

Roadmap for Integrated Investment Promotion of BPO sector in Albania

Technical Note

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Introduction

The global IT-BPO services delivery landscape is undergoing a significant transformation. 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. With established outsourcing locations facing challenges like: increasing resource pool saturation, increasing operating costs, infrastructure stress and increasing attrition, emerging destinations like Albania have a huge opportunity. As established locations move up the value chain, newer locations enter the fray to fill the gap.

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. The outsourcing strategy of firms have evolved from a low value, high volume and cost-centric offshoring strategy to a high value, low volume and innovation centric near-shoring strategy. IT/BPO service providers who were once seen as vendors providing a piece of a business solution are now considered as partners integral to the business strategy of a firm.

Organizations are now increasingly integrating digital with their business strategy and operations. This is enabling them to not just predict and better align with their customers' needs but also identify and actualize new opportunities. While in the last decade, efforts were focused on productivity improvement and innovation, in this decade the focus will be on customer centricity, agility and disruption. This focus will be powered by the digital technologies - Social Media, Mobility, Analytics, Cloud Technologies, Automation and Robotics. And while organizations are embracing the change, they are attempting to balance their investment in digital to "explore the new" with the spend on IT to "maintain the old" and run it better.

Digital technologies have further enabled customers to self-serve anytime, anywhere, given rise to more specialized product vendors and normalized and commoditized the service pricing. This has reduced the dependency on cost-arbitrage driven service offering of offshore models and increased the demand of nearshore destinations due to faster response time and cultural affinity.

Owing to these trends, 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 percent. The largest spend was on Engineering R&D followed by hardware that formed 40 percent and 26 percent of the entire global spend. Americas remained the largest market 61 percent, while APAC recorded highest growth of almost 100 percent, 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.

The changing dynamics of the outsourcing industry, business demand and global IT/BPO market indicate the availability of new avenues and opportunities for Albania to capitalize on. This technical note seeks to analyze and identify the opportunities available for Albania's BPO industry and the roadmap it should pursue for development and promotion of BPO sector in Albania.

Trends in 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 (Refer Figure 1). European companies prefer nearshoring to offshoring. This is primarily because of the relative superiority in the ability of nearshore peers to understand and meet the demands of the European market.

Services such as F&A, and CIS are most commonly near-shored. Out of the verticals, telecommunications, oil and gas and life Sciences have the highest propensity to 'near-shore' their services in Europe. Other commonly outsourced services in the region

include legal, facilities management, payroll, logistics and customer integrated services. Out of these, outsourcing of customer integrated services and procurement are expected to grow at 8-10% and 12-15% respectively in the near future.

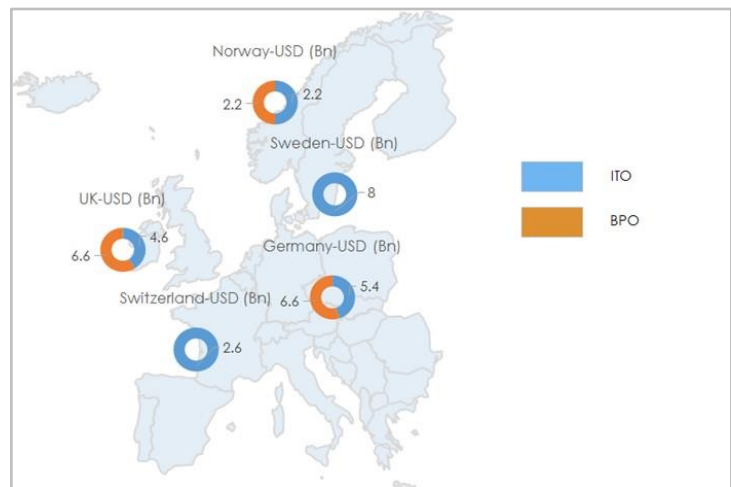


Figure 1: European outsourcing locations & their market size

The BPO spend in the Europe and Middle East and Africa (EMEA) region increased annually by 83 percent in 2015. However, this growth has to be considered from the perspective of a lower base value that existed in 2014. There has also been volatility in the outsourcing market over the last four years. This is representative of slow economic recovery, apprehensions in the buyer market coupled with global events such as the Greek crisis and Brexit. However, over the last two decades more countries in the region are increasingly getting more comfortable with outsourcing. Countries with a low level of outsourcing maturity are now showing greater promise to scale up their maturity level than before.

Impact of BPO Industry on Emerging Markets

The BPO industry has had a significant positive impact on emerging economies around the world. Some of the direct and indirect effects of the development of global BPO industry are:

- Improved standard of living for people who are part of the BPO sector owing to better and competitive wages offered by the sector vis-à-vis other sectors
- Reduced unemployment owing to the number of new direct and indirect jobs that are created as a result of the industry. It is estimated that for every new job created in the BPO sector, the number of indirect jobs that are created is 2.5.
- Development of the BPO sector also has a snowball effect on other sectors, i.e. it creates strong forward and backward linkages with other sectors of the economy. This translates to greater demand for other sectors, leading to overall growth and development of the economy.
- Increase in the demand and quantum of skilled labour available in the market
- Retention of talent or skilled labour, leading to higher value addition to the national economy
- Empowerment of women owing to the presence a large proportion of women working in the sector. For example, women constitute about 35% of the total outsourcing industry.
- Enhancement in competitiveness of firms and countries due to improved transparency and higher accountability that the sector enforces on its stakeholders

Opportunities for Albania in the BPO sector

Situated strategically in the East Balkans, Albania provides for a very advantageous and safe option as a nearshore destination. With a thriving democracy and some of the best infrastructure in the region, Albania is steadily emerging as a destination of choice for businesses in the region. A young and dynamic workforce with a population of close to 3 million makes it an excellent, cost effective human capital hub, especially for knowledge oriented work. The workforce in Albania have a flair for multiple languages and can speak languages such as: English, Albanian, Greek, Italian, German, French, Turkish and Serbo-Croatian. Albania is constantly working towards doing business easier and this is evident from the global ease of doing business rankings. As per the Doing business rankings 2017, Albania ranked 19 out of 190 countries for protecting minority investors and ranked 58th in the overall rankings.

BPO Industry Profile

The Business Process Outsourcing (BPO) sector in Albania has seen steady growth since its inception and currently employs close to 30,000 professionals. Tirana is the BPO hub of Albania, followed by Durrës, Shkodër and Vlorë. Elbasan, Fier, Lezhë and Korçë, which are the other upcoming BPO centres in the country.

Albanian BPO companies have a very mature offering in the outbound tele sales and telemarketing service areas and are now looking at further climbing up the value chain by providing high value services as well as IT services. The table below lists the various BPO services offered by Albanian companies:

	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 current set of services exported are mainly focused on telemarketing, customer care, transactions and knowledge process outsourcing services. Companies such as Deloitte are now providing software development and accounting services to Italian firms from their Albanian delivery centres. LocalEyes is another company providing localization services for companies like Apple and Teleperformance, which is one of the leading global BPO's has also set up operations in Albania.

Albanian BPO companies serve a host of vertical industries. The following figure (Figure 2) presents a snapshot of the industries that are serviced by the Albanian companies.



Figure 2: Albania BPO Industry Verticals, Source: Avasant Market Research

The Albanian companies in BPO sector primarily serve the Italian markets, leveraging the Italian linguistic skills and providing a cost advantage in the range of 40-45%. Over the past five years, the country has become the destination of choice for Italian businesses that are looking to outsource voice based customer integrated services. Majority of end users of the call centre services are Italian customers and wider European customers of Italian companies. Albanian BPO firms are now diversifying to other nearshore markets such as Germany, Switzerland, France and Great Britain.

BPO Ecosystem Analysis

Before strategizing and positioning Albania as a BPO destination of choice, it is important to analyse some of the strengths, weaknesses, challenges and opportunities that are available and inherent to the country.

Strengths

- Multilingual capabilities & a young population
- Stable & one of the fastest growing economies in Europe
- 3rd least expensive among 38 European countries
- Investor friendly and 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 and promotion
- 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

Challenges

- 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
- The export is largely dependent on telemarketing and contact support for Italy

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

Albania BPO Value Proposition

Albania has a number of inherent advantages which enables it to provide a unique value proposition as a BPO service delivery location. The key value propositions that Albania offers are:

- **Attractive Nearshore Location**

- > Near-shore to many European countries. Albania is less than 2 hours flying time away from large markets such as Italy, France, Germany and Switzerland.
- > The country has cultural affinity with developed European markets and a young multi-lingual population who understand the needs of the nearshore market.

- **Conducive BPO Ecosystem**

- > Albania has a sustainable talent pool with a high proportion of graduates in Business, Law, Humanities and STEM courses
- > A large pool of untapped professionals with a service orientation, who can be easily trained to meet demands of scalability and growth in the market
- > Presence of a suitable physical and broadband Infrastructure – air and land transport, business parks like the Tirana business park, good level of internet penetration and fixed line connectivity
- > Experience servicing clients across multiple verticals like health, energy, media, transportation, retail, etc.

- **Cost Effective Outsourcing Destination**

- > Albania offers competitive labor and operating Costs – the average labor wage is almost half of Italy
- > Albania is the third least expensive country in Europe
- > Renting/leasing of office space and utility costs are economical compared to near-shore outsourcing peers

- **Enabling Political and Regulatory Climate**

- > The country is politically stable, and has an open economy and a liberal foreign trade policy
- > Presence of a liberal visa regime
- > Member of NATO and official candidate for accession to the EU

- > Sound investor protection policies

Approach for Target Geographic Markets

The figure below (Figure 3) indicates the key target markets for Albania's unique capabilities. Analysis reveals that Albanian BPO providers can differentiate by positioning themselves as a bilingual/trilingual nearshore location for contact centres and back-office processes.

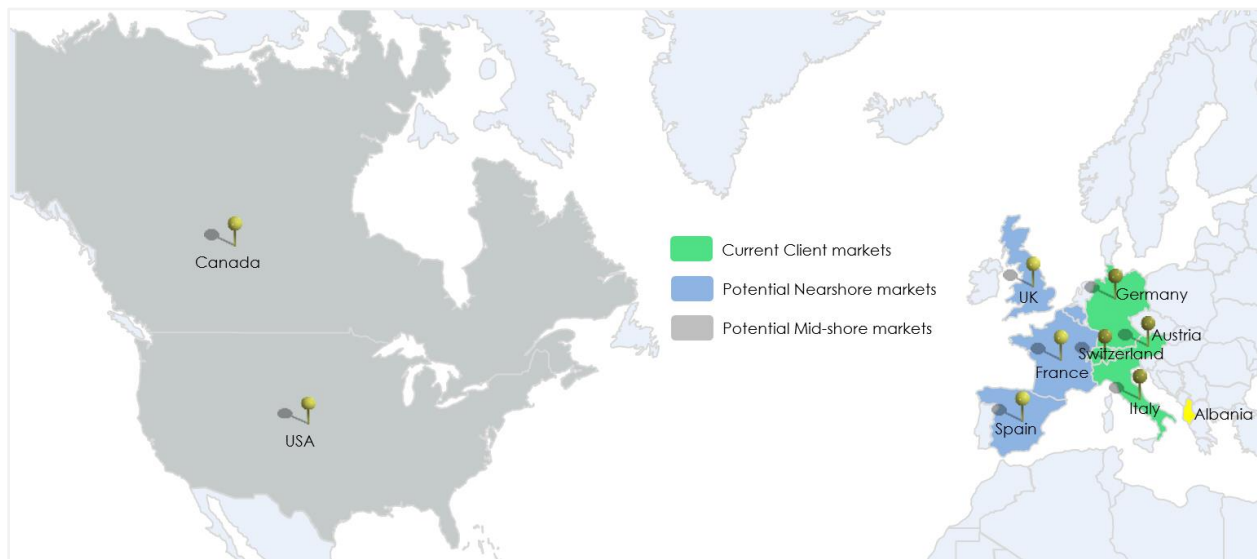


Figure 3: Target geographic markets for Albania

Albania's BPO industry is in a nascent stage and this is the right time to identify the right segment & positioning. It can directly jump into higher margin / niche services if it pursues the right market opportunities. The table below highlights the specific approach that Albania can pursue in target buyer markets, nearshore and established locations.

Approach to Target Market	Target Markets
Buyer Market	
• 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
Near Shore 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

Albania should further 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)

BPO Industry Development Roadmap & Recommendations

To successfully develop and enhance the profile of Albania as an important BPO service delivery location and promote investment in the sector, the government of Albania should follow a three pronged approach:

- 1. Capacity Development:** Build capabilities necessary to deliver high value BPO services from the country
- 2. Marketing and Brand Building:** Develop a marketing strategy and initiate a brand building exercise to highlight Albania's unique value proposition
- 3. Stakeholder Collaboration and Partnerships:** A coordinated collaboration between various industry actors to synchronize BPO development and promotion

Capacity Development

To enhance Albania's BPO capabilities, the government should prioritise building the following capacities (not in any particular order).

- **Strengthen Association**
 - > Create a mission and vision statement for the BPO industry
 - > Develop a national skills registry, which can act as a repository to track and understand the nature and level of skills available in the country
 - > Create case-studies and testimonials of successful engagements executed by Albanian BPO companies, which can both serve as a marketing tool and also a learning reference for other small companies that are mushrooming in the country
- **Upgrade Capabilities**
 - > Deepen vertical capabilities to provide specific industry based solutions
 - > Promote resource up-skilling to move up the BPO value chain in the medium term
 - > Invest in new technology and processes to stay relevant and address emerging needs of clients
- **Lobby for Incentives**
 - > Request Government for targeted incentives focusing on the BPO sector
 - > Ask for inclusion of IT-BPO as a focus sector in the national development plan

- **Invest in Human Capital**

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

- **Develop Standards & Legal Framework**

- > Adopt & percolate the use of BPO standards
- > Build capacity for new service offerings to diversify risk and to access new markets
- > Advocate policies for addressing gaps in existing laws and regulations related to the IT-BPO sector

- **Upgrade Skills by Academic Alignment**

- > Align university courses to the skill requirements of the market
- > Undertake skill development initiatives at a foundational level

- **Collaborate for Infrastructure**

- > Leverage Tirana business park to setup new or additional BPO infrastructure
- > Lobby for favorable SEZ policy that can incentivize fresh investments in the IT-BPO sector
- > Partner with stakeholders from the telecom and real estate sectors for infrastructure development and expansion

Marketing & Brand Building

Effective marketing and brand building is another important lever for investment promotion and development of BPO industry in Albania. To get the timing of reaching to potential clients right, marketing and brand building should go hand-in-hand with the capacity development. The marketing and brand building exercise can be pursued in three phases:

- Phase 1: Strategy Definition
- Phase 2: Development of Marketing Plan
- Phase 3: Plan Implementation

Phase 1: Strategy Definition

Defining a value proposition is the first step in developing a sustainable investment promotion strategy. As indicated earlier in this note, Albania should highlight the following four key value propositions:

- Attractive nearshore location
- Conducive BPO ecosystem
- Cost effective outsourcing destination
- Enabling political and regulatory climate

The next step in strategy definition is to come up with a branding strategy. Brand building is a continuous process, which is enhanced through positive investor experience of the country. Keeping this in mind, the objective should be to define what Albania as a brand offers to the target markets and then propagate the proposition through appropriate promotion channels. While doing this it is important to improve messaging and marketing through a feedback loop. The key message components of the branding exercise should focus on the following aspects related to Albania:

- Near-shore & Cultural Affinity to Europe
- Value for money
- Human Capital
- Infrastructure
- Business Incentives and Policies
- Business Environment

Phase 2: Development of Marketing Plan

An effective Marketing and Promotion plan entails utilizing key communication channels, employed independently or in conjunction with each other. Digital channels should assume prominence as part of the AOA's and AIDA's communication and PR strategy.

Website is among the most important components and provides high returns on investment. Typically, investors start the investment destination location exercise by undertaking internet search covering a sector and/or a region. A quality, informative and professional website coupled with effective search engine optimization can help to get a country on the investor's list. Information on the website should be continually added/updated to make it a holistic source of sector specific information. Marketing

through social media channels like LinkedIn, Twitter, Youtube, etc. should also not be overlooked.

Phase 3: Plan Implementation

Implementation of the marketing plan involves engaging in customer outreach activities like participating in outbound business promotion events and performing customer follow-ups. Events provide high visibility and avenues for networking. Event participation is critical to position Albania's value proposition to the international investor & buyer community.

- Strategic on-ground presence in key events as participant, sponsor, panelist etc. has a multiplier effect on investor interest as well as improving overall campaign effectiveness manifold.
- An effective event participation strategy is essential to ensure maximum return from marketing investment & management time.

Stakeholder Collaboration & Partnerships

A coordinated collaboration between various industry actors helps synchronous development and promotion of the BPO sector in Albania. The following figure (Figure 4) provides an indicative stakeholder BPO ecosystem and the linkages that Albania can look to establish between them.

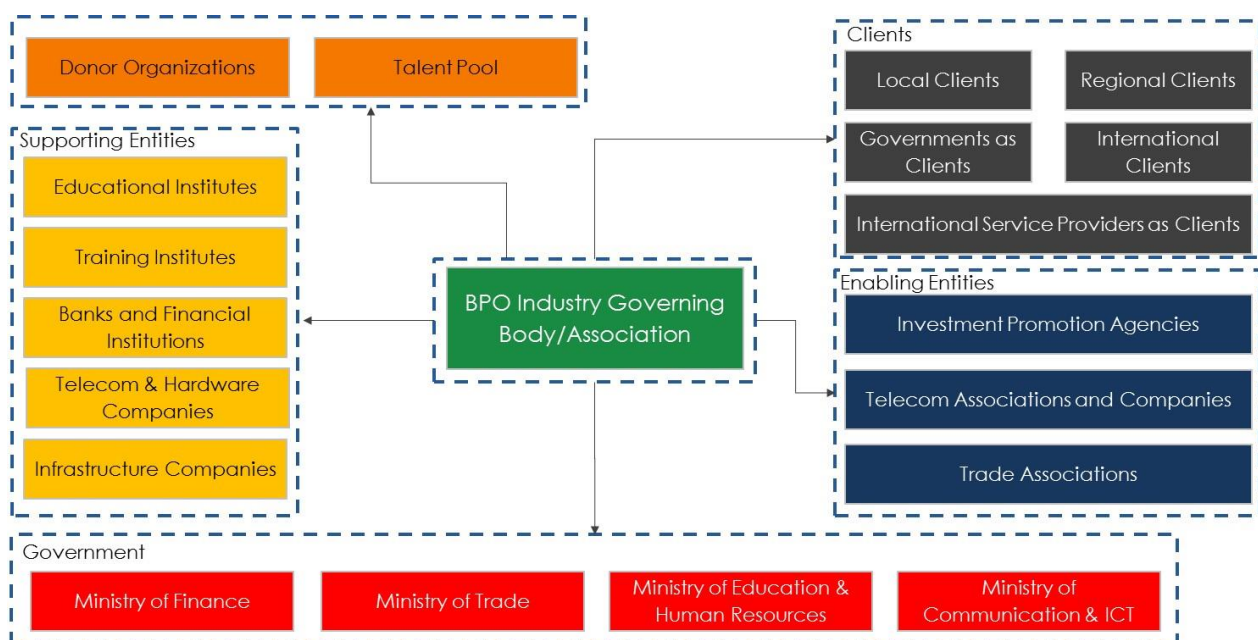


Figure 4: BPO Stakeholder ecosystem

Public Private Partnerships (PPP) are one of the most successfully leveraged mechanisms to promote the BPO industry. Government of Albania should enter into public-private partnership agreements to develop capacity around the following four levers:

1. Infrastructure:

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

2. Skill

- > Provision of incentives and tax deductions for “opex” on IT-BPO training
- > Aligning academic curriculum with industry
- > Collaborating with training service providers for mass skilling

3. Marketing & Branding

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

4. Innovation

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