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Establishing a strong BPO industry in Albania

13th February 2017

RisiAlbania
Partner for Growth

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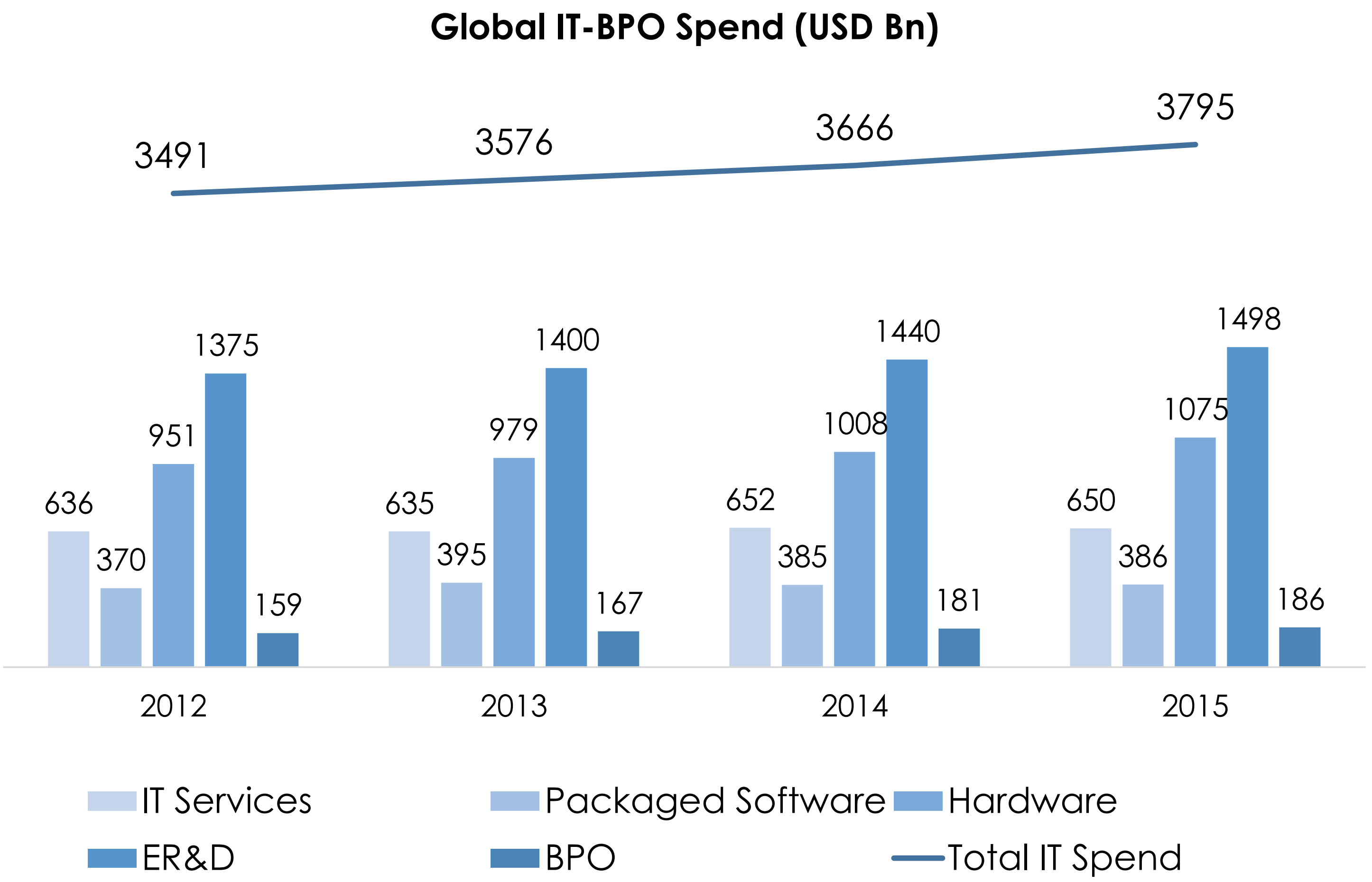
The global BPO landscape

Opportunities for Albania

Developing and Promoting Albania as a viable BPO destination

How large is the Global Outsourcing (IT-BPO) Market Size?



- Global IT-BPO market recorded steady growth in 2015, with worldwide spend of USD 3.8 trillion and the growth over 2014 was pegged at 4%
- The largest spend was on Engineering R&D followed by hardware that formed 40% and 26% of the entire global spend
- Americas remained the largest market 61%, while APAC recorded highest growth of almost100%, driven by fast growth in bundled IT-BPO services
- A combination of traditionally high spending verticals such as insurance and government along with emerging verticals such as automotive and retail were key growth drivers for the IT- BPM segment during 2015

Global IT-BPO Services Delivery Landscape - Changing Dynamics

In just over two decades, IT-BPO sector has been transformed into one of the most widespread industry/services sector globally with a continuing appetite for further geographic expansion. As established locations move up the value chain newer locations enter the fray to fill the gap.

ESTABLISHED DESTINATIONS

> Increasing Resource Pool Saturation
> Increasing Cost (Resource Pool, Real Estate)
> Infrastructure Stress
> Increasing Social and Geo Political Risk factors
> Increased Attrition
> Growth in Other Services Verticals

EMERGING DESTINATIONS

> Untapped Resource Pool/ High Retention
> Untapped Domestic and Regional market
> Low-cost Resources
> Improving Infrastructure
> Increased Govt. Interest in Sector Development

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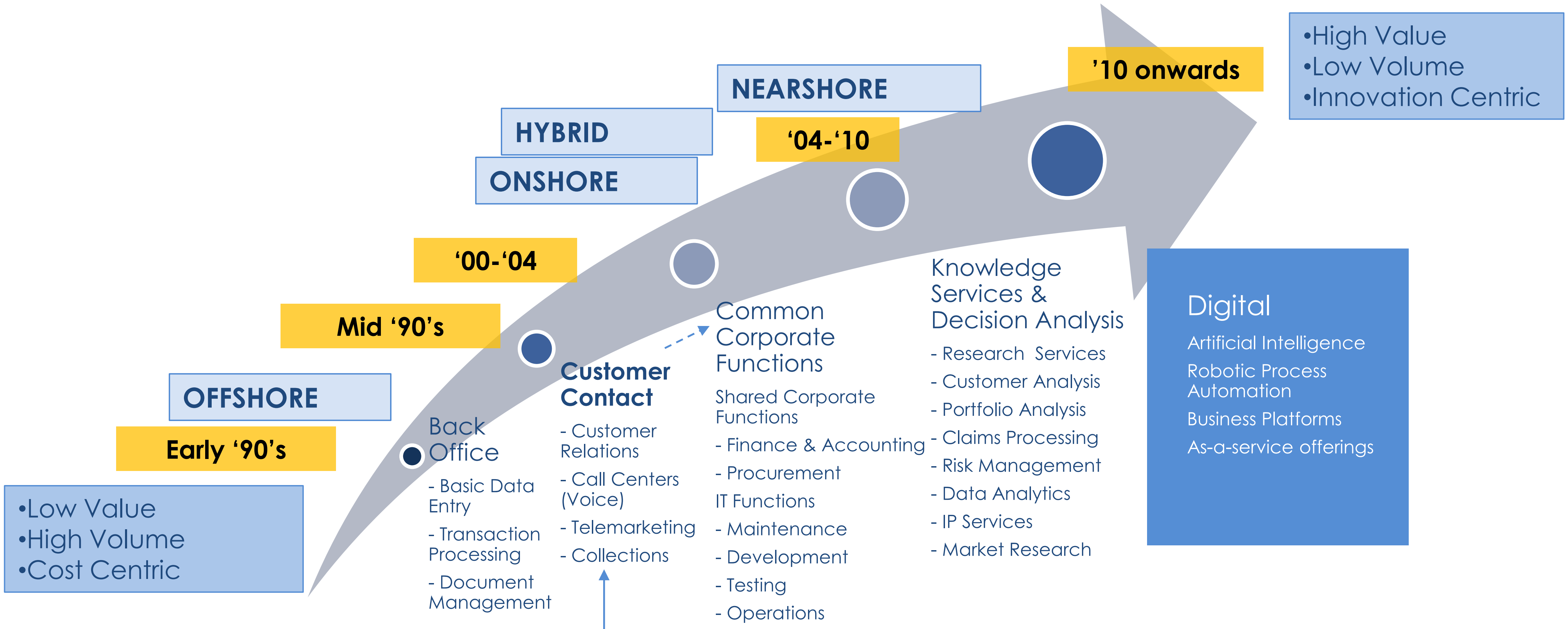
Evolution of Delivery Locations – ‘Off’ to ‘Near’ and ‘Vendors’ to ‘Partners’

Beginning with achieving labor and cost advantages, Outsourcing has now evolved to become a mission critical process that impacts a buyer’s core business model, drives market growth and enables its globalization strategy



Albania is currently strong in customer contact services and is maturity its capacity towards corporate functions such as HRO and F&A

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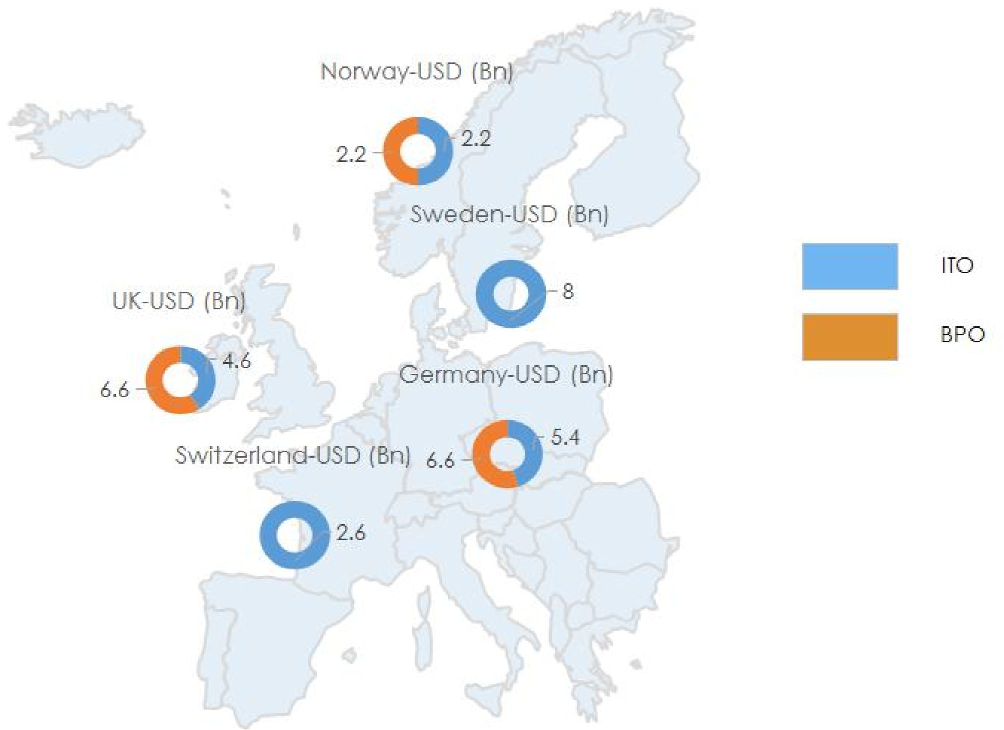
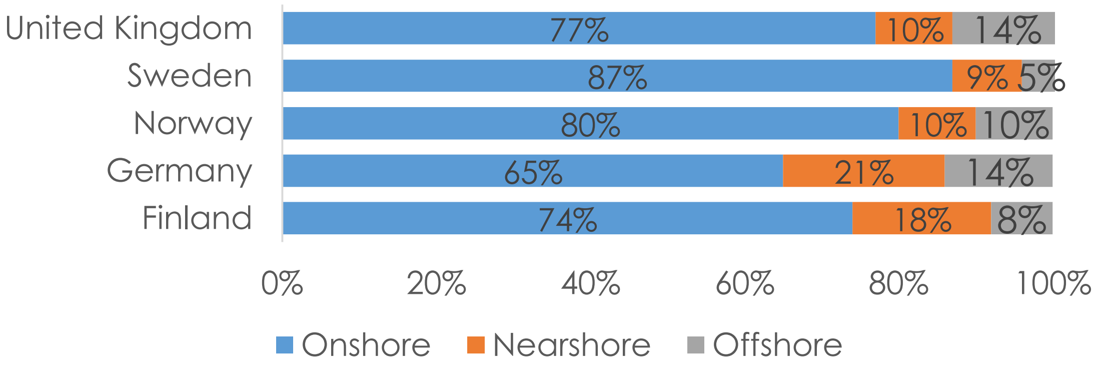
What are the trends in the European nearshore market?





- As globally, IT forms a bigger part of outsourcing spend in Europe
- Germany & United Kingdom are the leading outsourcing spenders in Europe, along with Norway and Sweden
- Automotive & Aerospace (USD 12.9 Bn), Banking & Financial Services (USD 22.4 Bn), Government (USD 12.9 Bn) & Telecommunications (USD 26.3 Bn) were the largest spenders among the industry verticals
- European companies prefer nearshoring to offshoring
- Out of the verticals, Telecommunications, Oil and Gas and Life Sciences had the highest propensity to 'near-shore' their services

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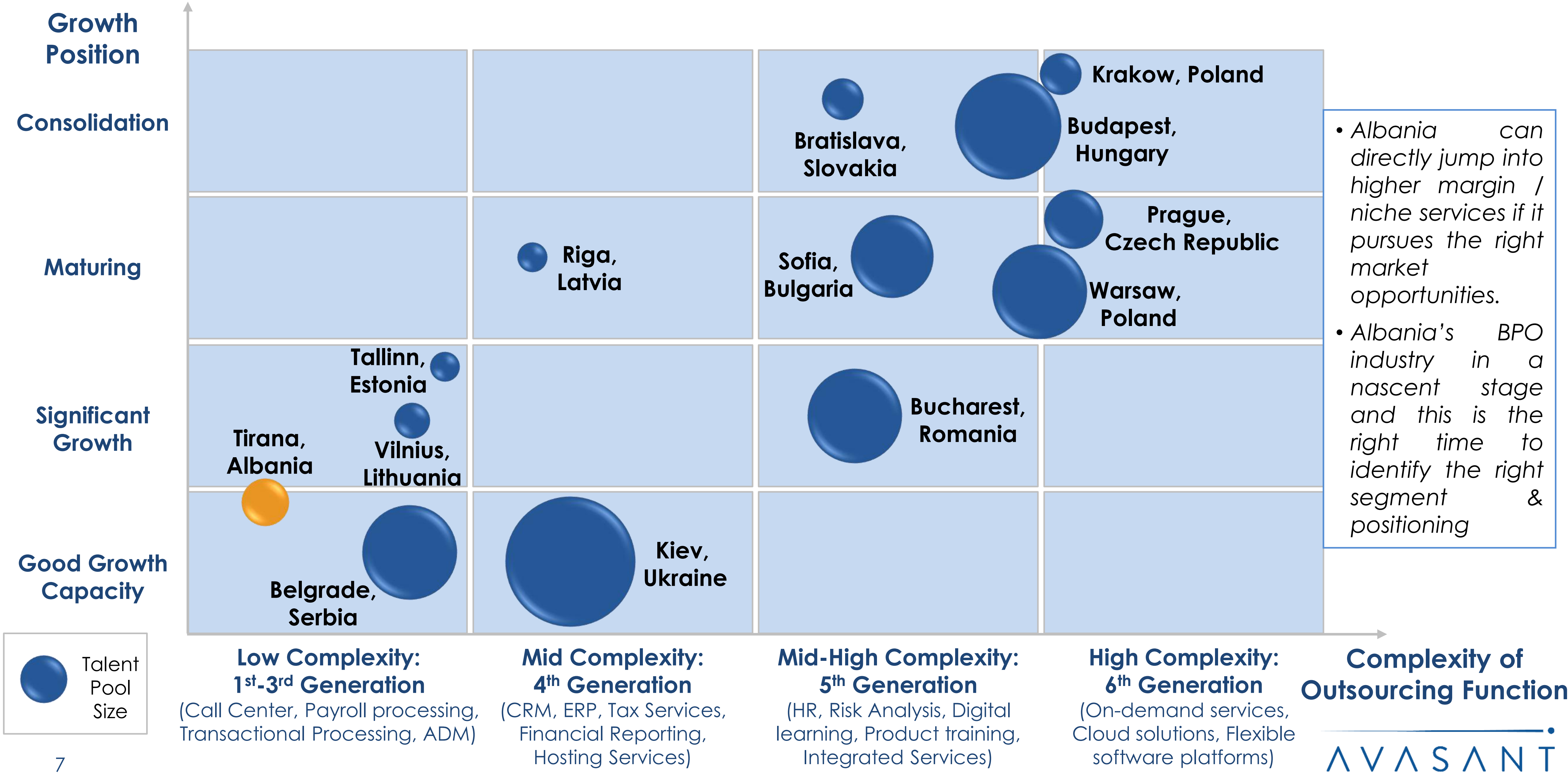
Riding the right wave will exponentially grow the sector in Albania



- *Albania can directly jump into higher margin / niche services if it pursues the right market opportunities.*
- *Albania's BPO industry in a nascent stage and this is the right time to identify the right segment & positioning*

The BPO industry has had a significant positive impact on Emerging and Developing Countries…

- **Increased Pool of Educated Resources**

- **Reduced Unemployment**

- **Women constitute 35% of the growing outsourcing industry**

- **Reduced "Brain Drain" – Retention of Talent**

- **Improved Global Standard of Living**

- **Improved Transparency**
- **Higher Accountability**

- **Direct : Indirect Job Creation Ratio 1:2.5**
- **Snowball Effect on Other Industries**

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The global
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Albania: BPO Industry Profile

Industries served by Albania's Outsourcing Sector

Banking, Financial Sector and Insurance

Healthcare and Pharma

Energy& Utilities

Telecom, Media and Entertainment

Travel, Tourism and Logistics

Retail & e-Commerce

	Service Line - 1	Service Line - 2	Service Line - 3	Service Line - 4
Voice Inbound	Technical Support	Help Desk & Concierge	e-Commerce Customer Care	
Voice Outbound	Telesales	Promotion Campaigns	Loan & Card Collections	Lead Generation
Transaction Based	Data Entry and Analysis	Translation	Document Processing	Finance & Accounting
KPO Services	Stock Exchange Agents	Legal Services	HR Recruitment	Market Research & Surveys

The total industry size is estimated to be between $120 Mn and $140 Mn

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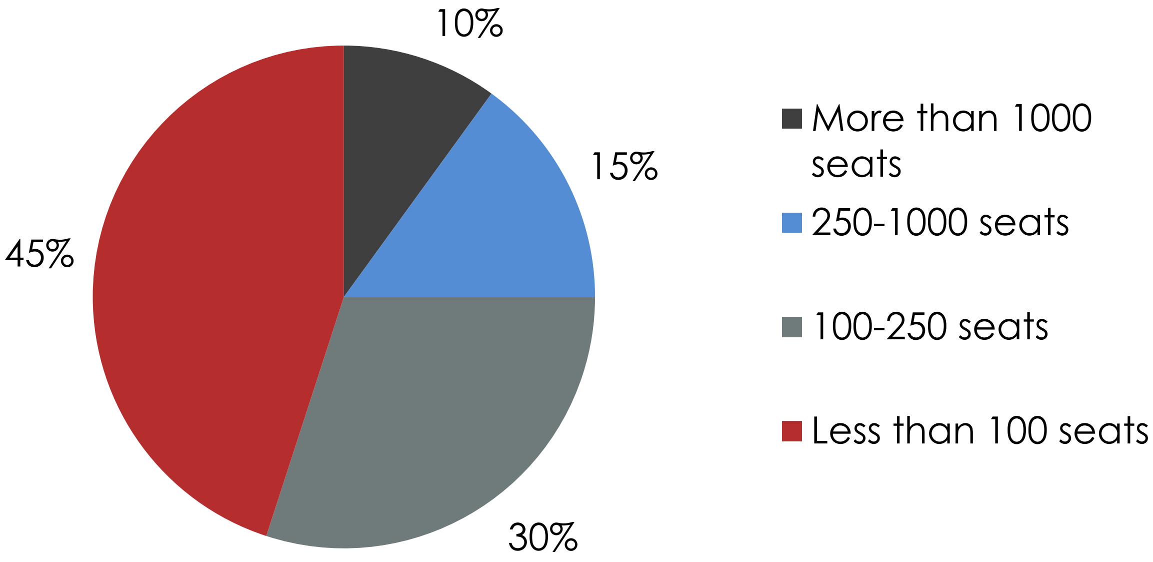
Albania: BPO Industry Profile

The outsourcing sector in Albania has seen steady growth in recent years. The Albanian BPO industry employs between 25,000 to 32,000 professionals across the sector.



Albanian BPO firms by employee strength

Tirana is the outsourcing hub of Albania, followed by Durrës, Vlorë and Shkodër. Elbasan, Fier and Korçë are the other upcoming outsourcing centers in the country. Some of the major BPO companies operating in Albania:

Tregi Marketing Group

Albania's strengths lie in its capable young workforce that are challenged by lack of scalability and targeted export promotion

Albanian BPO Industry

Strengths

- Multilingual capabilities & young population
- Stable & one of the fastest growing Europe economies
- 3rd Least expensive across 38 European Countries
- Investor Friendly- ranked 8th globally in "Minority Investor Protection"
- One of the most easily accessible countries in the European region as per visa and work permit rules
- Among the most economical near shore BPO destinations

Weaknesses

- Lack of talent pool scalability
- BPO sector is largely fragmented and comprises of small enterprises
- Lack of BPO sector specific support
- Lack of unified outreach to the buyer and the investor community globally
- High call tariffs as compared to other destinations
    - Utilities including broadband are comparatively less affordable

Opportunities

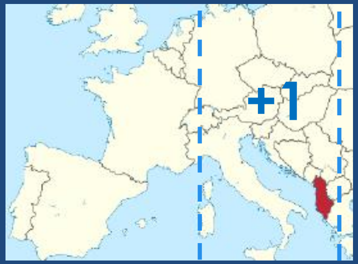
- Albania can be a "partner" nearshoring destination for more matured locations
- Given its multilingual capabilities, it can focus on exporting BPO voice and non-voice services to other countries such as Germany, France and UK
- To take advantage of the present finance and accounting talent, the service providers can focus on exporting more transactional processes such as F&A
- The country also has budding export capability in digital processes such as block-chain technologies

Challenges

- export is largely dependent on telemarketing and contact support for Italy
- Italy has also introduced a legislation that allows customers to choose the country of call's origin which might deter some of the customers to choose Albanian call centers
- Since Albania is not yet a member of EU, importing services from Albania may be a concern for some clients

ALBANIA – THE TRUE NEARSHORE

NEXTDOOR



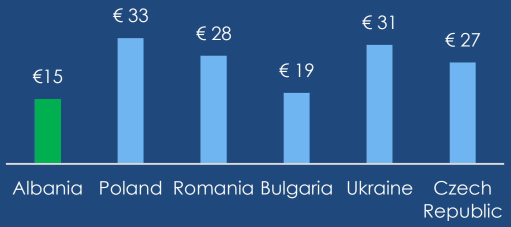
South Eastern Europe
Time Zone: CET (UTC+1)

Multilingual population

Cultural Affinity

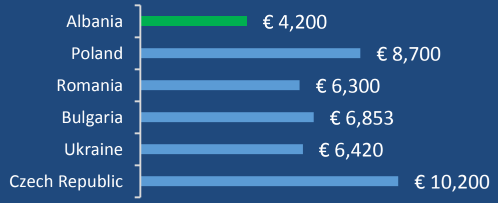
REAL SAVINGS

CLASS-A OFFICE RENTAL (SQM / MONTH)



Real Estate **~40%** cheaper

CONTACT CENTER AGENT SALARY



Salary **~50%** lower

PEACE OF MIND

EU Candidate

Mature laws mirrored to EU

Stable Republic

NATO member

Ranks 8th Globally in Minority Investor Protection

DEVELOPED SECTOR

Serves many verticals

Approx. **32,000** employees

State of the art Telecom

Multi-channel capabilities

SMAC ready

UNTAPPED PROFESSIONALS

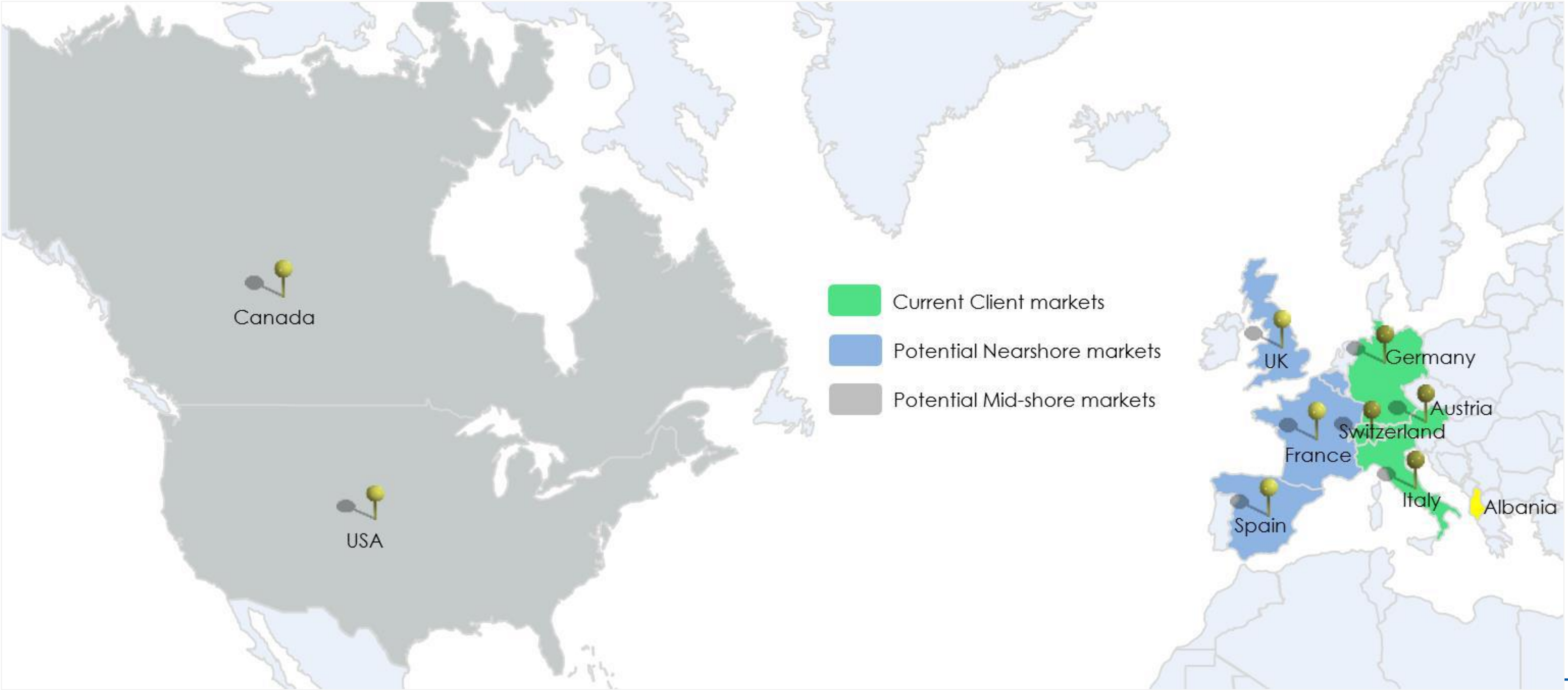
Service Orientation

32% 25%
Surplus talent Supply
(15-24 age group)

160,000 Annual University Enrollments

Market Analysis- Target Geographic Markets

Here are the key target markets for Albania's unique capabilities. Analysis reveals that Albanian BPO Providers can differentiate by positioning itself as a bilingual / trilingual Nearshore location for Contact Centers and Back-office processes.



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Approach to Target Markets

Approach	Target Market
Buyer Markets • Cost effective BPO location (after having reached critical mass) • Focus on quality delivery & technically advanced - multi-channel capabilities • Graduate to niche services leveraging Digital, Analytics & Automation	1. Italy 2. Germany 3. France 4. US/UK 5. Canada
Nearshore Locations • Spoke to a Regional Hub for Contact Center & Back - office (low / mid value services outsourced to Albania while established locations undertake high-end, complex and limited scalability tasks) • Redundant center with BCP-DR for mature CEE Nearshore locations • Alternative site for locations that are perceived as conflict ridden by international community	1. Bulgaria 2. Romania 3. Ukraine 4. Turkey 5. Egypt 6. Morocco 7. Jordan
Established Locations • Alternative location for risk mitigation – BCP / DR site • Engage with small and medium service providers in search of nearshore partnerships • Micro-work from large Service Providers & Aggregators such as SamaSource • Nearshore presence for Offshore Captive Providers	1. India 2. Philippines 3. Malaysia 4. Brazil 5. Indonesia

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Albania should progressively develop its service maturity in the following areas and target markets accordingly

Target Markets	Buyer Markets	Nearshore Locations	Nearshore/ Established Locations	Nearshore/ Established Locations	Nearshore/ Established Locations	Nearshore/ Established Locations	Nearshore/ Established Locations	Buyer/ Nearshore/ Established Locations
Service Offerings	Sales & Collections	CIS (Customer Interaction Services)	F&A (Finance & Accounts)	HRO (Human Resource Outsourcing)	Healthcare & Medical Transcription	KPO (Knowledge Services)	LPO (Legal Process Outsourcing)	Vertical specific services
Digitization								
Translation								
Transactional								
Process Specific								
Knowledge Intensive								

Short Term Focus (0-2 years)

Medium Term Focus (2- 4 Years)

Long Term Focus (4-5 Years and beyond)

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The global BPO landscape

Opportunities for Albania

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To mature its offerings, enhancing Albania's inherent capacity is crucial

Institutions and Legal Environment
Efficiency and Transparency of public administration, independence of judiciary, physical security and Corporate Governance

Infrastructure
Quality and Availability of transport, electricity and real estate infrastructure

Political and economic Environment
Fiscal and Monetary indicators
Political Stability

Education
Primary, Secondary and Tertiary Educations System

Market Size
Domestic market size
International Market Size

Labor Market Efficiency
Labor market efficiency and flexibility, Skill Base, Meritocracy and parity at workplace

Financial Market Development
Efficiency, stability and trustworthiness of the financial and banking system

Technology Readiness
Adoption and usage of technologies by individuals and businesses
Cost of technology

Innovation
Capacity and commitment towards technology innovations

Business Sophistication
Efficiency of business processes
Ease of starting and doing business

Incumbent Maturity
Size and maturity of Incumbents in the sector
Industry competitiveness
Skill and human capital

To mature its offerings, enhancing Albania's inherent capability is crucial

Strengthen Association

- Create a vision for the BPO industry
- Develop National Skill Registry
- Create case-studies and testimonials

Upgrade Capabilities

- Deepen vertical capabilities
- Promote resource up-skilling
- Invest in Technology

Lobby for Incentives

- Request Government for targeted incentives
- Ask for inclusion of IT-BPO as a focus sector

Invest in Human Capital

- Encourage talent pool to upskill though training and certifications
- Introduce vocational training courses
- Introduce people friendly HR Policies to check attrition

Collaborate for Infrastructure

- Leverage Tirana Business Park
- Lobby for favorable SEZ Policy
- Work with Telecom and Real Estate Sector for infra development

Upgrade skills by Academic Alignment

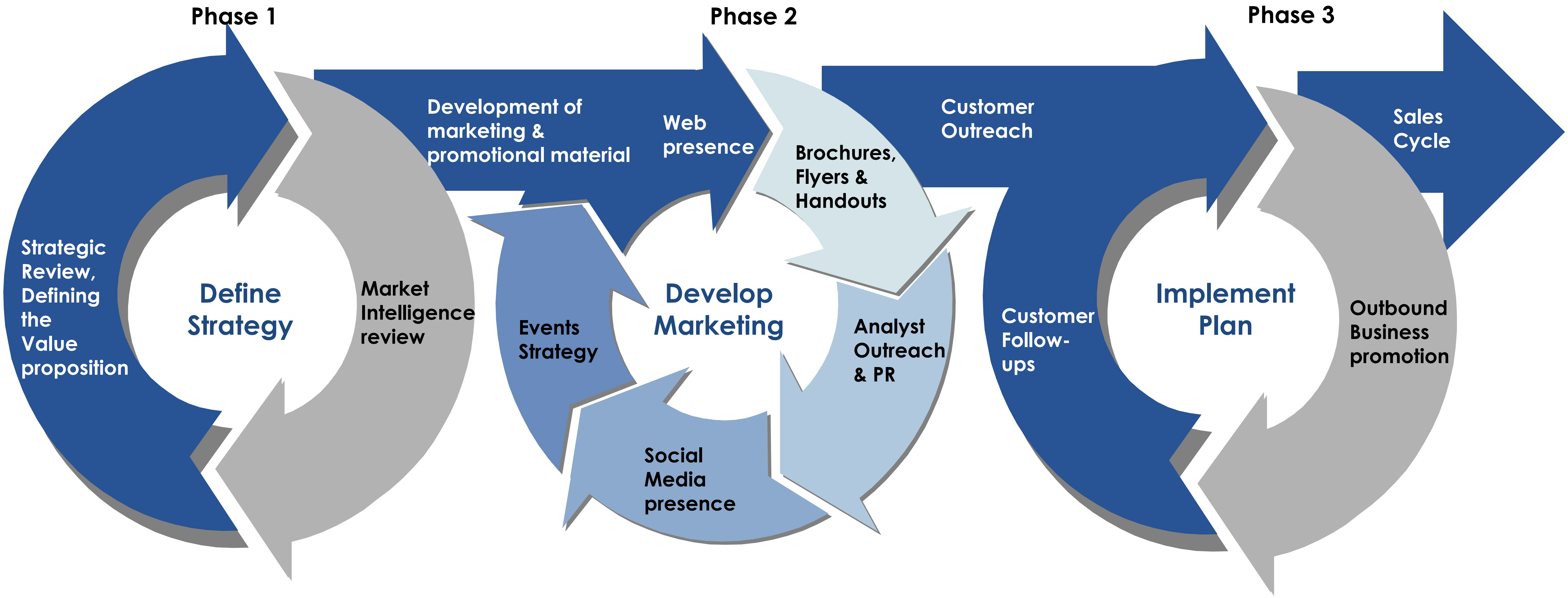
- Align university courses
- Skill development initiatives at a foundational level

Develop Standards & Legal Framework

- Adopt & percolate the BPO standards
- Build capacity for new services
- Policy advocacy for addressing gaps in laws and regulations

SHORT TERM | MEDIUM TERM

To get the timing of reaching to potential clients right, marketing and brand building should go hand-in-hand with the capacity development



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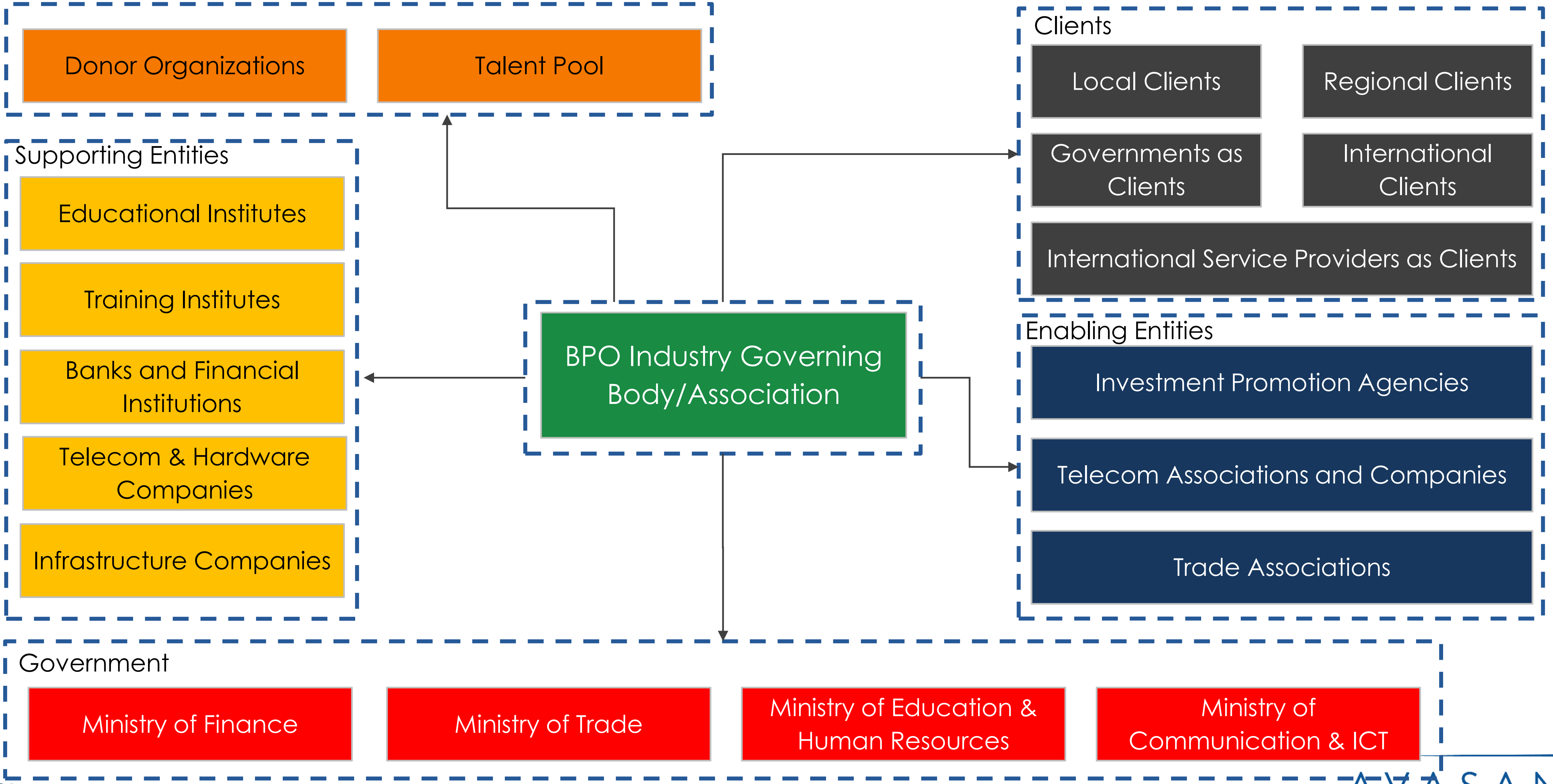
A coordinated collaboration between various industry actors helps synchronous development and promotion



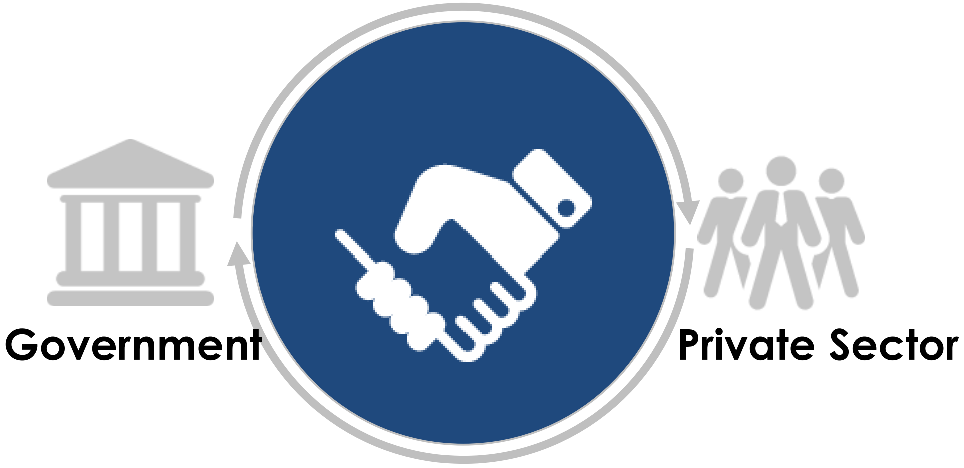
Public Private Partnerships are one of the most successfully leveraged mechanisms to promote the BPO industry

Infrastructure

- Joint funding for IT-Park, transport and road development
- Negotiating telecom provisioning & costs with international service providers

Skill

- Incentives and tax deductions for "opex" on training
- Aligning academic curriculum with industry
- Collaborating with training service providers for mass skilling



Marketing & Branding

- Joint funding international & local marketing events
- Liaising with embassies in international target market to promote the industry
- Facilitating creation of networks and associations

Innovation

- Developing digital government services in partnership with local service providers
- Dedicated R&D and innovation hubs, facilitated by the Government

IT-BPO policy environment that have helped the industry grow in CEE

Serbia

- Corporate Profit tax capped at 10% only
- Custom free import of Machinery, Equipment and Semi finished Goods
- Companies are exempt from Corporate Income Tax for a period of 10 years starting from the first year in which they report taxable profit if they invest in fixed assets an amount exceeding approximately €8 million, and throughout the investment period if they employ at least 100 additional employees
- A 5-year tax holiday is granted for concession-related investments
- The tax loss stated in the tax return can be carried forward and offset against future profits over a period up to 5 years
- Income generated commercially in the Free Zones is exempted from VAT

Service Maturity: Low
Service Portfolio: Call Center, Payroll processing, Transactional Processing, ADM

Romania

- Employers running professional training programs for their employees may apply for a refund of 50% of their expenses for up to 20% of their workforce
- Monthly grant of 1-1.5 times the national minimum gross salary for each new graduate of a recognized institution, for a period of 12 months.
- Employment incentives are also granted to companies which hire unemployed persons aged over 45, as well as for employment of an individual who is the sole supporter of their family.
- Salary income related to the design and creation of software is exempt from tax
- IT freelancers may be taxed on a deemed income, established by the local authorities, regardless of actual income

Service Maturity: Medium
Service Portfolio: HRO, F&A, IT-BPO Bundled services

Poland

- Exemption from corporate Income Tax
- Exemption from real estate tax
- Governmental financial support for creation of new jobs
- Aid will range from PLN 3 200 to 18 700.
- 1-10% of aid on costs for new financial investments
- Companies operating in Poland can obtain training grants within the Human Capital Operating Program (hereafter: HC OP). It is possible to apply for financial support for either General or Specialized training
- The maximum aid level ranges from 60% to 80% of eligible costs for general trainings and 25% to 45% of eligible costs for specialized training

Service Maturity: High
Service Portfolio: Digital Services, Product Development, BPO Platforms

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Empowering Beyond

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