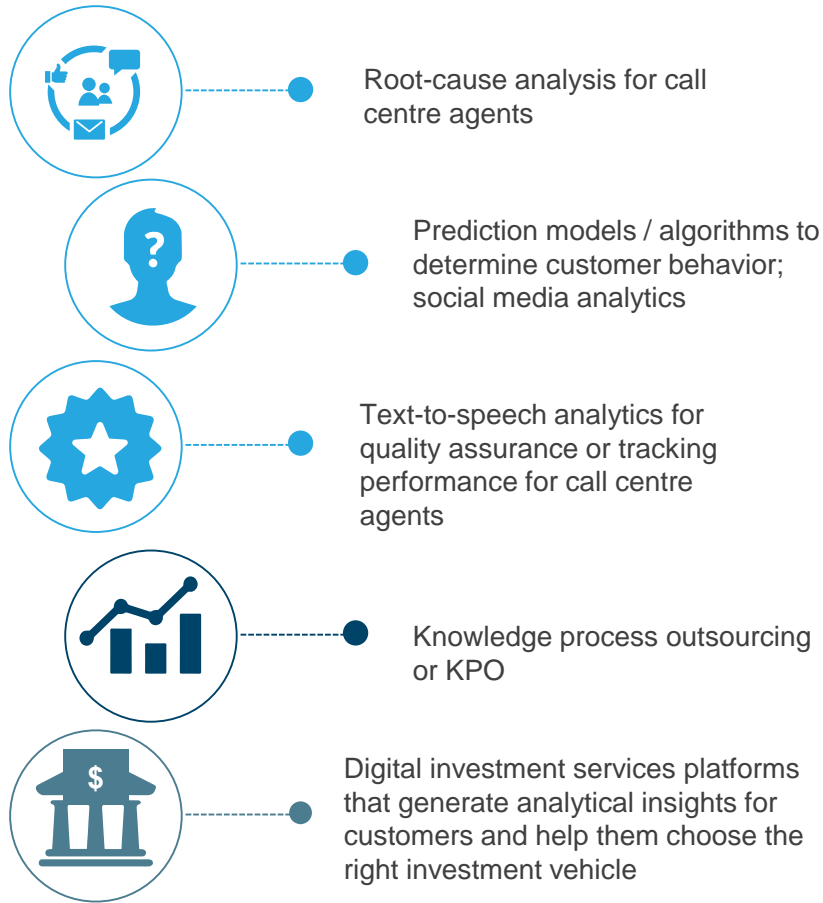
“*The next wave of South African growth and competitiveness will come from continuous innovation, and I am proud that we are working closely with our clients to fuel innovation and solve critical business problems at speed and scale.*”
- Accenture”

Source: Interviews with market players; Everest Group (2018)

There are multiple instances of companies developing their own analytics solutions through quality in-house talent in South Africa

Talent
Cost
Niche work
Next-gen work
Enabling environment

Types of analytics solutions delivered from South Africa



A technology startup in Cape Town is in the business of improving the global contact centre industry with its analytics products

- This startup provides a suite of services, amongst which measuring quality of agents on the basis of a number of performance indicators is the most sought after, followed by building prediction models/algorithms using machine learning
 - These models help determine the source of customer “churn” and future demand by analyzing various complaints and “pain points”
 - In analytics parlance, it helps measure the conflict DNA and predict end-pattern behaviour of customers by using sentiment analysis; this has also been useful for upselling, renewing contracts with clients, etc.
- The primary motivation behind these platforms and models is to improve the end-customer experience and reduce the number of calls – for many clients, these solutions have resulted in 10-15% reduction in calls

“

“We have a team of five data scientists and 172 junior analysts (including software developers) in Cape Town who have performed miracles in developing these solutions.”

- A technology startup

”

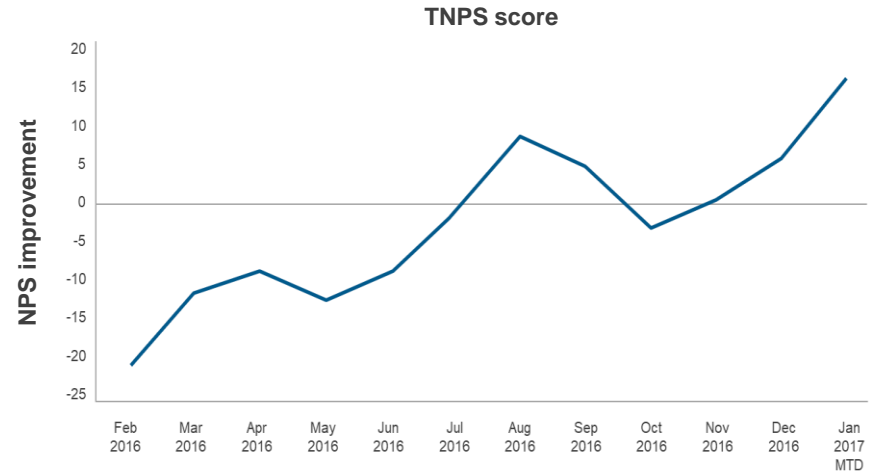
Source: Interviews with market players; Everest Group (2018)

Information technology and innovation | These analytics solutions have resulted in improving quality, agent performance and generating insights for increased customer satisfaction (page 4 of 4)

Talent
Cost
Niche work
Next-gen work
Enabling environment

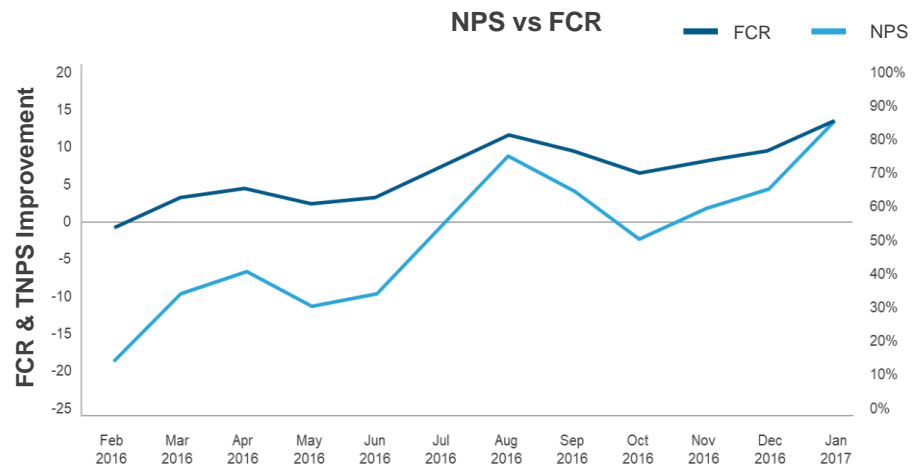
Case study: Large UK-based mobile operator

- Problem statement:** The company was suffering from low Transactional Net Promoter Scores (tNPS), despite high agent QA scores. It needed root cause analysis for service improvements
- Solution:** The mobile operator implemented a leading analytics company's analytical quality assurance solution to generate customer experience insights that were used by different operating functions to improve sales, service, supply chain, and operations. Agent performance was correlated to tNPS
- Result:** Improvement of over 37 points in Net Promoter Score (NPS). Overall improvement in customer satisfaction of 43%



Case study: Large telecom provider based out of the UK

- Problem statement:** The company was suffering from high call volumes and looking to improve the First Call Resolution (FCR), thus reducing the number of repeat calls into the centre
- Solution:** The company implemented an analytics solution to generate customer experience insights that were used by the different operating functions over a 12 month period; this resulted in a net saving of GBP 8.1 million over three years with a return on investment of 330%
- Result:** Improvement of 35% on FCR; improvement of 15% on repeat calls and the performance of the agent population also improved



Source: Interviews with market players; Everest Group (2018)

As an industry, Edtech is witnessing booming growth across the globe and South Africa is becoming a key participant in this space

- Edtech started off with the concern that students in today's world were besieged by difficulties in the classroom, which included the lack of sufficient and capable teachers and a motivating classroom learning experience. This resulted in the growth of a large number of education technology startups which aimed to close this gap by offering creative, digital learning solutions to students
- These solutions are increasingly being adopted to serve the larger population of employed workers for the recruitment and training space. For a few years now, South Africa has been developing and delivering these solutions to companies across the globe, thus developing a core competency in this area



Traditional training mechanisms

- Human resources and BPO companies in South Africa often provide English language training to students (both employed and unemployed) in the East Asian region through video and voice chat-based learning
 - One of these companies has 1,500 agents which tutor ~400,000 clients in East Asia through 100,000 sessions in a month. They have six sites in South Africa and are now considering expanding delivery to Russia and South America
 - The South African agents contribute to 10-15% of the existing teaching base in these countries
- Another South African digital training company provides training to working professionals across the United States, Europe and Asia
 - They develop short courses or curricula in conjunction with global institutes (MIT, LSE, Oxford, Harvard, Cambridge, etc.) on analytics, fintech, and other next-generation skills



Gamified training mechanisms

- Companies are increasingly looking to train their employees through digital mechanisms that range from in-person to e-learning tools
 - One such provider in South Africa offers blended and online learning solutions through platforms, apps, and analytics
 - The core team comprises learning experience designers, instruction engineers, and software developers who are building augmented/virtual reality and gamification content, especially for technical training purposes
 - It has clients across Dubai, Saudi Arabia, and Sub-Saharan Africa; most of these are European or American companies that have centres in these regions
- These companies are increasingly becoming popular for training in comparison to those that provide contact learning solutions

Source: Interviews with market players; Everest Group (2018)

South Africa has been performing consistently well in terms of its business and operating environment, both amongst peers and as well as globally (page 1 of 2)

Talent
Cost
Niche work
Next-gen work

Enabling environment



South Africa is **second** in the “**Financial Services meeting business needs**” ranking among all offshore peers¹



In terms of technological readiness, South Africa ranks **11th** with respect to **Internet bandwidth**



South Africa ranks **first** in terms of **mobile phone subscriptions** (149.2 subscriptions per 100 people) among offshore peers



The South African **digital economy** is considered to be the most developed in Africa



South Africa has the **lowest tax policy risk** among offshore peers



South Africa was named as the “**Offshoring Destination of the Year**” at the 2016 Global Sourcing Association (GSA) awards ceremony



South Africa is ranked as one of the **top 10 tourist destinations** as per the Master Card tourism ratings and houses one of the **New 7 Wonders** of the world – Table Mountain



South Africa has one of the most favorable customer oriented legislations, **Protection of Personal Information Act (POPI)**, which regulates how companies handle, keep, and secure their customers’ information

Note Peers include India, the Philippines, Poland, Ireland, and Scotland

¹ Ranks the support that banking systems offer for setting up new businesses

Source: The Global Information Technology Report 2016, Global Competitiveness Index 2016-2017, Digital Evolution Index, Economist Intelligence Unit 2017

South Africa has been performing consistently well in terms of its business and operating environment, both amongst peers and as well as globally (page 2 of 2)

Talent
Cost
Niche work
Next-gen work
Enabling environment



South Africa has been ranked at the **6th best place** for people working overseas in the largest ever global survey of expats



South African universities rank highly in global university rankings; **Gordon University of Business Science** is placed in the **top 50 rankings** by The Financial Times



South Africa ranks **first** in **mobile network coverage** (as percentage of population) among offshore peers



South Africa ranks **first** in the **“extent of staff training”** among offshore peers



South Africa's **air infrastructure** is **10th** in the world



South Africa ranks **first** in terms of **“number of days to enforce a contract”** among offshore peers



South Africa ranks **first** in terms of **strength of auditing and reporting standards** globally



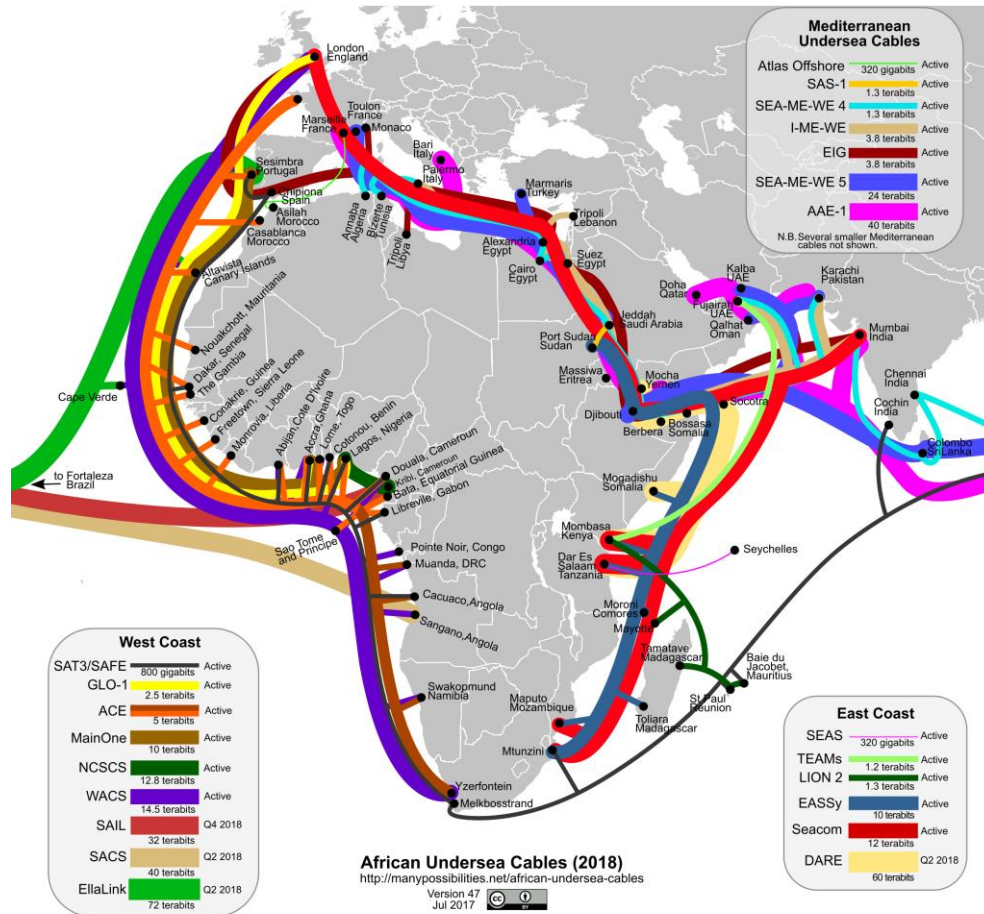
South Africa ranks **second** among peers in terms of the **Environment Index**, which comprises rankings of political & regulatory environment and business & innovation environment

Note: Peers include India, the Philippines, Poland, Ireland, and Scotland
Source: The Global Information Technology Report 2016, Expat Experience survey

South Africa offers one of the best telecom and BPO-friendly infrastructures in the African continent (page 1 of 2)

Talent
Cost
Niche work
Next-gen work

Enabling environment



South Africa's telecom sector is continually being improved with multiple initiatives undertaken by the telecom authorities

- South Africa's telecommunications infrastructure is considered to be the best in the continent with a network that is 99.9% digital and includes the latest in fixed-line, wireless, and satellite communication
- The **telecom authorities** in South Africa have been proactively working towards making the economy **digital-ready**:
 - Two new **high capacity undersea cables** are being set up, which will connect South Africa to different parts of the world
 - The telecom regulator and the USAASA¹ seeks to **raise ZAR100 billion for ICT projects**
 - The Department of Telecommunications has also **allocated ZAR1.4 billion to pursue nation-wide broadband initiatives**
- Many **municipalities**, including the country's largest cities, are implementing their own **metropolitan fibre and wireless broadband networks**
- Additionally, there has been a focus on transition to **digital broadcasting** and the reassignment of **digital dividend spectrum** for mobile broadband use, ensuring last mile connectivity, and the reduction of interconnect charges

1 Universal Service and Access Agency of South Africa
 Source: Brand South Africa, Coega IDZ website, Everest Group (2018)

South Africa offers one of the best telecom and BPO-friendly infrastructures in the African continent (page 2 of 2)

Talent
Cost
Niche work
Next-gen work

Enabling environment

The South African government has undertaken a concerted effort to build industrial development clusters to promote growth

- The **Coega Industrial Development Zone (IDZ)** established in 1999, situated near Port Elizabeth, aims to drive local and foreign direct investments in export-oriented industries by offering global competitiveness through superior infrastructure, tax incentives, rebates and a duty-free zone
 - One of its key attractions is a 9,000 square metre “**BPO Park**” facility, which has robust power and telecommunication infrastructure, a database of over 4,000 skilled workers who have direct telephony skills, training and development support, a thriving data centre for managing, monitoring and operating ICT infrastructure as well as reporting and performance management
 - A major South African healthcare services provider, **Discovery Health**, and **WNS** has set up in Coega IDZ – the latter has the largest headcount in the BPO park. These centres continue to set **benchmarks** as the key employment creators in the Eastern Cape. Additionally, they are known to have very **low attrition rates in the region (<24% per annum)**, thus being recognized as some of the most productive in Africa
- Still under construction, the **Tshwane BPO park** is another initiative which is being promoted as not only providing the **latest infrastructure** (high speed fibre optic link, Voice Over Internet Protocol, high redundancy servers, on-site technical support, etc.), but also a **BPO training facility** with a capacity of training 1,000 people per annum
 - The park will help in developing a **skills value chain** with a demand and supply focus, bringing in a variety of institutions (high schools, work readiness academies, employers, BPO industry academies, and universities) into the fold
- **Dube TradePort Special Economic Zone** is another industrial cluster which is located close to **Durban**. It encompasses the King Shaka International Airport and is positioned close to the Durban Harbour and Richards Bay Harbour. Apart from the airport, it supports an **ecosystem of warehouses, offices, retail, hotels, and agriculture**. While currently focused on global manufacturing and air logistics, this SEZ is slated to attract foreign and local investment in the BPO space in the near future

“(After setting up a center in Coega IDZ) Based on the unique merits of the location, as well as our strategic objectives, it makes business sense to invest heavily in the city’s local economy and we look forward to positively impacting the surrounding communities as a result.”
- WNS

“The move to establish our Eastern Cape service team has been extremely successful. We have found extremely high quality staff and are having no difficulty in recruiting according to our standards. Performance has been outstanding, and we are receiving outstanding member feedback on the performance of our team in Port Elizabeth.”
- Discovery Health

Source: Brand South Africa, Coega IDZ website, Everest Group (2018)

South Africa provides a robust enabling environment for the BPO industry to flourish in (page 1 of 2)

Talent
Cost
Niche work
Next-gen work

Enabling environment



National-level incentives programs

- **Business Process Services (BPS)** incentive scheme offers a lump sum cash incentive per job created in the global offshoring/outsourcing sector for a minimum number of jobs created. Alternatively, it offers a percentage bonus for each job, if the number of jobs created exceeds the minimum number
- **Employment tax incentives** are aimed at encouraging employers to hire young work seekers through a cost-sharing mechanism with the government
- **Seda Technology Programme** offers grants to provide technology support to small and women-owned enterprises
- **Special Economic Zone (SEZ) incentives** include a slew of building and rental allowances, corporate tax, and employment incentives upon setting up in a SEZ

Digital-specific support initiatives

- **Work readiness and tech skills development** programmes have been instituted through a collaborative effort between universities, training institutes, and private sector in South Africa. The most prominent amongst these is the Cape Innovation and Technology Initiative which trains students in IT infrastructure, cloud, big data analytics, and now, cybersecurity and artificial intelligence skills
- **Digital Innovation Precinct and ImpaCT** are other initiatives in Johannesburg that are focused on providing additional training and education for software engineering, game development, data science, and other digital skills

Source: the dti, BPESA, industry-specific websites, Everest Group (2018)

South Africa provides a robust enabling environment for the BPO industry to flourish (page 2 of 2)

Talent
Cost
Niche work
Next-gen work

Enabling environment

Skills development programs

- **Learnership programmes are disbursed by SETAs.** These are work-based learning programmes related to a specific field of work, comprising both theoretical and practical training. While these are available at the national level, some cities in South Africa and various private sector companies (in association with training institutes) have developed their own programmes. Some new initiatives are as follows:
 - Implementation of 200 call centre learnerships in the Western Cape through impact sourcing
 - Development of community-based contact centres in nine provinces to build a skills pipeline
- **Jobs Fund** co-finances various organizations (public, private, NGOs, etc.) for projects that are expected to result in subsequent job creation. One of the most successful examples is that of the Harambee Youth Accelerator which is an impact sourcing project
- **Monyetla Work Readiness Programme** is specifically focused on the domestic BPS and offshoring sector, which is accredited by either BankSETA, FASSETT, MICT SETA, IN SETA or Services SETA. The training programme is led by employers (including recruitment agencies and training providers) to ensure that at least 70% of successful beneficiaries are employed for at least one year
- **Skills supply chain programmes** are instituted at the city-level (Tshwane, Durban, and Cape Town) and provide funding support for targeted skills supply chain capacitation
- **Leadership trainings by TULA Leadership Academy** are increasingly becoming prevalent in the BPO industry which focus on building team leaders with knowledge on operational roles and responsibilities, performance measurement and management, workforce management, attrition, business continuity management, among others
- **Impact sourcing programmes** have been introduced by training institutes such as Harambee, Career Box, and Maharishi, which collaborate with private sector companies to bring down youth unemployment and target the vast talent potential in the country for the BPO sector
- Industry-wide initiatives are led by BPESA which include:
 - **Facilitating collaboration** between the private and public sector across the skills supply chain to share knowledge and work on targeted projects to gear it for future skill requirements
 - **Development of a skills portal**, which enables BPO operators and suppliers of skills development services to interact via a single platform
 - **Skills forums** wherein BPESA facilitates quarterly forums across the country for skills practitioners to create a networking and knowledge sharing forum regarding the skills supply chain



Source: the dti, BPESA, industry-specific websites, Everest Group (2018)

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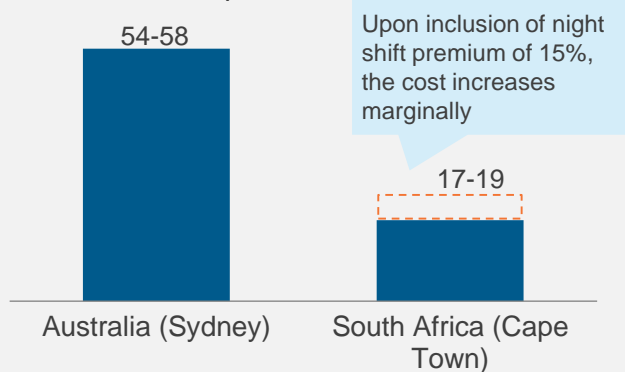
South Africa offers a significant value proposition for delivery to Australia

Quick facts – BPO delivery to Australia from South Africa

- Number of people employed for Australian delivery: 9,689
- Export revenue through Australian clients: US\$ 198 million+

Delivery related operating cost per FTE for Contact Centre¹

2017; US\$ '000s per annum per FTE



Few examples of companies serving Australia



Note Exchange rate: 1 US\$ = 11.9420 ZAR (yearly average from 1 March 2017-28 February 2018)

Source: Interviews with leading market players, Everest Group (2018)

- **Overview:** Over the past five years, the South African BPO market has witnessed increasing leverage of local BPO providers for Australian delivery from an outsourcing perspective. Australia is now the second largest geography that is served from South Africa after the United Kingdom, both in terms of the number of people employed and the revenue generated
- **Type of work delivered:** In essence, there is no difference in the type of work delivered to Australia and the United Kingdom; the spectrum of work spreads across both voice and non voice-based work, primarily in the financial services and technology & communications space
- **Cost of operations:** South Africa offers a significant cost advantage over Australia (60-70%). Even on including corporate and leadership overheads, the cost advantage is more than 50%. Some companies have managed to further reduce costs by optimizing the late shift into a multiple short shifts format

Case example

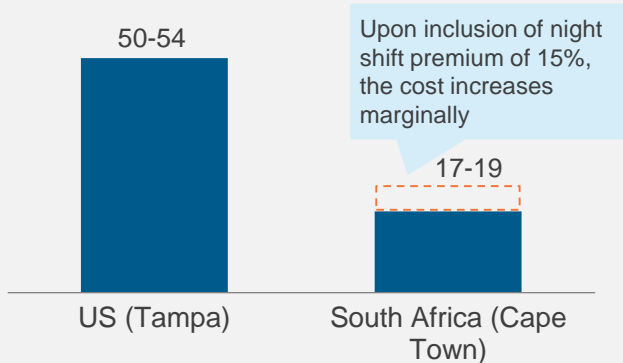
- One of the largest Australian multi-line general insurance service provider set up a partnership with a South African contact centre company for delivering insurance sales processes (inbound, outbound, and chat), underwriting operations, customer services, claims management, etc.
- The objective was to deliver enhanced / improved NPS for all customer interactions
- The South African provider achieved a top **NPS score of 30** as compared to market competitors in Australia. Apart from that, it achieved:
 - **50%** reduction in early life churn through improvements to customer onboarding process
 - **30%** improvement in sales conversion from original onshore performance
 - **30%** increase in allocation rate to preferred repairer networks significantly reducing customer turnaround times and costs

South Africa offers a significant value proposition for delivery to the United States

Quick facts – BPO delivery to the United States from South Africa

- Number of people employed for US delivery: 1,467
- Export revenue through US clients: US\$ 30 million+

Operating cost per FTE for Contact Centre¹ 2017; US\$ '000s per annum per FTE



Few examples of companies serving the United States



- **Overview:** Traditionally, the United States has not been a significant target geography for delivery from South Africa; however, this is slowly changing. Many global and South African BPO providers have small contracts with American companies, in spite of the time difference. In terms of size, the United States is the third largest geography to be served from South Africa
- **Type of work delivered:** Apart from traditional voice and non-voice delivery in the banking and insurance space, US companies are leveraging South Africa for more niche work in the space of legal, analytics, and software development
- **Cost of operations:** South Africa offers a significant cost advantage over the United States (55-65%). Even with the inclusion of the corporate and leadership overheads, the cost advantage is more than 40%. This is one of the key aspects of its value proposition – that South Africa can provide high quality work at a low costs and also offer significant de-risking from US-focused and concentrated locations such as the Philippines

Case example

- One of the world's largest cloud computing company set up its Elastic Compute Cloud (EC2) Development Centre in Cape Town in 2005
 - The Cape Town Development Centre played a key role in developing and running the company's EC2 core, which is part of its cloud offering and provides developers with access to cloud infrastructure services based on its back-end technology platform
 - Additionally, this team owns the services and user interfaces required to deliver various support features to its customers. The team builds applications that encompass a variety of technical areas such as information retrieval, data mining, and building scalable systems
- The Cape Town centre also houses the cloud support team, which provides global technical support to external customers, helping them build mission critical applications using cloud services

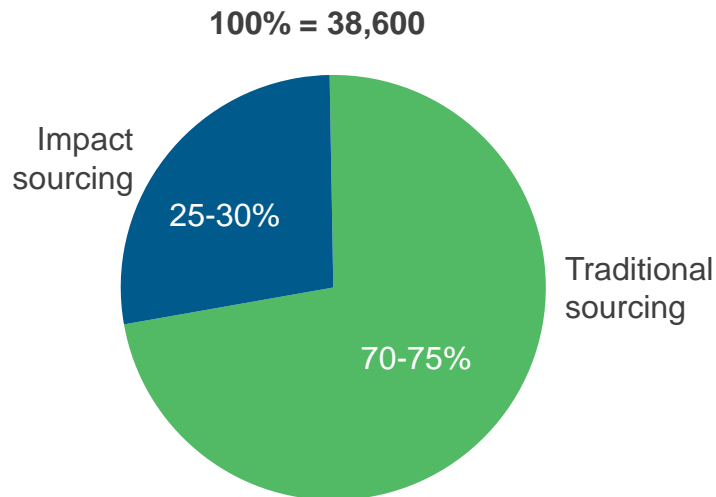
Note Exchange rate: 1 US\$ = 11.9420 ZAR (yearly average from 1 March 2017-28 February 2018)
Source: Interviews with leading market players, Everest Group (2018)

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Impact sourcing is an integral component of the South African BPO industry (page 1 of 4)

South Africa global services market size – breakdown by talent sourcing model
2017; Number of FTEs



“There are a large number of unemployed youth out there who have the potential to deliver but do not get the opportunity. There is a need to bring these people into the system.”
- WNS

- Impact sourcing is more than one-fourth of the global services market in South Africa. This is mainly driven by the contact centre industry, which hires a large proportion of unemployed high school graduates (who qualify as IS workers)
- However, a great proportion of this is “unintentional”, in the sense that companies often hire high school graduates in the normal course of business owing to the demographic background of the talent pool
- There has been an uptick in the number of companies hiring Impact Sourcing (IS) workers which is a reflection of the increasing number of programmes which the government is putting place. Additionally, companies are now aware that they have the opportunity to make a greater social impact and that the talent pool IS offers is usually more stable

Key services delivered by IS workers

Customer service

Inbound and outbound sales

Payment/debt collections

Source: Interviews with market players, Everest Group (2018)

Impact sourcing in South Africa is supported by a strong ecosystem (page 2 of 4)

- Enterprise buyers and GICs that employ IS workers for BPO work
- They hire IS workers directly or through training academies (i.e. job readiness training or learnerships)
- Some companies have also set up learnership programs for BPO jobs

Examples

- Deloitte, Old Mutual, Metropolitan Health Group, and Discover

- Responsible for influencing government policies and regulations that promote and incentivize IS adoption. For example:
 - 21 SETA programs have been set up to conduct learnerships for different work streams (e.g., FASSET and services SETA also offer incentives for learnerships relevant for BPO sector)
 - Legislations such as the BBBEE Act mandate the inclusion of all socio-economic segments

Key government / industry associations

- BPeSA and the dti



- Global/domestic BPO service providers that employ IS workers
- They hire IS workers directly or through training academies (i.e., job readiness training or learnerships)
- Some companies have also set up learnership programs for BPO jobs

Examples

- Aegis, CCI, Webhelp, and WNS

- Training academies support BPO companies/buyers in identification, training and recruitment of IS workers
- They provide specialized job readiness programs to make IS workers “employment ready”
- Instances of training academies supporting companies in planning and execution of learnership programs

Examples

- Maharishi Institute, Harambee, Careerbox, and EOH

Source: Interviews with market players, Everest Group (2018)

The impact sourcing journey for global companies |

Case study 1 (page 3 of 4)



- A global BPO provider began its impact sourcing journey in 2011. It realized early on that sourcing the right type of IS workers and providing training to make them “employment ready” for the BPO industry were vital aspects of successful impact sourcing adoption. The company decided to partner with Impact Sourcing Academy (ISA), a specialized IS training academy, to achieve these objectives



- ISA provided the candidates with a 12-16 week training program focused on fundamental life skills, basic office competencies, and behavioural training to prepare them for the BPO industry
- When hired after the completion of the training program, the impact workers went through the same standard internal training process as other new hires
- Although the company did not measure IS worker performance separately, these workers met all performance expectations and demonstrated a higher commitment level than that of traditional workers. Furthermore, the company has successfully leveraged these impact workers for voice-based international delivery



- While continuing to work with the ISA, the company established an in-house learnership program across its delivery centres in South Africa. The 12-month learnership program provides training on technical and soft skills. After 8-10 weeks of training, the learners begin to perform the duties of an entry-level employee
- Currently, this programme engages ~400 learners on an ongoing basis, 40-50% of which are IS workers



Impact: Driven by positive experience of working with these learners, this company now absorbs ~90% of these learners into its permanent workforce after the completion of the learnership program. This has actually helped it expand the availability of entry-level talent in South Africa for the BPO industry. The company relies on its learnership model not only to backfill most of the vacancies arising from attrition but to source talent to support incremental growth as well.

Source: Interviews with market players, Everest Group (2018)

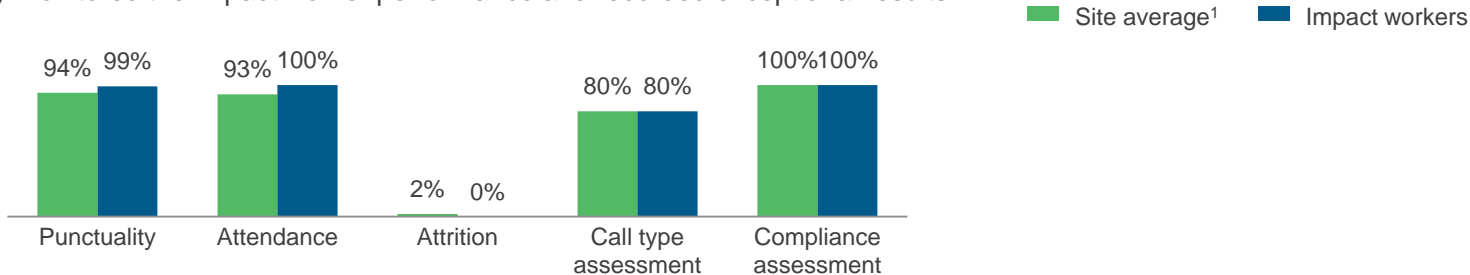
The impact sourcing journey for global companies | Case study 2 (page 4 of 4)



- A leading customer service and BPO company had identified impact sourcing as one of the key opportunities to engage unemployed youth in South Africa; however, it was concerned about the high up-front costs associated with targeted large scale impact sourcing hiring. To evaluate these concerns, the company decided to run a pilot programme by engaging Harambee Youth Accelerator for impact worker identification and training for its pilot program



- Candidates recruited from Harambee were treated on par with the regular workers; i.e., they were put through the company's standard training process and were paid the same compensation as traditional workers
- The company monitored the impact worker performance and recorded exceptional results:



- The company was able to recover upfront costs within six to eight months of hiring impact workers, driven by a reduction in hiring and training costs for additional candidates, owing to the significantly lower attrition among impact workers
- As impact workers remain with the company for a longer time period, there are additional benefits in terms of stable service delivery and better client experience as well



Impact: Having tested the business case for impact sourcing, the company increased hiring of impact workers. Since 2016, the company has been hiring batches of impact workers from Harambee. The experience with these candidates has been positive and similar to the pilot program.

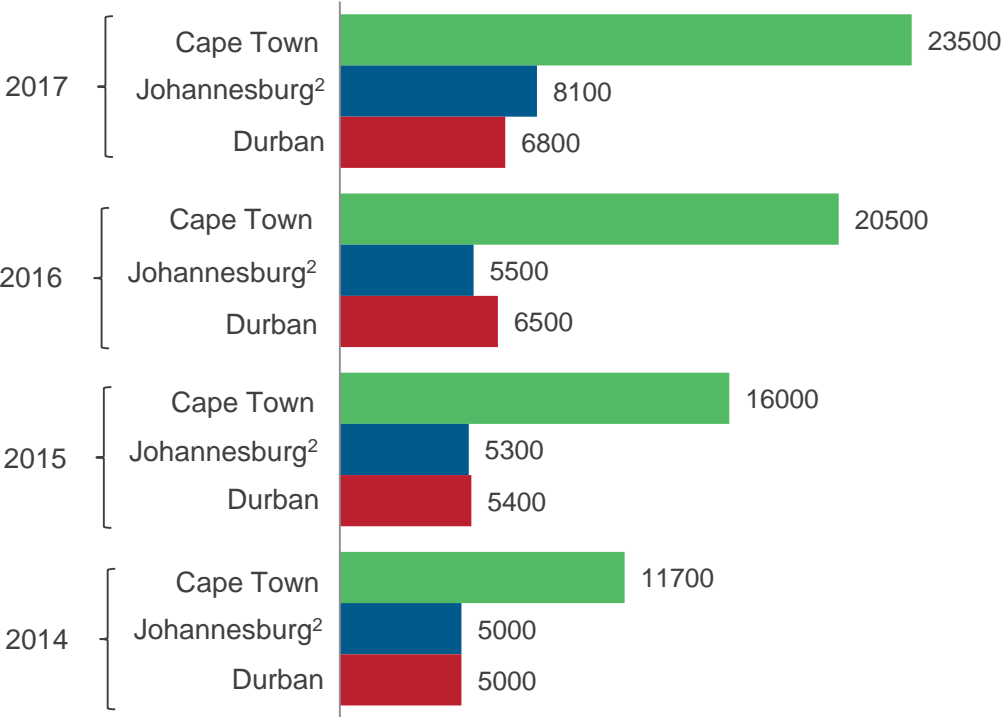
Source: Interviews with market players, Everest Group (2018)

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Johannesburg and Durban have great potential to absorb the demand for new talent in the BPO sector

Global business services headcount | Breakup of headcount by delivery locations
 2017¹; Number

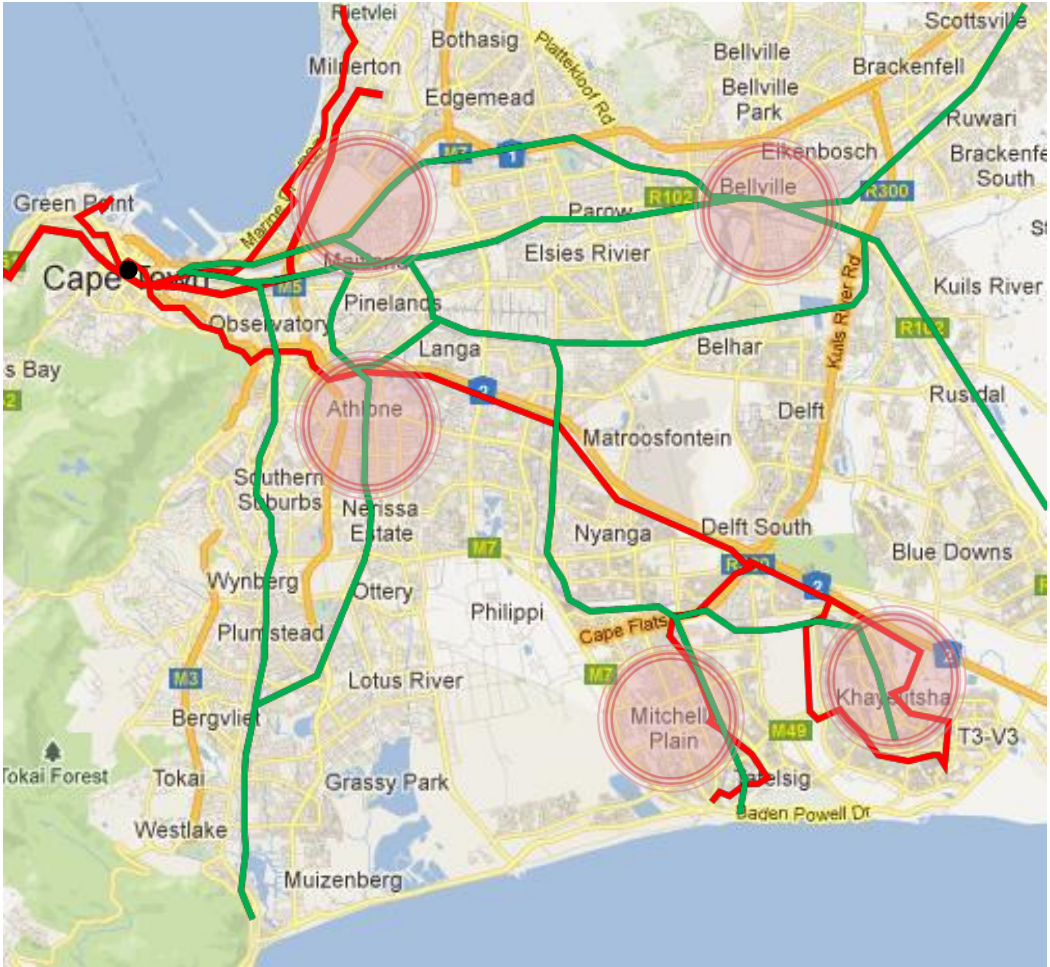



1 Represents end of year 2017
 2 Includes Tshwane

Source: BPESA, Everest Group (2018)

Additional details on delivery locations

Cape Town



 Talent pool hotspots




Concentration of talent pool in Cape Town

- Mitchell's Plain
- Northern suburbs
- Athlone
- Khayelitsha/Gugulethu
- Bonteheuwel/Kensington

Top BPO clusters

- CBD
- Century City
- Southern suburbs
- Belville

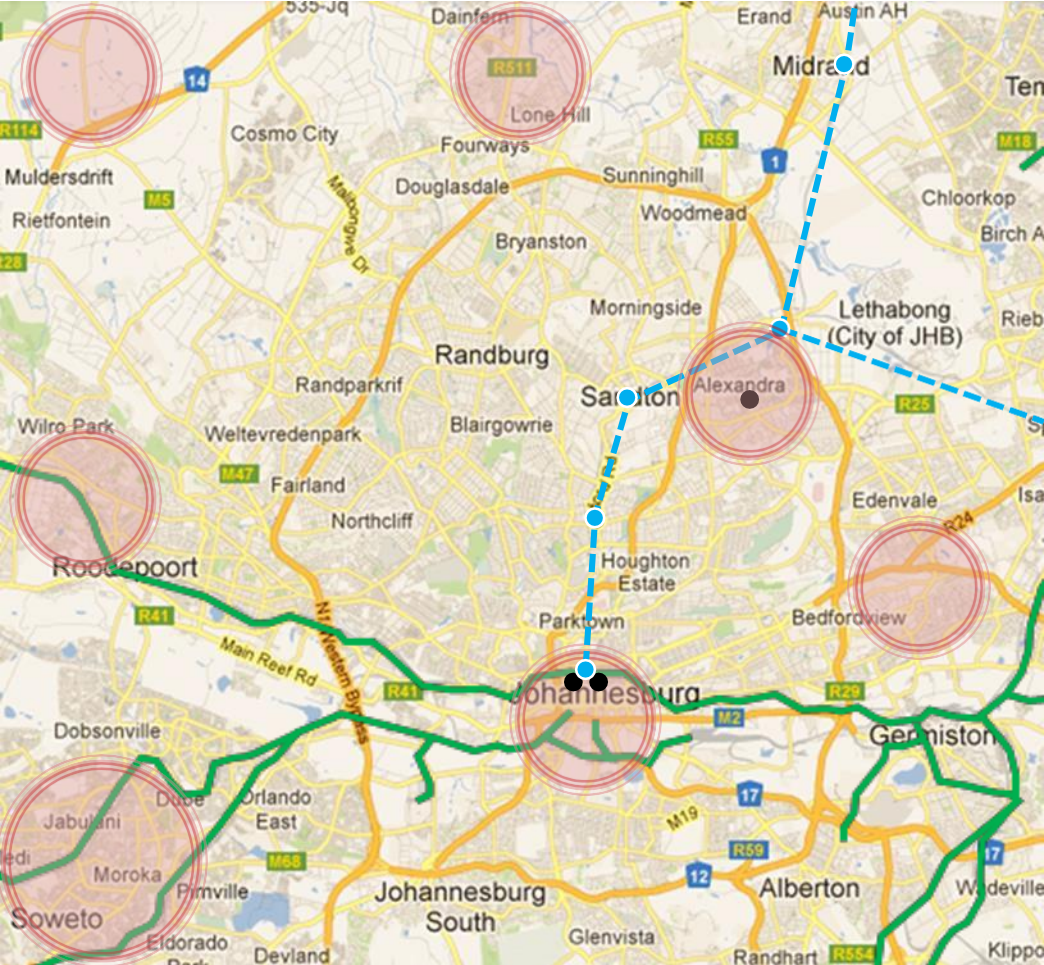
Major transport links

-  My Citi Bus
-  Metro rail
-  Major mini-bus taxi rank

Source: JLL (2017)

Additional details on delivery locations

Johannesburg



Talent pool hotspots

Concentration of talent pool in Cape Town

Soweto	35%
Johannesburg CBD	15%
East Rand	14%
Alexandra	12%
West Rand	12%
Other areas	12%

Top BPO clusters

Newtown & CBD
Randburg
Parktown & Braamfontein
Midrand
Woodmead
Sandton

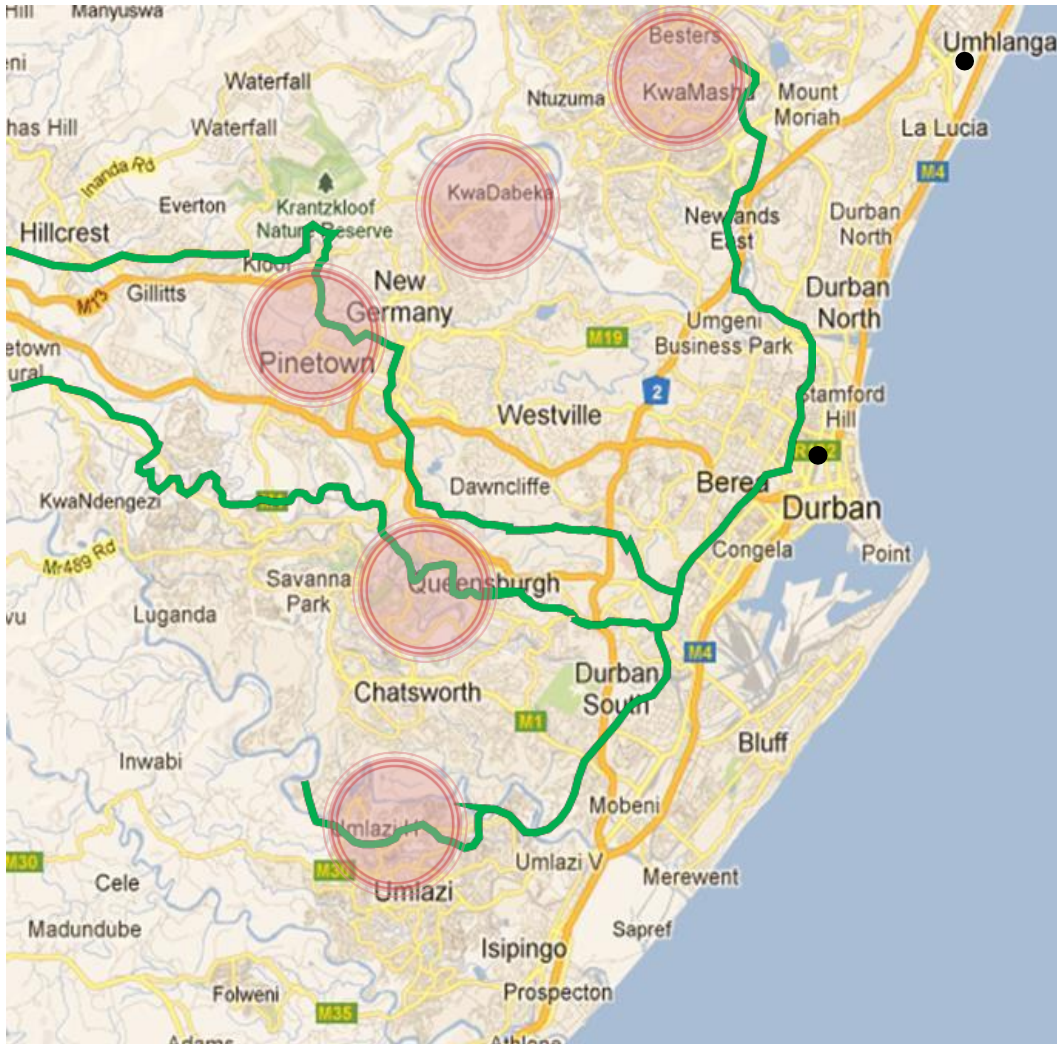
Major transport links


	Gautrain station
	Metro rail
	Major mini-bus taxi rank

Source: JLL (2017)

Additional details on delivery locations

Durban



 Talent pool hotspots




Concentration of talent pool in Cape Town

Chatsworth	Durban North
Umlazi	Phoenix
Pinetwon	Newlands East/West
Westville	KwaMashu
Reservoir Hills	Inanda
Umhlanga Rocks	Durban Central

Top BPO clusters

Umhlanga
CBD
Berea
Hillcrest
Cornubia

Major transport links

	Metro rail
	Own transport
	Major mini-bus taxi rank

Source: JLL (2017)

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South Africa offers a robust and enabling environment in terms of the development of skilled talent

Support programmes at the national level for skill development and job creation

Skills Development Act and Learnerships

- The Skills Development Act was promulgated by the government of South Africa in 1998 to develop the skills of the workforce, improve the quality of life of workers, and their prospects of work. The Sector Education and Training Authority (SETA) is responsible for the disbursement of the training levies payable by all employers
- Introduced in 1998, learnership is a work-based learning programme related to a specific field of work. SETAs oversee learnerships and ensure that they offer qualifications related to a specific occupation or sector of the economy
 - Learnerships are available for young people who have completed school, college or learning at other training institutions
 - In order to graduate, learnerships require the learner to complete a theoretical course and practical training which involves hands-on, practical learning in a workplace
- While learnership programmes are in place for multiple sectors across South Africa, the maximum uptake has been witnessed for IT (end-user computing, technical services) and banking related services (wealth management and insurance)

Jobs Fund

- The role of the Jobs Fund in South Africa is to co-finance various organizations (public, private, NGO, etc.) and their projects, which are expected to result in subsequent job creation
- This fund has contributed greatly in the areas of infrastructure development, institutional capacity building, and enterprise development. Additionally, it has helped directly create jobs by supporting training programmes, entrepreneurial development, and job placement services
 - One of the most successful examples is that of the Harambee Youth Accelerator project which aims to address youth unemployment challenges through personal development, skills enhancement, and formal job placement
 - As of now, Harambee has successfully placed more than 10,000 candidates with various project partners

Monyetla Work Readiness Programme

- The Monyetla Work Readiness Programme was piloted in 2008 by **the dti**. It is a demand-driven skills development programme that aims to increase the talent pool for the BPO and offshoring industry
- The implementation model of this programme is different in the sense that it is driven by employers, recruitment agencies and training providers to ensure that at least 70% of the trainees are employed for at least six months. Additionally, it focuses on getting young unemployed people work ready through formal accredited training
- Typically, 3,000 people are trained in every cohort. Currently, five phases of the programme have been introduced for subscription and more may be under way

Source: BPESA, Everest Group (2018)

South Africa offers a robust and enabling environment in terms of the development of skilled talent

Support programmes at the provincial / city level for skill development and job creation

Skills Supply Chain programmes

- City governments have instituted training programmes in line with the growing pressures for quality talent in the BPO sectors
 - The city of Tshwane has been investing in the capacitation of entry-level skills in the greater Tshwane region so as to ensure that there will be a suitable supply to the market as it grows organically
 - ◆ It introduced a skills supply chain in conjunction with BPESA and other industry role players by providing funding, work readiness training of eight weeks, and generic qualification training for three weeks. Thereafter, the work seekers were placed in a learnership programme for a year during which the employers provided workplace learning opportunities. At the end of the programme, trainees who were not given permanent placements were shifted into other BPO environments by BPESA
 - ◆ Through this programme, 98% of the people who started the programme finished the qualification and ~80% of them found permanent jobs in the BPO sector
 - ◆ This model will be applied for staffing in the new BPO park in Tshwane to support investors and will also be adopted as an integrated skills supply chain model in the region
 - A similar programme was introduced by the Ethekewini municipality
 - ◆ The initial investment was made into a shortened, 5-day work readiness programme in which impact sourcing candidates were given English language training to complement their more typical work readiness curriculum and were accordingly tested for employability and operational performance
 - ◆ The pilot proved very successful with all participants, demonstrating an increase in competence in their English reading and listening skills. The programme is being rolled out to more participating BPO companies and at a larger scale with a further 400 work seekers to undergo the same training over the next two years
 - Additionally, the city of Cape Town has also invested in various skills supply initiatives. Most recently, it has partnered with BPESA to implement a work readiness and workplace learning programme for international operators training 200 people for entry-level roles

Leadership academies

- While there are a large number of programmes focused on entry-level talent, leadership academies, such as Tula Leadership Academy supported by OnTrac, are more focused on bringing about an improved understanding of operational and performance metrics and how they impact an organization
- Such programmes arm the trainees with statistical tools to improve performance management, incentive management, attrition, team management, customer-centricity, coaching & training for junior resources, and other forms of people development

Source: BPESA, Everest Group (2018)

South Africa offers a robust and enabling environment in terms of the development of skilled talent

Specific programmes aimed towards contact centre skill development

Development of a community-based contact centre in provinces across South Africa to build a skills pipeline

- In order to reduce the degree of unemployment in the country and promote the outsourcing industry, the city government, BPESA, call centre companies and other industry stakeholders are planning to build contact centre communities in nine provinces of the country
- The first community will be established in the form of a pilot programme in Delft in Cape Town. This will be a partnership between Zoe Incubation Centre (NPO) and Zailab (software and communication device company)
 - The objective is to establish a state-of-the-art contact centre and training academy which will provide theoretical and practical training in a state of the art contact centre
 - The pilot will result in the employment/placement of 67-100 agents
 - The second phase of the model is expected to expand into the home-based agent model
- This project is expected to create employment opportunities that are closer to home. Additionally, it offers a training programme that covers core competencies, required skills for managing a business, call centre training, marketing and sales, etc. The partnership with Zailab is expected to bring to the workplace high-end technology solutions that enhance communications

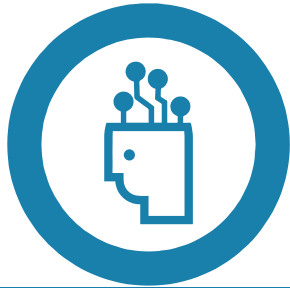
Implementation of 200 call centre learnerships in the Western Cape through impact sourcing and skills incubation in May 2018

- The City of Cape Town, BPESA, the Department of Economic Development and EOH Digital have decided to collaborate in the implementation of 200 call centre learnerships in the Western Cape as part of a pilot programme
- The learnerships will be conducted by EOH which will provide work readiness and a National Qualification Framework training, and ensure workplace practical training (through a host employer) for a period of one year
 - The work readiness training will focus on workplace coaching, soft skills training, and life skills training (verbal skills, relation skills, decision-making skills, etc.)
 - The NQF training is intended for people who are already working in the contact centre or the broader BPO sector
- The trained members of the programme will spend 10 months with a host employer, i.e., an international captive/service provider. Additionally, the employer will hire at least 70% of the learners who complete the learnership in a permanent capacity

Source: BPESA, Everest Group (2018)

South Africa offers a robust and enabling environment in terms of the development of skilled talent

Next-generational skill development initiatives (page 1 of 2)



CapaCiTi tech skills and job readiness programme:

- Cape Innovation and Technology Initiative (CiTi) was established in 1999 in Cape Town to provide space for startups to grow. It now offers a variety of coding, tech, and soft skills to unemployed youth along with psychological and mentoring support
- Typical areas of work for placed students include IT infrastructure and networking, cloud architecture development, and big data analytics
 - More than 1,000 learners have been trained till date with 97% placed in internships and 82% in jobs
 - As of April 2018, CiTi has committed to train more than 3,000 unemployed youths in the next three years; it has received additional funding from BCX (R100m), the Jobs Fund (R75m) and other corporates for this purpose
- Key partners include PricewaterhouseCoopers, Old Mutual, T-Systems, Barclays, Thomson Reuters, Blockchain Academy, and Edro Robotics
- Citi is also partnering with Business Connexion Group (BCX) for developing courses and curricula in disruptive areas, such as geomatics, internet-of-things, cybersecurity, and artificial intelligence



University of Western Cape analytics programme:

- The University of Western Cape conducted a large research project in 2014 to determine the strategies of 80-odd companies with respect to digital skills and the perceived lack in training / upskilling and reskilling people for these skills through university degrees
- This resulted in thought leadership between the industry and academia to develop co-designed degrees for various digital skills
 - As part of this initiative, the University of Western Cape started offering a diploma for analytics and business intelligence since 2017. It comprises analytical and qualitative studies in the areas of business management, information systems, statistics, and computer science
 - It is one of the first programmes in the country which offers both online and campus learning for employed and unemployed students
 - As part of the first cohort of 33 students in 2017, six students found internships and five students were employed in the jobs of their choice
 - Additional Masters level programmes have been introduced in digital logistics, data science and virtual reality

Source: Interviews with CiTi, University of Western Cape, Everest Group (2018)

South Africa offers a robust and enabling environment in terms of the development of skilled talent

Next-generational skill development initiatives (page 2 of 2)



ImpaCT:

- ImpaCT is an initiative by the Johannesburg Centre for Software Engineering that seeks to stimulate scholars' interests in the ICT industry
 - Learners are challenged to develop apps, games, programs, websites and other ICT artefacts. They are also exposed to the latest technological developments
- In 2017, ImpaCT's focus was on game development wherein the learners had to identify issues in the areas of defence, education, healthcare, emergency management, city planning, engineering, and politics and propose an innovative game that would help deal with the issue
- Since its inception, ImpaCT has affected over 1,000 students from over 40 schools. A large percentage of these students are currently enrolled in ICT-related degrees and approximately 120 students have developed marketable games, websites, designs, and apps



Tshimologong Digital Innovation Precinct:

- The University of the Witwatersrand and its partners launched the Wits Tshimologong Digital Innovation Precinct in Johannesburg in 2016
- This precinct is a new-age software skills and innovation hub for providing an environment that will attract programmers, designers, developers, and entrepreneurs with an interest in digital innovation and entrepreneurship
 - It includes a suite of ICT-related offerings in research, courses and programmes in software engineering, data science, big data, digital business, and others
 - People can work in formal and informal membership-based groups, where they can connect, take courses, locate tutors and advisors, and access Wi-Fi zones & hot desks
- In 2017, Business Connexion Group announced its partnership with the Tshimologong Precinct to create a new innovation centre aimed at building an ecosystem of support in business mentoring, coaching, technology, and funding for technology-focused small businesses

Source: Everest Group (2018)

South Africa offers a robust and enabling environment in terms of the development of skilled talent

Industry-wide initiatives introduced by BPESA



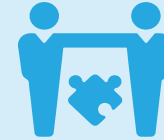
Collaboration for skills development

- BPESA facilitates collaboration among private and public sector companies across the skills supply chain (from high school to university and business school level) for the following:
 - To share knowledge and work together on targeted projects
 - Adopt standards or guidelines for work-readiness and work place learning that support the BPO sector and that will gear it for future skill requirements driven by RPA, IoT, analytics, etc.



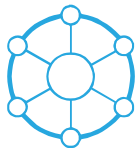
Skills portal

- The BPESA skills portal enables BPO operators and suppliers of skills development services and products to interact via a single platform
- In its current state, this portal enables suppliers to list their services & products and map them to key competencies identified for priority roles in the BPO sector. Operators can then source programmes and providers for specific skill development interventions and engage them directly online
- In its future state, the portal will expand to an industry-wide LMS that work seekers and incumbent employees can use to reskill, upskill, and develop themselves



Skills forums

- BPESA facilitates quarterly forums across the country for skills practitioners. The short term goal of the forums is to facilitate technical inputs to the review and design of the BPO strategy that will align to the country's sector development strategy
- The secondary objective of the forums is to create a networking and knowledge sharing opportunity for skills practitioners across the skills supply chain



- BPESA helped shape and build the international Customer Contact Centres (CCC) standards for the world. The ISO 18295, parts 1 and 2, were launched in 2017 for adoption by both captive / in-house centres as well as BPOs / third-party operators and clients or users of CCCs
- These standards were modelled on those developed by BPESA, **the dti**, and numerous industry stakeholders in 2010 for domestic delivery in South Africa. BPESA continues to be the custodian for ISO 18295

Source: BPESA, Everest Group (2018)

Invest SA is a one-stop-shop that caters to prospective investors' and industry stakeholders' interests in the BPO space

Overview

- Invest SA is a division of the South African Department of Trade and Industry (**the dti**), providing a one-stop-shop service to investors. They provide investment promotion, facilitation, and aftercare which is geared towards fast-tracking projects and reducing government red tape
- Invest SA facilitates the increase in the quality and quantity of foreign and domestic direct investment by providing an investment recruitment, problem-solving, and information service in order to retain and expand investment in South Africa and Africa

Services offered

- **Investment information**
 - Economic environment
 - Regulatory environment
 - Legal environment and compliance
 - Industrial development and financial support
 - Investment guides
- **Investment facilitation**
 - Inter-governmental coordination and facilitation
 - Licensing, company registrations, and work permits
 - Municipal facilitation
 - Incentives facilitation
 - Location analysis and facilitation
 - Critical infrastructure and utilities
 - Introduction to financial institutions and funding opportunities
 - Priority sectors, designations, and localisation
 - Site visits and Business to Business programmes
 - Partnerships with stakeholders
- **Aftercare services**
 - Company verifications
 - Enterprise development and supplier development
 - Introduction to raw materials
 - Advice on customs clearing
 - Investment promotion and international investment missions
 - Facilitation by **the dti** representatives stationed world-wide
- **Aftercare services**
 - Advice in recruitment, talent and skills
 - Advice on lifestyle amenities (e.g., location of housing and schools)
 - Policy advocacy
 - Investor surveys
 - Business forums
 - Retention and expansion services

Source: InvestSA, Everest Group (2018)

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South Africa offers a unique incentives programme for a variety of jobs created in the BPO sector (page 1 of 2)

Base incentive:

- The base incentive component of the Business Process Services (BPS) incentive offers a differential incentive for non-complex jobs and complex jobs and is paid for a period of five years from the date on which offshore jobs are created
 - “Non-complex jobs” are defined as jobs where the fully-loaded operating cost is less than or equal to R300,000 per annum with wages contributing at least 65% of the operating cost base for a steady state of operation
 - “Complex jobs” are defined as jobs where the fully-loaded operating cost is greater than R300,000 per annum per job with wages contributing at least 65% of the operating cost base for a steady state of operation
- The base incentive will be determined at the application stage depending on the fully-loaded operating costs

Bonus Incentive:

- The bonus incentive for non-complex jobs is available to applicants that create and maintain more than 400 offshore jobs over a five-year period
- The bonus incentive for complex jobs is available to applicants that create and maintain more than 200 offshore jobs

Non-complex jobs

Number of offshore jobs	Incentive	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Up to 400	Base Incentive	R24,000	R20,000	R20,000	R20,000	R16,000	R16,000
> 400 but <= 800	20% once-off bonus	Bonus calculated for each job created and maintained between 401 and 800					
> 800	30% once-off bonus	Bonus calculated for each job created and maintained in excess of 800					

Complex jobs

Number of offshore jobs	Incentive	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Up to 200	Base Incentive	R32,000	R32,000	R32,000	R24,000	R24,000	R24,000
> 200 but <= 400	20% once-off bonus	Bonus calculated for each job created and maintained between 201 and 400					
> 400	30% once-off bonus	Bonus calculated for each job created and maintained in excess of 400					

Source: the dti, Everest Group (2018)

South Africa offers a unique incentives programme for a variety of jobs created in the BPO sector (page 2 of 2)

Key Incentives	Description
Employment Tax Incentive (ETI)	<ul style="list-style-type: none"> • The ETI is an incentive aimed at encouraging employers to hire young work seekers • It reduces the employer's cost of hiring young people through a cost-sharing mechanism with the government <ul style="list-style-type: none"> – It allows the employer to reduce the amount of "Pay-As-You-Earn" (PAYE), which is the tax that employers must deduct from the income of employees as a form of advance payment on taxes due while leaving the wage of the employee unaffected – Employers will be able to claim the incentive for a 24-month period for all employees who qualify
SEZ Incentive	<ul style="list-style-type: none"> • SEZ incentives include: <ul style="list-style-type: none"> – Preferential 15% corporate tax: Reduced rate of corporate income taxation – Building Allowance: An accelerated 10-year tax allowance on buildings – Employment Incentive: Tax relief for employers employing low-salaried employees (below R60,000 per annum) – Customs Controlled Area: VAT & customs relief for businesses and operators located within a customs controlled area
Seda Technology Programme (STP)	<ul style="list-style-type: none"> • STP has two main objectives: <ul style="list-style-type: none"> – To provide technology transfer services to small enterprises – To provide specific technology support to women-owned enterprises • STP offers financial assistance in the form of a non-repayable grant up to a maximum of R600,000 per project

Source: the dti, South African Revenue Service (SARS), Everest Group (2018)

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Details on operating cost

Contact centre

Operating cost per FTE for Contact Centre

2018; US\$ '000s per annum per FTE

Location	Total salaries, benefits and admin costs	Infrastructure cost	Technology and other costs	Total operating cost
India (Bangalore)	4-8	1-2	2-4	9-13
Philippines (Manila)	4-8	2-4	3-5	11-15
South Africa (Cape Town)	9-13	1-2	3-5	16-20
Poland (Krakow)	19-23	2-4	3-5	26-30
Scotland (Glasgow)	30-34	5-7	3-5	40-44
Tier-2 England	36-40	5-7	4-6	48-52
Ireland (Dublin)	38-42	6-8	4-6	50-54
Tier-2 US	40-44	3-5	4-6	50-54
Australia (Sydney)	42-46	5-7	4-6	54-58

Note: Apart from South Africa, Poland offers certain incentive schemes; these are specific to the initial capital investment made by the company and the number of jobs created. They do not exceed ~US\$ 4,000 per FTE

Source: Everest Group (2018)

Details on operating cost

Non-voice BPO

Operating cost per FTE for Non-voice BPO

2018; US\$ '000s per annum per FTE

Location	Total salaries, benefits and admin costs	Infrastructure cost	Technology and other costs	Total operating cost
India (Bangalore)	7-11	1-2	2-4	12-16
Philippines (Manila)	6-10	2-4	3-5	12-16
South Africa (Cape Town)	16-20	1-2	3-5	22-26
Poland (Krakow)	23-27	2-4	3-5	30-34
Scotland (Glasgow)	36-40	5-7	4-6	46-50
Tier-2 England	42-46	5-7	5-7	54-58
Ireland (Dublin)	44-48	6-8	5-7	58-62
Tier-2 US	52-56	3-5	5-7	62-66
Australia (Sydney)	53-57	5-7	6-8	66-70

Note: Apart from South Africa, Poland offers certain incentive schemes; these are specific to the initial capital investment made by the company and the number of jobs created. They do not exceed ~US\$ 4,000 per FTE

Source: Everest Group (2018)

Details of operating cost

Entry-level salaries for contact centre and non-voice BPO

Entry-level salary for 0-2 years work experience

2018; US\$ '000s per annum per FTE

Location	Contact centre	Non-voice BPO
India (Bangalore)	4-6	5-7
Philippines (Manila)	4-6	4-6
South Africa (Cape Town)	5-7	9-11
Poland (Krakow)	12-14	13-15
Scotland (Glasgow)	21-23	26-28
England (Manchester)	26-28	30-32
Ireland (Dublin)	28-30	33-35
United States of America (Tampa)	31-33	41-43
Australia (Sydney)	34-36	39-41

Source: Everest Group (2018)



About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empower clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

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