

The top half of the cover features a 3D rendering of numerous light green puzzle pieces scattered across a white surface. Some pieces are standing upright, while others are lying flat. In the upper left corner, the logo 'eXentix' is displayed in a grey, sans-serif font, with the 'X' highlighted in red. The background is a soft, light grey gradient.

eXentix

**SENTIMENT ON  
THE BULGARIAN OUTSOURCED  
OFFSHORING SERVICES MARKET**

INDUSTRY EXPECTATIONS  
FOR NEXT 3 YEARS

SEPTEMBER 2010

## RESEARCH HIGHLIGHTS

- Bulgarian offshoring service providers remain optimistic about the short-term future of the industry, with the greater majority expecting a growth in the awarded contracts
- IT sector still dominating the Bulgarian market, making up the greatest share of the industry
- BPO market still represents more or less a 'niche sector'
- Size of the Bulgarian outsourced offshoring industry between 100 and 150 mln euro, according to sector representatives
- Call center services and customer support services expected to dominate new demand in Bulgaria in the coming years
- IT and Internet expected to be the biggest source industries for outsourcing contracts
- India is Bulgaria's biggest global competitor; Romania and Poland – biggest rivals in the region

## 1 ABOUT THE REPORT

This report examines the views of executives and managers of the leading offshoring providers in the country and gives an overview of how they feel about the future of the industry over the next three years.

It is based on the responses of the managers of the leading BPO providers in Bulgaria, interviewed by eXentix between May and July 2010.

In addition, it contains a comment on the present situation of the Bulgarian BPO market, exclusively provided by the Washington office of international management consulting firm A.T. Kearney.

The paper does not include IT outsourcing (ITO), but is rather focused on the BPO sector.

However, some of the figures for/ the estimated value of the market take into account ITO.

This is one of the explanation of the wide range of the values in some of the responses.

Similarly, the report does not deal with captive centres, some of which also provide outsourcing services to external clients. Their expectations and sentiment are to a much greater extent dependent on the current economic environment in the home country of their parent companies, as well as of the financial and market position of the parent itself.

In this way, they are not always necessarily representative of the general mood in the wider industry on a local level.

## 2 INTRODUCTION

In May 2009, in its Global Services Location Index™ (GSLI), international management consulting firm A.T. Kearney ranked Bulgaria the top location among the most attractive destinations for outsourced offshoring services in Europe. Bulgaria is surpassing other strong rivals in the region of Central and Eastern Europe, so far considered to be uncontested winners, which have now registered a sharp drop in the ranking. The Balkan country came in 13th in the world.

Almost unanimously, all researchers and specialists regard the country's low costs of labour as one of its key competitive advantages amongst the rest of the locations globally.

The availability of skilled labour pool, favourable business conditions, political and economic stability are also stated as very important advantages for Bulgaria, although often to a lesser extent.

On the downside, important factors holding the sector's growth back are the relatively restricted size of the labour market, the country's higher risk profile (in investors' perception, to say the least), its low level of transparency and predictability, as well as underdeveloped and in some cases unavailable infrastructure. Looking ahead, a factor which could potentially undermine Bulgaria's competitiveness comes from the peg of the Bulgarian currency to the euro, which might make other locations in the region (e.g. Romania and other countries, whose national currencies have weakened significantly in the past months) look more competitive in terms of cost/quality ratio.

Nevertheless, the majority of the local BPO providers remain markedly optimistic about the prospects of the industry in the next three years.

Despite the generally upbeat mood in the industry, most of the representative are of the opinion that any significant boost of the Bulgarian market would be much harder to achieve, would take longer and would be less sustainable in the long run without the concerted action of both the industry and the state.

The offshoring industry representatives emphasise on the fact that the Government needs to grasp its vital role in promoting and establishing Bulgaria as a strong brand on the global outsourcing market, by advertising the location and raising the country's profile amongst foreign investors. Another key area of focus which needs special attention is the development of a master plan to turn the outsourcing and offshoring industry into a priority sector. The state (alongside the business)

needs to endorse the industry and come up with a national strategy to guarantee its long-term development by securing the favourable environment and, where necessary, state incentives to local and foreign investors.

The latter represents an area in which Bulgaria is still significantly lagging behind other competitors in CEE and in the wider region of EMEA, which have long ago realised the great potential of offshoring, including it in the national strategy, which in many cases is already bearing fruits.

Another important subject, which needs improvement and could be well influenced by the government is education. The long-term stability of the industry is to a great extent dependent on the availability of qualified multilingual personnel trained especially for the needs of the industry. This can only happen if the higher education institutions throughout the country include outsourcing as a subject in their curricula.

## CASE STUDY

### EGYPT

#### A RISING OUTSOURCING STAR

The Egyptian Information Technology Industry Development Agency (ITIDA) runs the "Egypt On" programme – a specifically designed strategy dedicated to promoting, developing, and growing Egypt's information and communications technology (ICT) industry with a particular focus on business process outsourcing (BPO).

Working with renowned international consultants and experts, the agency has developed a number of programmes, aimed at establishing the country as a world-class outsourcing and technology hub.

Egypt is investing heavily in improving its logistics and IT infrastructure, and in boosting its expertise in the field of the high technologies. In 2003 the country launched the Smart Village ICT business park project near Cairo., aimed at attracting leading multinational technology, telecommunication and financial institutions. The facility is located on 600 acres (2.4 km<sup>2</sup>) in a metropolitan area, 20 minutes from downtown Cairo.

These efforts are already showing results:

- Egypt was ranked as the number 1 outsourcing destination in Africa by the Commonwealth Business Council and CyberMedia, 2009
- Egypt, which debuted in 2005 at 12th place in the A.T. Kearney GSLI index, climbed to the 6th position in 2009.
- For 2001 the country plans to export IT products and services worth \$1.1 bln.

In 2008 Yankee Group wrote:

"Egypt is by far the Middle Eastern country currently best positioned to take advantage of the boom in outsourcing. It has a relatively young population, a multilingual workforce, a large and burgeoning talent pool and strong government support for outsourcing."

## WHAT'S NEXT ?

### THE NEXT BIG THING

India may be more competitive with its outsourcing traditions and infrastructure, but it has one major disadvantage when compared to any European location – it lacks the language diversity, which pan-European businesses need. These requirements may be met by Eastern Europe, which boasts the best price/value ratio and availability of the 'right' workforce.

Within Eastern Europe, Bulgaria seems least devel-

oped and showing possibly the greatest potential to become 'the next big thing', if it manages to play its cards well.

As one respondent – a foreign national and a manager of a call center based in Bulgaria – put it: Despite the slow increase of the Bulgarian standard of living and despite the country's faltering convergence with the rest of Europe, even in 50 years' time it will still be the poorest in the EU.

Harsh as it may seem, the above fact is at the same time one of the main reasons for Bulgaria's potential for the development of the offshoring industry.

## EXPERT'S COMMENT

**JOHAN GOTT**

MANAGER

A.T. KEARNEY, WASHINGTON DC

To comment on the findings of the report and on the prospects of Bulgaria in the sector in general, eXentix invited the ultimate experts in the field – A.T. Kearney, the company which publishes the GSLI. It has been involved in numerous projects aimed at the development of the IT and the outsourcing industries in many countries, like Egypt itself.

"The A.T. Kearney Global Services Location Index measures the attractiveness of 50 countries as location of offshoring services. Our research focus is on identifying the underlying fundamentals as opposed to current success in attracting services jobs to the sector. According to our latest Index, published in 2009, Bulgaria captures the 13th spot, the highest rank among the Central Eastern European countries.

The interesting shift in the Central Eastern European country rankings between 2007 and 2009 is that while the established players, such as Poland, Hungary, Czech Republic all fall in the rankings, driven mainly by increasing costs, new players such as Bulgaria and Romania climb in the rankings, driven by business environment strides as a result of EU accession while still enjoying competitive cost levels.

Bulgaria has an opportunity to capitalize on its quality of labor force, competitive compensation costs, and an improving business environment. The government can play a constructive role here by following a strategy for developing the industry in a direction that would yield maximum benefit to the country and utilize the specific strengths that Bulgaria have over other countries in an increasingly fierce international competition.

Specific actions that can help create a stronger industry include targeted reforms in the business environment of specific importance to the unique needs of the service export industry and targeted marketing of the Bulgarian attributes to foreign investors and potential customers."

## 3 SURVEY RESULTS

### MACROECONOMIC OVERVIEW FROM AN OUTSOURCING PERSPECTIVE

Most of the industry leaders are confident that Bulgaria will retain its top position in the European ranking of the most favourable destinations for outsourcing in the next three years. Just 10% percent of them think it will lose ground to rival locations.

On a macroeconomic level, half of the respondents say Bulgaria's exit from the currency board will affect negatively the industry. A total 38% think it will not have any influence whatsoever.

There are different opinions regarding the effect of the recession on the industry. In theory, there are two conflicting points about the role of the economic downturn on the industry.

One of them suggests that the global financial and economic meltdown has had a negative effect, since the industry has been hurt by protective measures taken by the Western governments – the main source of the outsourcing industry – to keep home has many jobs as they can. The alternative assumption is however, that recessionary forces have and will boost outsourcing and offshoring activity, since most businesses are now more than ever looking to cut costs and are thus more willing to consider less expensive providers and cheaper locations.

While, these cases may vary from country to country and from sector to sector, and are dependent on business type, strategy, size, companies' markets and managerial model, it is true that there is enough evidence in favour of both trends. It is therefore hard to predict whether the expected growth would and could have been bigger or smaller if it were not for the recession.

As far as Bulgarian providers as concerned, all of them regard the crisis as a catalyst to the industry rather than an impediment.

This assumption is evidenced also retrospectively, as 88.9% of them say the crisis has led to an increase in their activity, with the rest stating it has not affected in any way the size of their operations.

Almost all of the respondents think the size of the outsourced offshoring market in Bulgaria will increase in the next three years, while only 9% expect a decline.

The country's low labour costs, qualified personnel and favourable geographic location are perceived as its biggest advantages.

*(According to A.T. Kearney, while cost remains a major factor in decisions about where to outsource, the quality of the labour pool is gaining importance.)*

### MARKET SIZE AND METRICS

The exact size of the market is very hard to value. Most of the respondents however, estimate the it to be between 100 and 150 mln euro. Some of them guess it might even be up to 200 mln euro.

Similarly, according to different estimates the size of the workforce in the industry ranges widely between 10,000 and 15,000 employees. Most of the respondents say the figure is in the lower bracket of the estimates.

Over two thirds of the interviewed companies think the number of the employed in the sector will increase by up to 100% in the next three years. The rest expect it will remain unchanged. All of the surveyed managers expect that their company will increase the volume of its activity in the next three years.

The optimism and the expectations of an increase in the workload translate also in plans for greater recruitment activity. Only a small fraction of the respondents do not plan to hire new specialists. A total 44.4% of them plan to hire up to 100 new staff and 22.2% – up to 500. Some 11% say they will hire more than 500 employees.

## THE INDUSTRY BY PROJECT TYPE

Call center services (including telemarketing) and customer support services are the ones which are expected to generate the greatest demand among the rest of the service types – 18.6%. Just over 16% of the respondents say clients will be looking for IT services, and 14% say software development will be most sought after. Market research services followed with 11.6%. (Chart 1)

English and German will be the languages in greatest demand – with 22.5%. Spanish comes in third with 10%, followed by Dutch and Scandinavian languages with 7.5% each. (Chart 2)

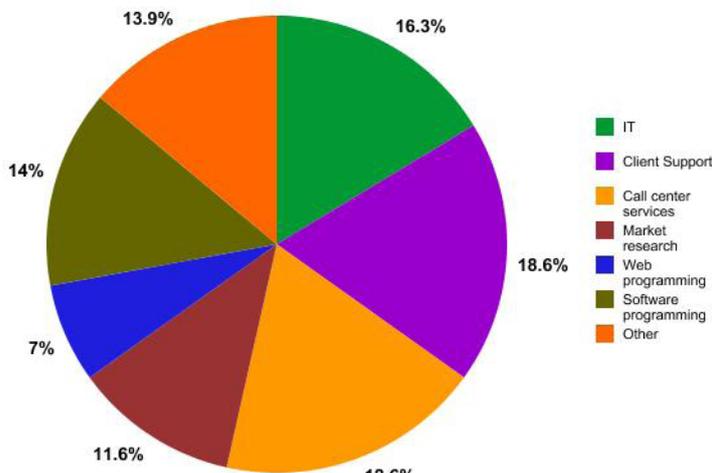
A few of the responses suggested that there will be demand for staff with more exotic languages like Chinese, Arabic, Turkish and Russian.

Germany tops the list of source countries of potential clients for offshoring services in Bulgaria with 28%. USA and the UK rank second with 20% each. They are followed by Austria and the Netherlands, both with 8%. (Chart 3)

Asked about the industries, which are expected to generate the highest demand for offshoring services, the surveyed executives selected IT and Internet as the uncontested leaders with almost 35%. Approximately 22% of them said it is the telecommunications sector and 17.4% consider the tourism and transportation industry most promising. (Chart 4)

Chart 1

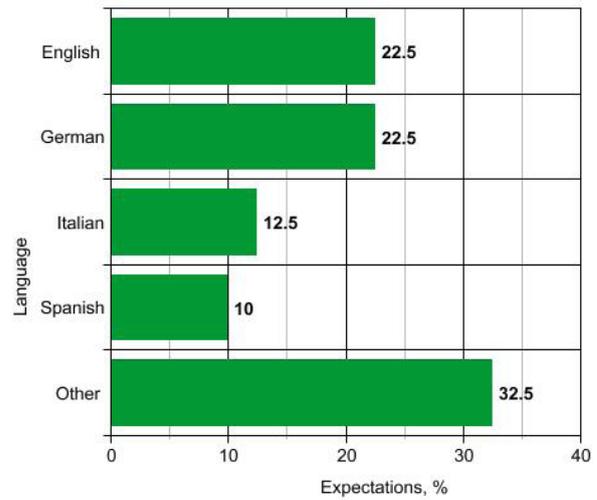
What type of services do you expect to be in greatest demand by your clients in next 3 yrs?



Source: eXentix

Chart 2

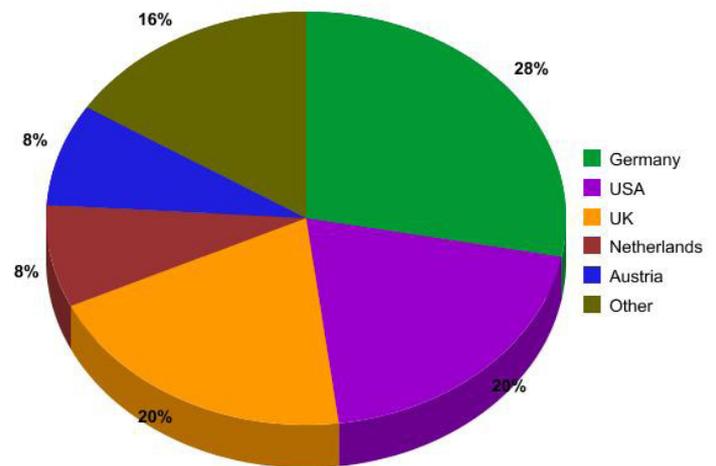
Which languages do you think will be in greatest demand?



Source: eXentix

Chart 3

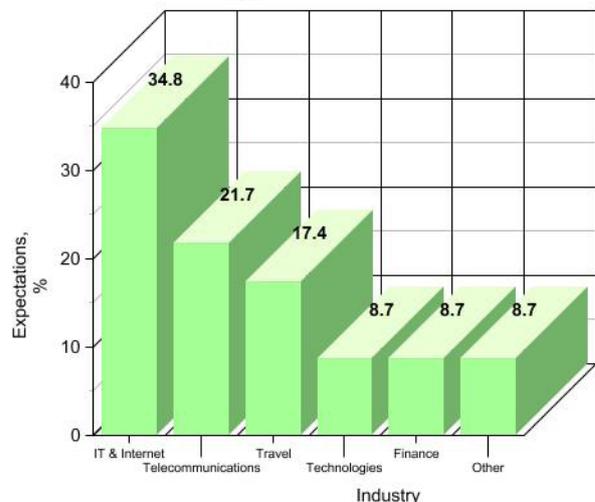
Biggest source countries for new contracts



Source: eXentix

Chart 4

Biggest source industries for new contracts



Source: eXentix

## THE REGIONAL PICTURE

India is considered to be Bulgaria's biggest global competitor with 41.2% of the responses.

It is followed by Egypt with 17.6% and the Philippines with 11.8%. Interestingly, China, which many experts say is already a close second after India in the list of the biggest outsourcing destinations globally, is way down in the ranking with just 5.9%.

Within the region of Central and Eastern Europe (CEE), the surveyed managers say Poland and Romania are Bulgaria's biggest competitors. Both countries were singled out by 22% of the respondents. Slovakia and the Czech Republic came in second with 11% each.

In the past few years a new trend has become evident within the outsourcing industry in Bulgaria. In addition to the capital Sofia, a host of new regional cities are emerging as the new big outsourcing hubs in the country, increasingly attracting attention.

Sofia has so far been the main market for locating outsourcing centres. More recently, there has been interest and increased activity in the country's second most populous city of Plovdiv

in central Bulgaria, as well as Russe, north-eastern Bulgaria on the Danube, and Varna on the Black Sea.

## 4 CONCLUSION

Bulgarian offshoring industry, although still very young, is gathering momentum and is set to grow on a steady basis in the coming years. There are many favourable factors and undoubtedly much room for development, provided a number of circumstances are at place.

Western countries are increasingly looking at the country as a possible offshoring destination, instilling a sense of optimism throughout the industry.

The greatest risks are associated with the country's underdeveloped infrastructure, possible shortage of skilled multilingual staff with special qualifications and the lack of a focused government-backed strategy necessary to guarantee the industry's sustainable development.

## ABOUT EXENTIX

eXentix is an advisory company based in Sofia, Bulgaria. It is focused exclusively on the BPO segment of the offshoring market in Central and Eastern Europe. It co-operates with leading global and European consulting companies, BPO providers and institutions with a view to providing market players with in-depth market insight and analyses.

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