

The Shocking Shift in Global Outsourcing

Dramatic change in BPO landscape opens up new possibilities

Ask most business executives which country is the global leader in business outsourcing and almost all will India. They'd be shocked to find out they are wrong. A report by IBM's Global Locations Trend noted that the "Philippines has overtaken India as the world's number 1 country for shared services and business process outsourcing (BPO)."

This white paper will explore the continuing growth in global outsourcing as businesses struggle to lower costs and the opportunities presented in the emergence of the Phillipines as the new leader in the field.

BPO: The inevitable growth industry

The need to cut costs and produce profits in a competitive global economy cuts across almost all industries and has helped propel the rapid growth of BPO.



Global BPO market is now worth \$122 - \$154 billion

According to industry expert, Everest Research, the global offshore services

market grew at a 15% compound annual growth rate from 2006 to 2009 and will more than double by 2016. McKinsey & Co. puts the worth of the global BPO market at \$122 – \$154 billion. The pressure to cut costs while growing profits will continue into the foreseeable future. That's why we call BPO the inevitable growth industry.

Stick to what you are good at and outsource the rest

Now more and more businesses are realizing that they can cut costs and improve overall performance by sticking to their core processes and outsourcing noncore back office operations, such as call centers, data processing, HR administration, financial reporting, etc.

Even industries that had been resistant to outsourcing, such as legal services, are now outsourcing much of their business processing work .

"The economic benefits of legal services outsourcing are undeniable," says PriceWaterhouse Coopers managing director, Dr. Charles Aird. " It provides the highest profit margins for service providers as well as the highest cost savings for companies. The emergence of available outsourced legal services and the impact of

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the economic conditions have changed the perception of the legal industry, once regarded as too sensitive to be outsourced."

It is widely acknowledged that with the ongoing political pressure to reduce healthcare costs, the U.S. healthcare industry will show a dramatic increase in outsourcing over the next two to five years. This includes medical reports, discharge summaries, operative reports, therapy and rehabilitation notes, chart notes, and hospital and clinic reports.

Outsourcing is essential to the fastest growing sectors in the world, including:

- **Mobile phones**

More people use mobile phones than use PCs. Smart phones have become one of the fastest growing products ever. Businesses seeking to engage with this vast audience will increasingly turn to qualified call centers to compete.

- **Web development**

Not only is a robust web presence essential to doing business today, but the requirements for successful online marketing, such as social media, are expanding rapidly. Business will continue to rely on outsourcing to lower the costs of web development and fulfill the time-consuming tasks that online business requires.

- **Computer generated graphics and animation -**

Use of computer graphics and animation for movies, TV commercials, computer games, the Internet, and as educational

tools is exploding. Major studios and production companies have turned to outsourcing to reduce costs.

Non-voice BPO is expected to drive market growth in the industry at a 20-25% CAGR from 2011 to 2016. In particular, industry-specific services (e.g. banking, healthcare, media) will be the fastest-growing sectors .

Cautious recovery means greater reliance on BPO

As the world slowly recovers from a global recession, business executives remain cautious. While they are expanding production and services, they are looking to cut costs wherever possible. The stubbornly high unemployment rate is evidence of a continuing reluctance to hire new staff.

Outsourcing has proven to be the solution for companies in this era of cautious growth. The recovery has already seen a significant rise in the outsourcing of financial services such as accounting, bookkeeping, tax preparation, etc. As predicted in the Everest Research Report, the Finance and Accounting Outsourcing (FAO) market has now reverted to its pre-recession levels. The report foresees continued growth in financial outsourcing in the coming years.

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The Philippines will be a major beneficiary of the upswing in BPO

As companies turn more heavily to outsourcing during the recovery, one of the biggest beneficiaries will be the Philippines, which has become an outsourcing powerhouse.

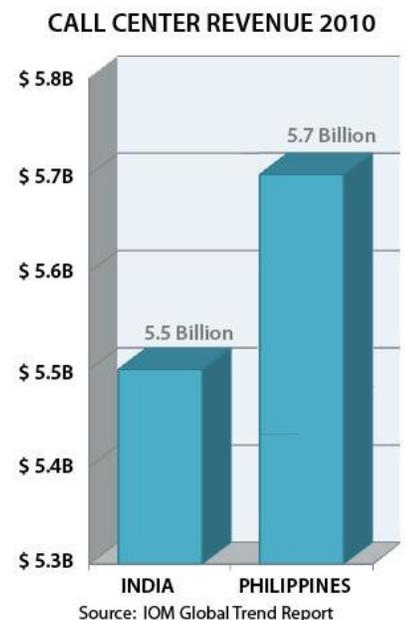
The BPO industry in the Philippines has grown an impressive 46% annually since 2006, from \$3.2 billion to \$9 billion and is expected to see continued growth in the coming years, according to the Business Processing Association of the Philippines (BPAP). BPAP estimates that the industry will earn revenues of about US \$11.6 billion in 2011, employing around 700,000 people.

" The BPO industry in the Philippines has grown 46% annually since 2006...."

Why the Philippines has become the BPO capital of the world

IBM's Global Locations Trend Report notes that Philippine call center revenues are expected to reach \$5.7 billion this year, compared to \$5.5 billion in India.

According to a special report on ABC-TV, the shift to outsourcing in the Philippines is "attributed to several factors: the country's workforce has better English-speaking skills, the Philippines' telecommunications network is superior to that of India, higher incentives for companies setting up business here, and Filipinos' affinity with the American culture."



"The World Bank foresees even sharper growth ahead for the BPO industry in the Philippines"

The World Bank foresees even sharper growth ahead for the BPO industry in the Philippines: "Factors like low cost, availability of human capital, tax incentives, and active promotion of the country's capability to provide BPO services would allow the industry to post sharper growth in the years ahead."

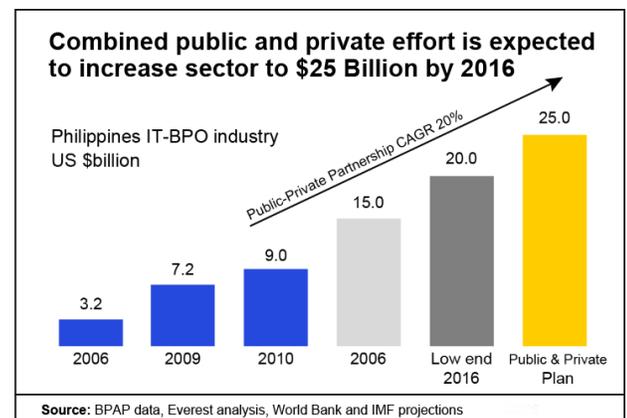
The Philippines is currently among the most cost-competitive destinations for BPO related services.

Direct operating cost per full time employee for English voice work is about \$15,000 per year in the Philippines compared to \$70,000 in the U.S.

"US-based companies that chose to outsource their services to the Philippines **spent 80 percent less** on operations compared to firms that had not," according to the World Bank.

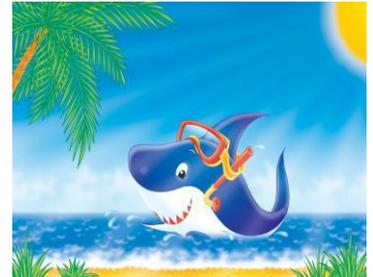
The Philippines government is committed to growing the BPO industry, officially declaring it a priority industry. Government and industry have instituted strong incentives and initiatives to support the BPO growth in the country, including.

- 8%-10% tax reduction incentives
- Funding for industry-development initiatives
- Guidance and facilitation for investors
- Industry and market development initiatives



A concerted effort by industry, government, and public-private partnerships is expected to grow the BPO industry in the Philippines to \$25 billion by 2016.

Businesses from a wide range of industries, including finance, technology, Internet, medical, telecommunications and even entertainment are flocking to the Philippines to take advantage of the attractive BPO climate. For example, major studios like Disney, Marvel, Warner Brothers and Hanna Barbera have offices in the Philippines. The work of Filipino animators can be seen in some of the most popular films in the world, including Pixar's Finding Nemo.



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Prepared for Challenges

- **Scale**

One of the biggest issues facing the BPO industry in the Philippines is scaling the talent pool to meet the demand. Aggressive educational initiatives are on track to meet the exploding demand.

- **Competition**

As BPO demand continues to expand, more countries are seeking to get in on the action. In addition to India, countries in South America, the Mideast and Africa are hoping to attract BPO business. However, its current high level of performance, its BPO infrastructure, and aggressive growth

"Aggressive educational initiatives are on track to meet the exploding demand (for talent)."

measures should enable the Philippines to continue to be the leader.

Seizing the opportunity in the Philippines

While the Philippines has become the leader in BPO, particularly call centers, the industry is highly fragmented in the country. Consolidation would bring operational efficiencies as well as the necessary scale to offer high-ticket services to large companies.

Chatter Box Call Center may be the only company with the resources, capital and expertise to successfully consolidate the BPO industry in the Philippines. It is a boutique Contact Call Center based in Manila, Philippines with operations in Hong Kong and Tokyo. The company plans to use its experience and superior access to capital markets to buy suitable companies and build a BPO conglomerate.

Starting out in 2002 with a group of investment/fund management and call center consultants, Chatter Box is the first company to bring together investment banking and consulting expertise to the BPO industry in the Philippines. The group built Chatter Box to offer multi-lingual expertise to answer the needs of a global market including Asian, English, and non English- speaking countries.

Chatter Box founders have twenty-five years of experience providing flexible contact call center solutions to a wide variety of clientele and market sectors around the globe. The company offers primarily inbound /outbound services such as telesales, order execution; prompt customer service including live web chat and immediate email response. The following customer care solutions have enabled Chatter Box to increase sales, enhance customer loyalty and reduce cost basis for their clients.

"...Chatter Box is the first company to bring together investment banking and consulting expertise to the BPO industry in the Philippines."

- Capability to speak eight different languages
- Twenty-five year's experience in the contact call center industry
- Professionally educated-skilled oriented agents.
- Cost effective labor rates achieve maximum results.
- 24/7 operations targeting all time zones
- Strong reputation – Excellent performance history for delivering results.
- Aggregation inbound/outbound domestic & international categorization methods.
- Cultural affinity and politically stable areas of concentration

The firm as a whole has evolved into a multi-channel contact call center to meet the growing demands and expectations of companies around the world. Its reputation for reducing costs and increasing sales for clients has resulted in a loyal customer base and fueled its growth.

While the company has been built on the foundation of call center services, especially for investor communications, management is poised to use its resources and capital to begin acquiring complementary BPO companies and services throughout the Philippines.

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Chatter Box's acquisition and consolidation strategy comes at a propitious time. The Philippines has ascended to the top of the BPO space. As businesses continue to use more outsourcing to pursue cautious growth during the global recovery, the Philippines BPO industry will be a chief beneficiary. Chatter Box has the tools, resources, expertise and strategy to ride this trend and build a BPO conglomerate.

As the only significant public company in the space, Chatter Box offers an excellent investment opportunity as it rolls out its aggressive strategy to acquire BPO companies in the Philippines.

**For more information on Chatter Box,
contact info@chatterbox.com**