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LET'S OUTSOURCE IT!

Overview of the fast-growing CEE outsourcing market

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Despite unfavorable economic conditions the outsourcing services market has continued to flourish in the Central and Eastern European region. In 2008 when the inflow of investment in Western Europe was down by 48%, in Central and Eastern Europe it fell by only 9%. In Poland alone, during 2009, the year following the global economic downturn, approximately 10,000 jobs were created in BPO (Business Process Outsourcing). As world markets slowly recover, the outsourcing market dynamics are not really slowing down. There are many reasons behind this success and the highlights of the success of outsourcing in Central and Eastern Europe are given below.

Lower cost, better quality

More and more companies are learning that outsourcing various activities ranging from the basic such as invoicing and other accounting procedures, to much more complex business processes, including many areas of management, is a cost-saving decision.

It turns out that externally assigning tasks that would normally be carried out in-house can also be advantageous in terms of quality improvement. For example the outsourcing recruitment function can result in more qualified staff being employed as companies providing HR services are specialized in this particular area and have mastered their processes very well, delivering the highest quality as well as new ideas to the outsourcer.

Outsourcing does not mean losing control over the process being externalized – most companies practice a hands-on approach and there is continuous cooperation between the BPO and outsourcing company. As such, quality levels are either maintained or improved compared to situations where every single area of activity related to a company's functioning is kept within its own structures.

Skilled workforce

A large skilled workforce with the right education and language skills is probably the number one reason for the selection of Central and Eastern Europe as the location for outsourcing various company processes. It is also a reason behind the concentration of outsourcing centers in large cities, where major universities are located.

The languages spoken by local staff is a key decision-making factor for companies considering outsourcing. Communication is a vital aspect of successful cooperation. In this context Central and Eastern Europe also has an advantage. According to a study made on the BPO/SSC (Shared Services Centre) market by the specialized research company DiS, of 750 centers approximately 80 are located in a region where staff speak a combination of at least 10 languages, and about 190 centers offer communication in at least 6 languages.

The fact that more and more complex and technologically advanced processes are being outsourced to the region demonstrates the maturity of the market.

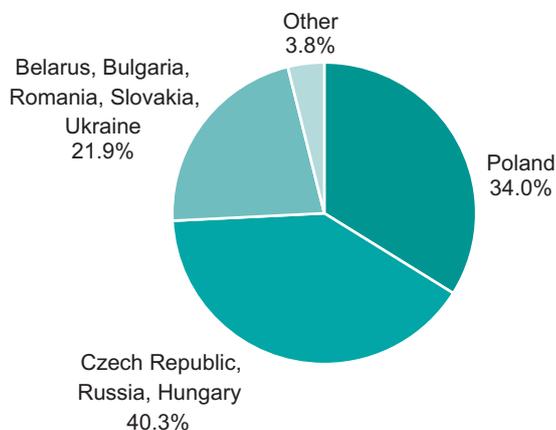
Location advantage

The geographical and cultural proximity to Western European countries is a definite advantage of countries located in Central and Eastern Europe, making them an attractive destination for all types of outsourcing activities. This is in particularly true today, since Europe has exceeded America in terms of the number of companies outsourcing.

The fact that the local infrastructure allows major cities in the region to be reached quite easily and quickly via plane, train or car cannot be overlooked either. As processes outsourced to BPO centers become more and more complex and extremely important in the functioning of the whole company, the involvement of these establishments' top managers is crucial. Many managers from companies outsourcing their activities need to fly back and forth sometimes several times a month. Consequently, having easy access to BPOs is important.

Speaking about location, a few words about the outsourcing market in geographically structured in the region is a must here. Poland remains the single largest destination for BPO/SCCs.

Employment in BPO-SCC in Central and Eastern Europe and Russia



Source: DiS, 2009



MAIN LOCATIONS OF BPO/SCCS IN POLAND



Source: PAIZ



Poland, Russia, Hungary and Czech Republic employ approximately 75% of the staff from the BPO/SCC market in the region (source: DiS). At the same time the market remains highly concentrated in the largest cities – 50 of the 200 major CEE cities hosting outsourcing centers represent 90% of employment and the top ten cities embrace 70% of all staff employed in BPO/SCC. Budapest is the unquestionable leader in the region, with approximately 15,000 people working in such centers. Other highlights of the geographical dispersion of outsourcing centers that may be mentioned here are local specializations, such as the IT focus in Belarus and Russia, the concentration of call centers in Slovakia and Bulgaria, the large number of financial and accounting centers in Latvia and of MROs (maintenance and repair operations) in Slovenia and Belarus (source: DiS).

Common interest

As obvious as this might sound, it seems as if outsourcing is beneficial for all sides involved. Firstly, it gives an advantage to the outsourcing company, which saves on costs and often gains on quality. Secondly, it benefits the outsourcing centers as more clients means more profit for them. Thirdly, it contributes to the local society as outsourcing centers provide a large number of jobs. Last but not the least, it benefits the local governments of those countries where outsourcing is common, as taxes paid by outsourcing centers are not inconsiderable sums. The only “losers” that may be seen in this structure are the staff of companies that outsource located in their home countries –outsourcing can theoretically cause these people to lose their jobs.

As the market develops and this development favors many, a supportive structure for the market is being created in terms of local organizations and associations that gather outsourcing centers in their common efforts, giving them bigger negotiating power with regard to local governments.

The market develops as it is also supported not only by companies that decide to outsource and create associations and organizations that act on their behalf, but also because it is in the interest of the host country: it creates jobs and brings in important income to the government in taxes.

Magazines, trade shows and conferences dedicated to outsourcing educate, provide information, and a platform for exchange for those already active in outsourcing as well as those still undecided.

Opportunities ahead

Market experts agree that the outsourcing market in the Central and Eastern Europe region still has unexplored opportunities and optimistic years ahead. The major reasons behind these predictions are highlighted below.

Changing face of outsourcing

The fact that the market in certain countries might be saturated in one or another type of outsourcing services does not mean the end of the region's outsourcing sector. On the global outsourcing stage, IT outsourcing gives place to BPO. The types of services outsourced is developing with time and needs as well as with the hosting country's market situation – the more saturated the market, the more advanced business processes can be outsourced there and the list of these services seems to be open and changing all the time. The fact that some managerial functions are starting to be outsourced is a good example of this. It may be stated that opportunities for outsourcing are almost limitless.

Also, as mentioned before, the vast majority of outsourcing is, for the time being, taking place in the largest cities. As the markets there saturate it is expected that some outsourcing centers will be created in smaller towns, possibly causing the market to decentralize slightly in terms of geographical location.

Local companies – new clients

The market so far has been typified by companies from Western countries outsourcing to either the CEE region's major outsourcing players or their affiliates. This is, however, changing as more and more local players (from Central and Eastern Europe) start to realize the advantages of outsourcing and start using it. Potential for growth there is very high as the market among local companies is underdeveloped and the region's countries are far behind some Western countries such as Belgium, where 80% of companies use outsourcing.

Also, some important local players are emerging as competitors to outsourcing giants from the West. A good example is Target BPO, a Polish player active in the outsourcing of sales and accounting.

Public sector – unexplored opportunity

In the region so far outsourcing has been limited to the private sector, whereas compared to Western countries, many functions of central and regional administration may be assigned to the private sector (outsourced). Cost optimization might be the major reason for the first outsourcing decisions among local administration in the CEE.

Conclusion

The market for outsourcing in Central and Eastern Europe is developing dynamically, and, apparently, uninterruptedly. Local outsourcing know-how is important and local staff are skilled and educated. Therefore, more and more complex processes are being outsourced to the region, offering new opportunities.

Outsourcing to the CEE means not only savings in costs but also higher quality and a wider know-how. The region will continue to offer business opportunities for both companies that wish to outsource their activities as well as to outsourcing players that, through a regional presence, can gain an important number of clients – the untapped demand among both local companies and the public sector that will most likely outsource in the future.

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