Developing the BPO sector
The BPO partnership

The Department of Trade and Industry (the dti) represents the government in the partnership. Its vision is of a South Africa that has a vibrant economy, characterised by growth, employment and equity, built on the full potential of all citizens.

www.thedti.gov.za

The Business Trust combines the resources of business and government to accelerate the achievement of national objectives. The Business Process Outsourcing Support Programme was established to enable actors in the public and private sectors to work together to establish South Africa as a preferred location for business process outsourcing.

www.btrust.org.za

Business Process enabling South Africa (BPeSA) is the national co-ordinating body representing the interests of the business process outsourcing and offshoring sector in South Africa. The organisation represents the industry and has four regional arms in Gauteng, the Western Cape, KwaZulu-Natal and the Eastern Cape.

www.bpesa.org.za
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At the end of 2005 the government identified Business Process Outsourcing and Offshoring as a priority sector for the attraction of investment and creation of jobs. It was determined that business and government should work cooperatively to develop and execute a strategy that would make South Africa a preferred location for offshored business processes.

The Business Trust responded positively to the call for a partnership and allocated funding of R100-million to facilitate the process of interaction between the public and private sectors. A plan was developed to improve infrastructure, deepen the talent pool, create incentives, market South Africa’s inherent strengths to the international community, strengthen the industry association and assure quality.

By the end of 2006, Cabinet had approved a substantial Government Assistance and Support (GAS) Programme that would provide over R1-billion to stimulate this sector.

During 2007 and 2008, the work streams identified for the implementation of the plan were beginning to show results and investors started to respond to the Government Assistance and Support Programme.

We can now report that 20 new investments have been attracted through the government incentive scheme, including those from some of the world’s largest BPO operators. Investments worth R1.5-billion have been contracted. This will create 21 752 direct jobs and 65 256 indirect jobs against the target of 25 000 direct and 75 000 indirect by 2010. Since 2004, more than 35 000 unemployed people have been trained for this sector. The monthly cost of a two-megabit/second telecommunications line from South Africa to the UK has reduced from over R180 000 to R45 000 per month. Quality standards have been developed that are set to be adopted globally. Productive working relationships have been built between the Department of Trade and Industry and the industry association, Business Process enabling South Africa (BPeSA).

Much remains to be done. The cost of telecommunications remains an inhibitor to rapid growth in this sector; a systematic stream of work-ready entrants is required as an increasing number of global investors view South Africa as an attractive destination; and our ability to market our strengths in this area must improve. While conscious of the continuing challenge, the result achieved over little more than two-and-a-half years is a credit to the partners who have worked together to capitalise on South Africa’s potential in this high-growth sector.

Dr Rob Davies, MP
Minister of Trade and Industry
November 2009
Introduction

Attracting investment and creating jobs by developing the BPO sector
The business process outsourcing and offshoring opportunity for South Africa

Business process outsourcing and offshoring has been growing rapidly world-wide.

Contracting external agents to perform certain business functions is not new. But collaboration between companies and external service providers who are offsite and increasingly offshore, has increased rapidly with the universal use of email and the availability of high bandwidth and web-based connections.

This has given birth to a rapidly expanding business process outsourcing and offshoring sector (BPO&O). Outsourcing occurs when a company uses a third party to carry out certain of its business processes and offshoring is when these activities are performed in a foreign location. BPO includes:

- IT and technical services;
- call centre functions;
- financial accounting and administration;
- human resource functions;
- data conversion;
- entry and scanning;
- administration and maintenance;
- insurance industry functions; and
- website design and development.¹

BPO acts as a trigger for job creation and community development in developing countries.

Because of the channel through which the service is provided (telephone, email and internet) the service can be provided from anywhere in the world where there is adequate infrastructure and skills at competitive costs.

Developing countries like India and the Philippines have benefited significantly from this trend and will continue to do so. India created 1 172 000 new jobs in the sector between 2005 and 2008 and the Philippines 271 465 during the same period.²

BPO has the potential to make a significant contribution to accelerating and sharing growth in South Africa.

In 2002 the dti commissioned work as a basis for a customised sector programme for BPO. At about the same time the private sector participated in a research programme on the potential of the BPO sector. Both studies showed rapid world-wide growth in this sector, pointed to its potential for a positive impact on developing countries, and identified the opportunity for creating 100 000 jobs in South Africa over five years. In 2004 the global BPO&O industry was forecast to grow at 50% per annum over five years (resulting in growth of between $50 and $60-billion) and a window of opportunity was identified for South Africa to realise significant value by developing this sector of the economy. It was predicted that the sector had the potential to create 100 000 new jobs in South Africa (25 000 direct and 75 000 indirect) and contribute up to R16-billion to GDP over four years. A number of added benefits were also identified, including:

- knowledge enhancement as a result of the increase in the pool of highly skilled labour and the capacity of public and private training providers to service the industry;
- the enhanced image of the “South Africa brand” by promoting the country as a leading player in the knowledge economy; and
- infrastructure improvement arising from improvements in information technology and related services and utilities.

Because of its potential for accelerating and sharing growth, the BPO&O sector was identified as one of three priority sectors by government in 2005.²

SA had a good starting position to capitalise on this opportunity.

South Africa’s strengths include:

- strong capability in the highest growth sectors of banking, financial services and insurance (BFSI);
- English language capability;
- political stability;
- quality of life;
- attractive business environment; and
- a small, but growing BPO industry.

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In order to capitalise on this opportunity South Africa had to meet a number of critical challenges.

Business and government agreed that the BPO&O sector represented one of the best opportunities for South Africa to create new jobs and to generate sustainable economic growth. However, in order to realise that opportunity it was clear that South Africa would have to address a number of strategic challenges. These included:

- a shortage of agent and middle management skills;
- higher cost of operations than key competitors;
- negative perceptions of operational risks;
- relative difficulty in setting up new operations in South Africa;
- challenges with some enabling regulations;
- a limited vendor landscape (very few major anchor clients);
- an uncompetitive and comparatively expensive technology infrastructure; and
- an ineffective marketing effort.

The entry and operational constraints on the sector limit robust growth.

A number of studies completed in 2004 and 2005 on BPO in South Africa found five specific constraining areas that were hindering investment and growth in the sector. They are:

- high relative costs;
- skill shortages;
- lack of investor support;
- lack of marketing; and
- lack of experience and limited scale.

Research commissioned for the BPO Sector Support Programme concluded that the biggest problem is the skills shortage which will take time to address. Weaknesses in marketing and limited experience and scale, it was believed could be more easily addressed. The lack of investor support and relatively high costs, it was concluded, are related to the nature of incentives and affect different firms in different ways depending on whether they are domestic or foreign, captive or service providers.

In order to face those challenges business and government agreed to work together to make South Africa an attractive destination for outsourced business processes. This report describes that cooperative effort. To start with, the rationale had to be clear, a partnership had to be established, and a strategy agreed.
The rationale for providing support to this industry

The rationale for providing support to the BPO sector was that it would help South Africa to meet its development objectives (particularly with respect to the attraction of investment and the creation of jobs for young unemployed people).

The development of the rationale for support was based on an assessment of the global context in which South African BPO & O operates; the key constraints to growth and investment given that context; how the resolution of those constraints could help South Africa achieve its development objectives; an understanding of the range of BPO activities to be considered, including domestic and foreign firms; and captive and third party services.\(^7\)

The sector displays strong economic performance and potential globally.

The BPO market has historically experienced rapid growth of between 35% and 50% per annum. It was this that triggered interest in the sector for South Africa. More recently an assessment has been made of the impact of the global crisis on this growth. It shows that the growth rates will be affected but that BPO will remain in positive growth territory with different impacts on different types of business processes.\(^8\)

Forecast of the growth rate for BPO in South Africa

<table>
<thead>
<tr>
<th>Growth rate</th>
<th>Process description/examples</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Updrift</strong></td>
<td>• Compliance/regulatory&lt;br&gt;• Loan recovery, collections&lt;br&gt;• Legal</td>
<td>• Key focus areas for companies in context of the current crisis</td>
</tr>
<tr>
<td><strong>Moderate growth</strong></td>
<td>• Account servicing&lt;br&gt;• Transaction processing</td>
<td>• Some impact due to potentially lower underlying volumes (e.g. credit card transactions)</td>
</tr>
<tr>
<td><strong>Slower growth</strong></td>
<td>• New business acquisition related processes&lt;br&gt;• Outbound calling</td>
<td>• Slowdown in new business volumes will consequently drive lesser growth in these functions</td>
</tr>
</tbody>
</table>


\(^7\) Domestic refers to South African firms and foreign to foreign firms that operate in South Africa. Captive services are those provided by a company to meet its own needs and third party services are those provided by a third party service provider.

**The job creation opportunity in BPO&O**

**APPROACH**

- Calculated realistic market opportunity in BPO&O industry for 2008.
- Determined demand that will be placed on price performance (non-nearshore demand).
- Evaluated supply from Tier I locations to determine demand surplus that will need to be met by Tier II locations.
- Quantified realistic SA market opportunity using scenarios based on the percentage of Tier II demand that South Africa can capture in various industry verticals.
- Calculated number of jobs that could be created using range of revenues/FTE.

**Global realistic market opportunity**

$90-$100-billion

**Non-near shore realistic market opportunity**

$74-$82-billion

**Non-near shore, Tier II demand surplus (82%)**

**Tier II demand surplus (28-29%)**

**SA average market share (2.9-3.1%)**

**Non-near shore, Tier II realistic market opportunity**

$21-$24-billion

**SA realistic market opportunity**

$650-$715-million

**Revenue/FTE/year ~$24 000-$29 000**

**Total number of direct jobs**

22 000-29 000

**Aspirations**

- SA captures 3.8%-4.2% of BPO&O
- SA captures 0.8%-1% of IT offshoring

**South Africa has potential to create 100 000 jobs (25 000* direct and 75 000** indirect jobs)**

* Direct jobs are people employed in BPO&O centres. Indirect jobs are for people providing support to the BPO&O industry and to employees in the industry.

** An indirect job multiplier of 3 has been used (for each direct job 3 indirect jobs will be created).

South Africa has the potential to compete globally in this sector.

As already indicated South Africa’s BPO potential is based on its strength and growth in the financial services and insurance sectors and its English language capability. Other assets include a stable environment, good quality of life, an attractive business environment and the growing BPO industry.

BPO can help South Africa meet its developmental objectives if the constraints can be overcome.

The job creation potential of the sector is significant. An analysis by McKinsey & Co. for the BPO Sector Support Programme demonstrated the potential of the sector to create 25 000 direct jobs.  

The jobs created target adults under the age of 35 who, at the time of the analysis, made up 72.7% of the unemployed. Half of those (37.8%) were matriculants. Studies done on BPO operations show that the average BPO agent age ranged between 22 (in a Johannesburg study) and 26 (in a Cape Town study). A high proportion of those employed are previously disadvantaged individuals (95% in the case of the Johannesburg study).

Short-term fiscal and policy support from government can overcome the entry and operational constraints, help South Africa realise its potential and meet its development needs.

An initial assessment showed that the fiscal and policy support would be more than offset by the sector’s contribution to GDP and additional tax revenues and that South Africa’s competitors provided government support to investors. This is outlined in more detail later in this report.

Research done for the BPO Sector Support Programme, established by the Business Trust and the dti, showed that the types of incentives offered included:

- tax incentives in the form of reduced tax rates for BPO&O companies (e.g. Hungary and Mauritius) or tax holidays (e.g. India and the Philippines);
- start-up assistance either in the form of reimbursements for capital expenditure (e.g. Hungary and India) or land grants (e.g. India);
- cash grants for each new job created (e.g. Hungary) or grants for employing previously unemployed citizens (e.g. Ireland and India); and
- duty exemptions and rebates either for import duties (e.g. the Philippines) or power (e.g. India).

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The BPO sector development strategy

The vision of an economy that meets the needs of people in an equitable manner was developed in the context of the Reconstruction and Development Programme (RDP) in 1994. It was extended through the policies and strategies outlined in the box alongside.

The vision for BPO was that South Africa should be a recognised BPO market, attract $175-million in direct foreign investment, and create 100 000 jobs in the sector.

In order to realise the vision, South Africa would have to improve its positioning as a BPO destination, develop the supply of entry-level and management talent, formulate industry standards, and address the quality of investment facilitation and co-ordination.

The strategy that evolved focused on building an enabling environment, attracting and retaining investment, and supporting second economy linkages.

The initial plan consisted of five work streams:

1. market South Africa effectively;
2. deepen and develop a pool of internationally competitive talent;
3. create an enabling environment to encourage investment;
4. control quality; and
5. develop an industry body capable of mobilising the key stakeholders.

Policy and strategy foundations for the BPO sector

- The Microeconomic Reform Strategy was outlined in 2002 to create a platform to enable competitiveness, employment and equity.
- The Integrated Manufacturing Strategy of the Department of Trade and Industry helped to implement the Microeconomic Reform Strategy, with a particular focus on championing competitiveness with equity.
- “Customised support programmes” were used to implement the Integrated Manufacturing Strategy by addressing constraints in priority sectors.
- Business process outsourcing was identified as one of the top priority sectors and in 2004 a review of the sector was commissioned by the dti. At the same time, a consortium consisting of the City of Johannesburg, the SA Foundation (now Business Leadership SA) and the ComMark Trust independently commissioned a review of the potential of BPO to create jobs in South Africa.
- The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) confirmed the potential of the BPO sector and identified it as one of three AsgiSA priority sectors and the Business Trust was asked to support a process through which the public and private sectors could work together to develop the BPO sector as a means of attracting investment and creating jobs.
- In 2005 the work initiated by the dti and that of the independent consortium was consolidated in a single BPO sector development strategy through a process of wide consultation.
- The dti adopted the strategy to guide the development of the sector and the Business Trust agreed to fund and support the establishment of a BPO Sector Support Programme.
It was subsequently agreed to include specific actions to forge links with the second economy. The second economy is described by the Presidency as follows:

One of the major consequences of the change in the structure of the South African economy is that “two economies” persist in one country. The first is an advanced, sophisticated economy, based on skilled labour, which is becoming more globally competitive. The second is a mainly informal, marginalised, unskilled economy, populated by the unemployed and those unemployable in the formal sector. Despite the impressive gains made in the first economy, the benefits of growth have yet to reach the second economy, and with the enormity of the challenges arising from the social transition, the second economy risks falling further behind if there is no decisive government intervention.11

The BPO sector development strategy

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Marketing the South African value proposition would involve developing and executing a comprehensive and compelling message about SA as a value-based, cost-effective and high-quality offshore location.

This required that strategic stakeholders in government and industry articulate the South African proposition effectively so as to attract targeted multinational companies. This work stream was integrated with the other initiatives by, for example, guiding talent development and informing the nature of other incentives. In marketing the country it was planned to position South Africa as a good quality, competitively priced location. The initial aim was to deliver some quick wins and establish SA as an appropriately positioned player.

A focused effort to deepen and develop a high quality and competitive talent pool would be required to attract investors to SA, reducing unemployment, limiting attrition and avoiding labour cost escalation.

The plan required a rapid increase in skills of potential operators or agents, supervisors and managers. It was planned to achieve this through focused education and skill development. This required the development of a comprehensive strategy that included the use of imported skills (in fields in which there was short supply in South Africa) and the transfer of skills over time. It aimed to improve perceptions, knowledge and career opportunities in the BPO industry, and enhance the quality of applicants while improving the efficiency with which people are attracted and retained.

An enabling environment of incentives, regulation, set-up assistance and infrastructure would be required to reduce input costs to attract investors.

Policy and regulatory support of a financial and non-financial nature was also required. This included improved telecommunications costs, investment incentives, set-up assistance, and other location specific incentive schemes. The plan was to:

- identify policies, regulations and legislations that impact on BPO at national and provincial levels;
- develop compelling financial and non-financial incentive programmes;
- design appropriate disbursement mechanisms;
- improve set-up assistance to potential visitors during location evaluation, set-up and ramp-up of operations; and
- adopt an effective communication strategy to and from industry.
In order to safeguard South Africa’s reputation, quality had to be assured.

This would require the adoption of a national code of good practice, an industry regulation framework and a monitoring process. To achieve that it was planned to:

- survey quality standards used by the existing South African BPO industry;
- survey potential BPO clients and investors to establish requirements from their perspective for quality standards;
- review relevant global quality frameworks and codes of good practice experiences;
- develop and implement an appropriate code of good practice;
- link the codes to access to the competitiveness fund or similar schemes from the dti; and
- ensure proper funding of the operational structure to monitor and maintain the codes.

The effective mobilisation of key stakeholders would require a strengthened industry body.

This was aimed at aligning key stakeholders around a common South African vision and building a credible industry body. This required:

- meetings and workshops with stakeholders;
- effective communication;
- an analysis of options for industry organisations;
- an assessment of long-term functions and funding sources for an industry body; and
- a systematic campaign to mobilise industry behind this initiative.

The public and private sectors would have to work together to implement the sector development strategy.

The sector support facility was organised by the Business Trust under the auspices of a partnership committee as described below and an investigation was launched into the establishment of a special purpose vehicle.
The **BPO** sector development partnership

The **BPO Sector Support Programme** was established to enable the public and private sectors to work together to implement the BPO sector development strategy.

The Support Programme is governed by a co-operation agreement between the Business Trust and the dti. A partnership committee was established in terms of that agreement to oversee the programme. The partnership committee is chaired by the Minister of Trade and Industry and include two board members from the Business Trust and two from the industry association, BPeSA. The Director-General of the dti and chief executives of BPeSA and the Business Trust also serve on the committee.

The partnership committee is supported by a steering committee drawn from the managers of the dti, BPeSA and the Business Trust. The programme is implemented through a sector support facility which is operated by service providers appointed and managed by the Business Trust. Its functions were planned to be taken over by a special purpose vehicle which the dti and BPeSA agreed to establish with the support of the Business Trust.

The sector support facility supports public and private agencies to implement the BPO sector development strategy. It does that by providing support to the dti and BPeSA to enable them to carry out functions which only they can carry out (such as providing incentives, infrastructure and support for the second economy in the case of the dti and building the industry and assuring quality in the case of BPeSA). It also carries out certain functions directly as agreed with the partners (such as marketing and talent development).

The support facility works on the understanding that the development of a vibrant BPO sector would require:

- from government, sound policy, stable institutions and competitive incentives and infrastructure;
- from firms in the industry, the capacity to invest, train and compete globally in a manner that is profitable; and
- from the industry at large, a capacity to promote South Africa and the industry through actions like lobbying, quality assurance and the provision of ongoing market intelligence and support.
The BPO score card

The support programme run under the auspices of the Business Trust, the guidance of the partnership committee and in co-operation with the dti and BPeSA, has been central to the achievement of the programme results. The results and the programme contribution are summarised below.

<table>
<thead>
<tr>
<th>Item</th>
<th>Result</th>
<th>BPO Sector Support Programme contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Sector development strategy agreed</td>
<td>Strategy developed for the dti and BPeSA</td>
</tr>
<tr>
<td>Incentives</td>
<td>R855-million government assistance and support programme approved</td>
<td>Incentive regime designed and economic justification produced</td>
</tr>
<tr>
<td>Telecommunications costs</td>
<td>80% reduction in telecommunications prices agreed</td>
<td>Impact of telecommunications costs on sector development highlighted. Support provided to the dti to negotiate agreement with Telkom</td>
</tr>
<tr>
<td>Skills development</td>
<td>Work readiness programme piloted with 90% employment rate</td>
<td>Programme designed, developed and piloted</td>
</tr>
<tr>
<td>Investment attraction</td>
<td>R1.5-billion investment attracted from 20 investors to create 21 752 direct and 87 000 total jobs</td>
<td>Marketing strategy developed. Value proposition created. Investor engagement support provided</td>
</tr>
<tr>
<td>Industry mobilisation</td>
<td>Industry association restructured and memorandum of understanding signed with the dti</td>
<td>Industry association supported Agreements facilitated</td>
</tr>
<tr>
<td>Second economy</td>
<td>Second economy programme developed</td>
<td>Programme designed and piloted</td>
</tr>
</tbody>
</table>

The impact to 31 July 2009 on the high level targets is shown below:

<table>
<thead>
<tr>
<th>Goals and objectives</th>
<th>Target</th>
<th>To date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs</td>
<td>100 000 jobs</td>
<td>87 000</td>
</tr>
<tr>
<td>Investment</td>
<td>R1.75-billion foreign investment</td>
<td>R1.5-billion</td>
</tr>
<tr>
<td>Skills</td>
<td>35 000 trained</td>
<td>35 000*</td>
</tr>
</tbody>
</table>

*This covers training for the sector as a whole and includes support provided by the Department of Labour since 2004.

The sections that follow describe the implementation of the BPO sector development strategy with the support of the BPO sector development partnership.
Building an enabling environment
Securing competitive telecommunications costs

<table>
<thead>
<tr>
<th>Item</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal</td>
<td>To secure competitive telecommunications costs for BPO investors</td>
</tr>
<tr>
<td>Approach</td>
<td>To support economy-wide efforts to reduce telecommunications costs</td>
</tr>
<tr>
<td>Indicator</td>
<td>Cost of 2MB fixed line from SA to UK halved from R146 000 to R70 000</td>
</tr>
<tr>
<td>Responsible</td>
<td>Department of Communications (DOC)</td>
</tr>
<tr>
<td>Long-term strategy</td>
<td>Increase competition through a process of liberalisation</td>
</tr>
<tr>
<td>Short-term actions</td>
<td>Second National Operator established</td>
</tr>
<tr>
<td></td>
<td>Electronic Communications Act enacted</td>
</tr>
<tr>
<td></td>
<td>Negotiated prices for new investors</td>
</tr>
<tr>
<td></td>
<td>Developmental pricing investigated</td>
</tr>
<tr>
<td>BPO programme role</td>
<td>Support the dti and DOC economy-wide efforts to reduce telecommunications costs</td>
</tr>
<tr>
<td>Current status</td>
<td>Cost of 2MB line from SA to UK reduced to R45 000</td>
</tr>
</tbody>
</table>

Telecommunications costs provide a litmus test for potential investors.

Telecommunications costs make up 13% of the cost of a 1 000-seat BPO centre. The cost contribution is thus lower than sometimes assumed. This is however an easily comparable price for investors and is taken as a litmus test of competitiveness. In 2003 telecommunications costs in South Africa were two and a half times that of the Philippines and more than five times the cost of India.
High telecommunications costs are a problem for foreign firms and for local firms trying to attract international clients.

A study undertaken for the BPO Sector Support Programme\(^{12}\) showed that the severity of the problem depends on the activity of the foreign-focused BPO firm, whether it focuses on inbound voice, outbound voice, and/or data. Foreign-focused firms needing a larger amount of data transmission (back-office work) versus voice transmission (contact centre work) are able to reduce costs through leasing data lines. A study undertaken for CallingtheCape found that average monthly costs for firms using data lines was R80 000 in comparison to the R295 000 paid by firms that engage in voice transmission work.\(^{13}\) It was pointed out that the R80 000 was high, relative to international norms. Even with the possibility of voice-over-internet protocol (VOIP) the high costs of international leased lines still impose a relative penalty on these firms compared to their international counterparts.

The government acknowledges that South Africa’s telecommunications costs have to be reduced across the economy.

The government commitment to addressing this issue was made by President Thabo Mbeki in the 2006 State of the Nation Address and has been consistently reiterated. The commitment was repeated in the 2009 State of the Nation Address given by President Jacob Zuma.

However, telecommunications liberalisation was delayed and it became clear that effective competition will take time to develop. Key steps were the launch of the second national operator (SNO), the enactment of the Electronic Communications Act 2005 (ECA).

Notwithstanding delays, Telkom’s costs have shown consistent decline.

According to Telkom’s analysis, the cost for a 2MB line from Johannesburg to London has been reduced from R224 000 per month in 2003 to R45 000 in 2008. These costs will continue to decline with liberalisation and through an agreement with Telkom to provide special prices for this sector.

Telkom and the dti agreed to reduce costs further, but this has not been implemented.

The delay in implementation of the Telkom/dti agreement to further reduce the costs shown in the diagram on page 19 from R45 000 to R32 560 (and to provide similar reductions on other BPO-related products) arose because of fears that special pricing for this sector could give rise to a challenge under the Competition Act on the grounds that it could be seen as anti-competitive and that Telkom would, if it offered the incentives, contravene the Competition Act of 1998. In the meantime Telkom has continued to negotiate with large investors on a case-by-case basis.

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Analysis of decline in line costs since 2003

# Deepening the Talent Pool

<table>
<thead>
<tr>
<th>Item</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal</td>
<td>To provide work-ready entry-level talent and matching manager and supervisor skills to support the targeted expansion in demand</td>
</tr>
<tr>
<td>Approach</td>
<td>Develop strategy</td>
</tr>
<tr>
<td>Indicator</td>
<td>35,000 people trained by 2010 (30,000 entry-level agents and 5,000 managers and supervisors)</td>
</tr>
<tr>
<td>Responsible</td>
<td>Department of Labour (DoL)</td>
</tr>
<tr>
<td>Funding</td>
<td>Alignment with BPO strategy</td>
</tr>
<tr>
<td>Long-term strategy</td>
<td>A schooling system that provides work-ready entrants</td>
</tr>
<tr>
<td>Short-term actions</td>
<td>BPO skills development strategy designed</td>
</tr>
<tr>
<td>BPO programme role</td>
<td>Develop the strategy, pilot work readiness training and secure DoL commitment to strategy</td>
</tr>
<tr>
<td>Current status</td>
<td>1,350 unemployed people trained in work readiness pilot</td>
</tr>
<tr>
<td></td>
<td>15,845 training support grants issued</td>
</tr>
<tr>
<td></td>
<td>3,097 people trained on various DoL-funded schemes since 2006</td>
</tr>
<tr>
<td></td>
<td>15,114 people trained on DoL-funded schemes prior to 2006</td>
</tr>
<tr>
<td></td>
<td>35,436 people available to BPO market from all forms of publicly supported training since 2004</td>
</tr>
</tbody>
</table>
The availability of globally competitive talent at all levels of employment is a critical success factor for competing in the international BPO&O industry.

In order to achieve the creation of a pool of internationally competitive people at all levels of employment, a skills development strategy was developed for the BPO&O sector. The strategy aimed to provide a comprehensive integrated solution that is aligned with the National Skills Development Strategy, the Skills Development Act, Employment Equity Act, BEE Charter requirements and other relevant legislation.

A skills development strategy was developed that is aligned with South Africa’s skills development policies.

The Skills Development Act (1998) and the Skills Development Levies Act (1999) were developed to promote employment, alleviate poverty, enhance global competitiveness and accelerate economic growth in South Africa by addressing the skills shortage through the National Skills Development Strategy (NSDS) I: 2000-2005 and NSDS II: 2005-2010. NSDS II was launched by the Minister of Labour, effective on 1 April 2005.

Learnerships were developed to offer both education and work-based training aligned with a South African Qualifications Authority (SAQA) registered qualification. In order to promote the learnership targets in the NSDS, the learnership tax allowance was introduced in 2002 as an enabling mechanism. The Minister of Finance in his 2006 Budget Speech announced the extension of the learnership allowance for another five years. Moreover, the allowance amounts have been revised upwards to keep pace with inflation, adjustments in salaries and wages, and an additional allowance has been introduced for people with disabilities.

The BPO skills development strategy aimed to increase the talent pool, accelerate the development of managers and supervisors, and encourage ongoing skills development at all levels of employment.

- The increase in the pool of employable entry-level people was planned to be achieved through a targeted, customised skills training programme aimed at 30 000 young unemployed people from disadvantaged backgrounds for the period 2006 to 2010 to meet the anticipated growing demand for staff from local and foreign companies.

- The acceleration of the development of home-grown supervisors and managers would lessen the country’s dependence on foreign managers by reimbursing company-specific training for new jobs through the training support grant and funding from SETA discretionary funds for 5 000 supervisors and managers. The training and development of supervisors and managers is also vitally important in order to prevent any bottlenecks occurring in the workplace.

- The ongoing building of a globally competitive talent pool with the required skills at all levels of employment would provide the necessary service levels and build South Africa’s value proposition through the effective operation of the national skills development system.

The approach to deepening the talent pool in the BPO sector was built on five key objectives:

1 **Build on the foundation of South Africa’s niche BPO industry**
   At the start of the programme South Africa had a small outsourcing industry of 9 500 staff that services clients in the country (5 000) and offshore (4 500). This is built on the back of a local contact centre established for the community of companies running contact centres with some 80 000 agents, this provided a sound foundation from which to build the sector.

2 **Co-ordinate the supply of talent at all levels**
   The talent development initiative was designed to integrate talent development as shown in the diagram above.
### The anticipated demand for skills

<table>
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<tr>
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<th>Mar 07</th>
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<th>Mar 09</th>
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<td>8040</td>
<td>13200</td>
<td>18000</td>
<td>24000</td>
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</tr>
</tbody>
</table>

### 3 Ensure the development of talent at the pace of the anticipated demand

The Monyetla Work Readiness Programme was developed to play a crucial role in ensuring that the South African BPO&O sector can meet the expected growth in local and foreign demand.

The existing resource pool of 80,000 entry-level staff was to be supplemented by 30,000 new entrants trained on the Monyetla Programme. That was designed to allow for the expected growth and staff attrition in the sector. With an attrition rate of 15% to 20% per annum, it was anticipated that the 30,000 people targeted for training would be easily absorbed into the sector.

The anticipated demand for skills was based on an analysis of South Africa’s ability to capture a share of the rapidly growing global market which was calculated as shown above. The ramp-up in demand was based on the forecast rate at which new BPO centres were anticipated to be established.

The need for training at entry, supervisor, middle and senior management levels was based on a series of ratios (agents to supervisors of 8.5:1, supervisors to middle managers of 3.5:1, and middle managers to senior managers of 2:1) and a 20% attrition rate at each training level was allowed for to reach training targets at each level.
4 Weight the use of public funding in favour of support for the unemployed

The talent development programme relied on public funding to train the 30 000 entrants to the sector who were to be drawn from the unemployed (mainly with Grade 12 certificates). At the supervisor and middle management level trainees were to be drawn from entry-level agents, unemployed graduates and employees. Senior management training was the company’s responsibility.

Companies operating in South Africa who contribute to the Skills Development Levy scheme under the NSDS qualified for funding in the normal way. New investors (local and foreign) qualified for funding under a training support grant scheme. The mix of funding is shown in the figure on the right.

5 Link training directly to job opportunities and align it with training for supervisors and middle managers

A key challenge facing the South African BPO&O sector is the need to increase the number and representation at supervisor and management level and to ensure that a high proportion of the people trained get employed.
Funding the sector

- 30,000 entry level
- 3,500 supervisors/team leaders
- 1,000 middle managers
- 500 senior managers

Mixed public, private and investment promotion funding

Public funding

Public funding was weighted to provide skills and access to work for the unemployed at entry and supervisor level.
Following the adoption of a Government Assistance and Support Programme for BPO by Cabinet, priority attention was focused on the development of an innovative work readiness programme and a comprehensive proposal was developed for training 30 000 work entrants in the BPO sector.

Having considered a proposal for the training of 30 000 people on the work readiness programme, the Department of Labour asked for a pilot project to test the concept of an employer-led, government-funded programme. A pilot was designed and implemented to train 1 000 people.

The project achieved 30% more than this target, with 17 employer-led consortia training 1 307 young people in three provinces in a 16-week, 60-credit skills programme, which lead to entry-level employment. The cost of training each learner was R15 000 including VAT and a daily stipend of R50 was provided. This was funded by the Department of Labour’s National Skills Fund. The Monyetla Work Readiness Programme was researched, designed and implemented by the Sector Support Programme for BPO in South Africa. The Business Trust covered the design, development, management and evaluation costs.

The pilot project sought to test a new approach of employer-led work readiness training and to establish whether the model could be replicated at larger scale within the growing BPO sector. The results achieved in the pilot project and in an external evaluation study of the implementation of the Monyetla model showed that this could be done.

The learners achieved an 86.5% success rate in the skills programme, and 90% of those competent learners were placed in employment. Overall, 77% of all learners who commenced the Monyetla Programme were found competent and gained employment. This translated to nearly eight out of ten learners succeeding in both the training and in finding a job. In all, 1 016 young people – 740 women and 389 men – moved from unemployment to employment in just a few months.

The Monyetla model included the training of one supervisor or team leader for every six Monyetla learners. The supervisors were to be trained at the cost of the employer, using the levy grant system, where possible. Three-hundred-and-sixty-nine supervisors were trained, exceeding the target by more than 60%.

An external evaluation found the programme to have been successful, effective for learners and employers, adequately resourced and replicable.

The Monyetla model was designed for a sector in which there was clear growth in entry-level employment opportunities.

This demand-led approach ensured that successful learners were absorbed into the labour market, rather than having been trained for training’s sake. The high absorption rate of the successful learners – at 90% – suggested that employer demand was central to ensuring employment at the end of the training.

In order to ensure the employment of successful learners, those employers wishing to participate in the programme were required to form a consortium in which employers, training providers and recruitment agencies collaborated in the selection, training and placement of learners.

To participate in the programme, employers were required to undertake to employ 70% of the learners for a minimum of six months on conclusion of the training.

A minimum of one month of the four-month programme was required to comprise on-the-job training and experience, and this provided employers with an opportunity to assess the skills, knowledge and attitudes of learners.

The Monyetla Programme curriculum was designed to cover the essential skills required to enter the BPO sector and various other services industries such as banking, insurance and finance.

It was envisaged that Monyetla learners who found employment on completion of their work readiness training could enter into BPO learnership agreements that required them to gain a further 68 credits in order to complete that qualification.

“Monyetla helped me a lot. Now my language has improved. I can’t see the barriers that I used to see.”
Sibusiso Mkhwanazi, Monyetla graduate

“I can do my job delightfully because of the skills that I have attained that have helped me to be competent in my job.”
Pearl Sosibo, Monyetla graduate

“I didn’t know anything about computers. Monyetla has changed my life dramatically. You can train, you can improve. You have to be willing to learn, and eager to learn in order to be successful.”
Samantha Arendse, Monyetla graduate
The Monyetla Programme provided a grant of R15 000 (including VAT) per learner on all costs except the learner stipend.

The Monyetla model provided training consortia with half of the funding at the start of the project, with the second half paid only on completion of the project, the presentation of assessed and moderated portfolios of evidence for each successful learner, and the achievement of the 70% employment requirement. Second tranches were paid only for those learners who succeeded in completing the programme. This provided a financial incentive for employers and providers to ensure that both the training and workplace experience were effective and of good quality.

The results proved the value of the employer-led, government-funded work readiness model.

The external evaluation\(^\text{16}\) found the consortium model to be effective, particularly where the employer led actively, and there was a clear connection between the employer, training providers and the learners. The employers got to know the capabilities of the learners during the on-the-job experience component, and it appeared that this increased the prospects for employment.

In total, 1 325 learner places were allocated to 17 employer-led consortia and 1 307 learners actually started the programme, 30% in excess of the requirements of the contract.

One-hundred-and-seventy-nine learners in three consortia completed the full Contact Centre Level 2 qualification of 128 credits, and a further 200 learners in three consortia were completing the qualification at the time this report was prepared, possibly eventually amounting to 29% of all learners gaining a further qualification. Employers received an additional grant of R6 500 per capita from the Services SETA to complete the full qualification.

The performance of learners across gender, race and province was remarkably similar, suggesting an effectively standardised programme which can be implemented with the prediction of similar results.

86.7% of the female learners were successful.
85.7% of the male learners were successful.
89.6% of learners in KwaZulu-Natal were successful.
84.7% of learners in Gauteng were successful.
83.6% of learners in the Western Cape were successful.
89.7% of Coloured learners were successful.
85.4% of African learners were successful.

The target for the training of supervisors by the participating companies was exceeded by nearly 70%.
The training of team leaders or supervisors was conducted at the cost of the employer, using the levy grant system.
Since 1 307 Monyetla learners entered the programme, 218 supervisors had to be trained. During the programme, 368 supervisors were trained, exceeding the target by 69%.

An independent evaluation concluded that the programme was effective and replicable.
The evaluator reported that:

- employer-led consortia achieved high employment rates;
- the placement of learners exceeded the required 70%;
- supervisor training exceeded the target;
- the model achieved and exceeded its objectives;
- some learners completed the entire learnership;
- the budget of R13 650 (R15 000 including VAT) was adequate; and
- project management played a significant role in the success of the project.

Additionally, the evaluation found that both employers and providers held positive perceptions about the Monyetla model and its implementation.

The success of the Monyetla model suggested that it could be a replicable work readiness strategy in any economic sector in which there was entry-level job growth and employers who would commit to leading a training consortium and employing at least 70% of the learners. Opportunities might exist in tourism or the Expanded Public Works Programme or the 2010 Soccer World Cup.

The skills programme, which is made up of fundamental and core unit standards, can be tailor-made to suit the entry-level training needs of any sector, and to lay the pathway for further learning.

In addition to the piloting of the work readiness programme, a review was undertaken of all training in the sector.

The review\(^{18}\) found that between 2001 and 2008, a total of 33 482 learners undertook various types of training in the BPO&O sector nationally at a total cost of R474 980 633. All of this training was on the contact centre aspect of BPO&O. An average placement rate of 74.1% was achieved for all learners. The majority of learners (19 620) were on learnerships that were funded by the Services SETA through its learnership grants and National Skills Fund (NSF) projects. The majority (79%) were unemployed learners.

The study found that for the learnerships that were funded from the Services SETA’s learnership grants, the average cost per learner was R22 500 and for those that were funded from the NSF allocations, the average cost was R18 413. It should be noted that because the majority of the learners that were on these learnerships were unemployed learners, these average costs included learner stipends, advertising, recruitment and selection process costs.

The learners on skills programmes were largely funded through NSF funding drawn from the various NSF funding windows. These programmes were mainly provincial or local government initiatives and targeted initiatives such as the Monyetla Work Readiness Pilot Project. Six programmes were reported which involved 36.6% of total learners that have been trained in the sector since 2001 with two of the programmes costing an average of R13 775 per learner and training durations ranging from one month for the one programme to four months for the other programme.\(^{19}\)

Average placement rates for the two programmes that could be confirmed were 89.99% for one programme which involved four months of training and 39% for the programme which involved one month of training.

The other 4% of learners underwent short courses ranging from an average cost per learner of between R2 355 to R10 000.\(^{20}\) Again, placement rates ranged from 31% to 70% with the programme that achieved a 31% placement rate providing a training course of 15 days (no information was provided on the training duration of the programme that achieved a 70% placement rate).

The report concluded that, since there are no figures with which to compare the training that has already been undertaken in the sector, the targets outlined in the Business Trust BPO Sector Support Programme business plan should be used to get some perspective of the number of learners already trained.

According to this business plan, about 35 000 people need to be trained over the period 2006/7 to 2009/10. Compared to these targets, the sector has trained 96% of the number of learners that were targeted to be trained between 2001 and 2008. The analysis of learners trained is shown in the table on the right.

Against the target of 35 000 people to be trained, 20 946 have completed training since 2004. That includes 1 512 of the 15 845 approved for training under the Government Assistance and Support (GAS) Programme. Thus a further 14 333 can be expected to be trained over the next three years as the approved training and support grants are drawn down. This will result in 35 000 people being trained in the sector.


\(^{19}\)There was no sufficient information on the two other programmes and the one programme (GAS) has a number of learners from companies which have been approved for training but have not yet claimed the training grant. Results from the one project had not yet been verified by NSF GP at the time of writing.

\(^{20}\)These figures were received from the programmes concerned.
## ANALYSIS OF LEARNER TRAINING

<table>
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<th>Period</th>
<th>Programme</th>
<th>Number of learners</th>
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<td>2004-2005</td>
<td>Services SETA learnerships</td>
<td>6 236</td>
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<tr>
<td>2005-2006</td>
<td></td>
<td>7 555</td>
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<tr>
<td>2006-2007</td>
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<td>NSF Gauteng</td>
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<td>Monyetla</td>
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<td>2008</td>
<td>GAS</td>
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<td>1 512</td>
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<tr>
<td>Total</td>
<td></td>
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Creating **attractive** incentives

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<th>Item</th>
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<td><strong>Goal</strong></td>
<td>To catalyse growth in the BPO sector by improving South Africa’s short-term cost competitiveness in relation to other BPO destinations</td>
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<tr>
<td><strong>Approach</strong></td>
<td>Explore incentive options</td>
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<td><strong>Indicator</strong></td>
<td>Global investors attracted to SA, R2-billion investment secured(^1), 25 000 new jobs created, R16-billion contributed to GDP(^2)</td>
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<td><strong>Responsible</strong></td>
<td>The dti for incentive proposal</td>
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<td><strong>Long-term strategy</strong></td>
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<td><strong>Short-term actions</strong></td>
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<td></td>
<td>R89.6 m</td>
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<td>15 845</td>
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\(^1\) Assumes a capital investment of R60 000 per job and training investment of R20 000 per job (the dti scheme allows payment of up to R12 000 for not more than 50% of training costs) i.e. base investment of R80 000 per job for 25 000 jobs anticipates R2-billion investment.

\(^2\) Based on calculation by McKinsey & Co. by determining the revenue that can be generated if the BPO&O industry grows by 25 000 direct jobs; and calculating the spill-over GDP based on the revenues of the BPO&O industry spent within South Africa and the economic multiplier.
As part of government’s aim to place the South African economy on a higher sustainable growth trajectory, the development of the BPO&O sector was identified as a top priority\textsuperscript{23} and short-term support measures were developed to attract early investment.

Since the ultimate goal was to create 25 000 direct and 75 000 indirect jobs, leading to a total of 100 000 new jobs by 2010 and a potential GDP contribution of R16-billion, three principles were developed to guide such assistance and support:

- **Assistance and support should be a catalyst for growth, not a subsidy for a structurally uncompetitive sector.** Incentives would be short-term measures designed to make the sector more attractive to early investors. In the long term, structural changes in the sector (including reductions in telecommunications costs, opening up of new talent pools, and increased operational efficiencies) would reduce costs, making the sector more competitive and thereby eliminating the need for incentives. The benefits of each investment should exceed the value of the incentives provided.

- **Assistance and support should be varied in type and source.** Incentives need not only be in the form of cash, but should be tailored to ensure they address the structural costs of doing business in the sector (e.g. by providing facilities, reducing telecommunications costs and supporting skills development). Funding sources should include not only various levels and departments within government (e.g. municipalities, National Treasury, the National Skills Fund etc.), but potentially also institutions such as the IDC and other private investors. The assistance framework includes specific criteria to prevent abuse while being adaptable to the nature and size of the investment.

- **Assistance and support should represent only one element of what will form a holistically attractive value proposition.** The measures chosen represent only one aspect of the overall value proposition – a sweetener of the overall proposition, rather than its core. Other aspects include a high quality local talent base, cultural affinity, quality of services etc. It was agreed that these measures would target job creation, be transparent and be easy to implement.

The original research found that the costs of operating a large BPO centre in South Africa needed to be lowered to be competitive.

The total annual cost of operating a 1 000-seat BPO centre in SA was approximately R205-million versus R116-million in India. The main components of the SA cost base were labour (58%), start-up cost amortisation (14%), telecommunications (13%) and “other” (14%). An analysis of the R89-million cost gap with India and the Philippines revealed that labour and telecommunications costs account for over 90% of the cost gap, with labour accounting for more than 75%.

In the long term, however, it was anticipated that reductions in the structural costs of doing business in South Africa (e.g. telecommunications costs) as well as operational improvements (such as increased economies of scale and improved agent utilisation) and projected movements in the exchange rate, could reduce costs by as much as 35%, which would close the cost gap with India to between R7 and R34-million per annum.
Cost comparison between South Africa and India

Cost gap with India likely to reduce from R89-R124-m to R7-R34-m by 2009

SA potential reduction in costs for 1,000-seat centre 2009. R-million per annum.

India costs for 1,000-seat BPO&O centre 2009. R-million per annum.


* Based on EIU forecast for 2009 of $1:R7.95
** Based on EIU forecast for 2009 of Rupees 1:R45.1
*** Assume India cost reduce by -10%
Cumulative incentives and contribution to GDP of BPO&O R-bn

It was shown that the cost of incentives would be more than offset by the benefits. It was calculated that a total incentive package of R3.3-billion would result in a cumulative contribution of some R16-billion to GDP. This level of assistance and support, combined with appropriate international promotion, would accelerate the growth of the BPO&O sector in South Africa and meet the stated job creation aspirations.

The annual contribution to GDP from the sector was projected to rise from R960-million in 2006/07 to ~R7.95-billion in 2009/10. As a result, the sector’s total contribution to GDP over four years would amount to between R16 and R17-billion. Furthermore, the number of additional new direct jobs created would result in 25 000 cumulative direct jobs created by 2009/10. In addition, the sector was projected to have significant spill-over effects on GDP through indirect economic activity.

The incentive package was calculated by determining the incentives (not necessarily cash) needed to attract investment, based on closing the gap of both costs and incentives. This was required to make South Africa an attractive BPO&O destination, as well as calculating the impact of providing special start-up incentives to attract investors. The potential GDP contribution was calculated by determining the revenue that could be generated if the BPO&O industry grows by 25 000 direct jobs and calculating the spill-over GDP, based on the revenues of the BPO&O industry spent within South Africa and the economic multiplier.
● **Return on investment.** Cumulative contributions of the sector to GDP were estimated at R16 to R17-billion. It was projected that these would more than offset the cumulative investment in incentives required, estimated at R3.3-billion. The diagram on page 39 shows what the anticipated build-up of return on investment would be over the period.

● **Contribution to tax revenues.** Apart from the contribution to GDP, government would earn tax revenue from the sector, which also more than offsets the cost of assistance and support. Potential cumulative tax revenues of approximately R3.7-billion could be generated by 2009/10.

It was shown that the level of government assistance and support described above, combined with appropriate international promotion, would be necessary to accelerate the growth of the BPO&O sector in South Africa.

**Based on the analysis undertaken, a substantial Government Assistance and Support Programme was developed.**

Ultimately an investment programme of some R2.8-billion over five years was developed with an expectation that it would create a potential 100 000 jobs. That included just over R1-billion for investment support and R532-million for training support as part of a comprehensive Government Assistance and Support Programme for BPO (GAS for BPO). Some R1.3-billion was also contemplated for telecommunications infrastructure in designated areas.
Return on investment

**APPRAOCH**

**GDP CONTRIBUTION**
- Determine revenue that can be generated if BPO&O industry grows by 25,000 direct jobs.
- Calculate the spillover GDP based on the revenues of the BPO&O industry spent within South Africa and the economic multiplier.

**INCENTIVES**
- Determine incentives and support (not necessarily cash) needed based on closing gap of both costs and incentives to make SA an attractive BPO&O destination.
- Calculate impact of providing special start-up incentives and support to attract showcase investors.
- Reduce incentives and support over time due to cost improvements in the industry.

The published incentive scheme\textsuperscript{25} includes an investment grant and a training support grant.

The investment grant ranges between R37 000 and R60 000 per seat depending on the value of qualifying investment and employment creation. The training support grant contributes to the cost of company-specific training up to a maximum of R12 000 per agent.

The incentive is offered to local and foreign investors establishing projects that aim primarily to serve offshore clients. The Incentives are available from 6 December 2006 to 31 March 2012.

A project may involve starting a new operation or expanding an existing operation in order to perform business process outsourcing and offshoring activities. The investment project must operate activities classifiable as that of business process outsourcing and offshoring and must generate at least 90\% of its revenue from activities that service offshore clients. In the case of operations that were in existence and operating in South Africa before 1 April 2006, the threshold is reduced to 70\% offshoring activities and projects locating in a “Designated Area” are excluded from the 90\% offshoring requirement.

The investment incentive works on a sliding scale:

- A project employing between 200 and 499 agents and with qualifying investment expenditure of more than R74 000 per seat is eligible for a grant of between R37 000 and R44 600 per seat.
- A project employing 500 or more agents and with qualifying investment expenditure greater than R89 200 or more per seat is eligible for a grant of between R44 601 and R60 000 per seat.
- Should a project have qualifying investment expenditure of less than R74 000 per seat, but 200 or more agents, it will be eligible for a grant of between R37 000 and R52 000 per seat. The approved grant may not exceed 50\% of the salary costs of agents for the first two years of the project.

Qualifying investment expenditure must comprise bona-fide investment expenditure required to start or expand a BPO operation. This includes the following:

- Capitalised initial facility costs such as functional improvements or facilities directly related to BPO&O activities, generator sets, and air-conditioning and initial installation costs.

● Capitalised equipment – hardware costs such as servers, agent computer per seat, back-up systems, telephone, voice logging systems, fax, operational furniture (for example workstation furniture and equipment), desk(s), chair(s), filing cabinet(s), UPS units, firewall equipment maintenance and upgrades/customisation. The afore-mentioned items should be acquired new and be capitalised in the financial statements.

● Capitalised software costs such as fees for software licences applicable to the business processes and operations (calculation as per licence agreement).

● Capitalised telecommunications installation costs such as line installation costs, fax server costs, costs for routing software and installation.

As far as training support is concerned, the qualifying training and skills development expenditure are for company-specific skills requirements in the following areas:

● costs for company-specific training, i.e. product training, language training and systems training;

● costs of in-house trainer development/skills development facilitators/in-house assessor training;

● costs for development of learning materials/programmes;

● costs for trainer secondment into South Africa: cost of an economy-class air ticket to-and-from South Africa as well as cost of accommodation limited to R700 per day. These costs are considered once-off and are only afforded to the official(s) delivering the training; and

● costs of purchasing and installing training equipment and facilities.

The grant may not exceed 50% of qualifying training and skills development expenditure and is capped at a maximum of R12 000 per agent. The approved grant is disbursable once the approved training and skills development activities have been carried out, and the training must take place within the two years from the date of grant approval. The grant offered in terms of the BPO incentive is exempt from tax.

To date the BPO incentives that have been made available have attracted 20 investors with investments of R1.5-billion, which will create 21 752 direct jobs and 87 000 total jobs. This is over a period of three years and is well on track to meet the target of 25 000 direct jobs and the total of 100 000 jobs.
Marketing
South Africa as a BPO destination
The **marketing strategy**

<table>
<thead>
<tr>
<th>Goal</th>
<th>Establish South Africa as a recognised BPO centre – attracting and retaining global investors to expand the BPO market.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approach</td>
<td>Develop value proposition</td>
</tr>
<tr>
<td>Indicator</td>
<td>Four to five global companies attracted to SA</td>
</tr>
<tr>
<td>Responsible</td>
<td>Enterprise and Industry Development Division (EIDD)</td>
</tr>
<tr>
<td>Long-term strategy</td>
<td>Systematic marketing of South Africa by TISA and BPeSA as part of their routine operations</td>
</tr>
<tr>
<td>Short-term actions</td>
<td>Develop strategy</td>
</tr>
<tr>
<td>BPO programme role</td>
<td>Support strategy development, intelligence gathering, missions and engagement</td>
</tr>
<tr>
<td>Current status</td>
<td>20 3 R1.5-bn 21 752</td>
</tr>
</tbody>
</table>

The central goal of the strategic marketing initiative was to attract foreign investment into the BPO&O sector of South Africa (whether in the form of direct investment or through increased foreign business for South African BPO&O companies).

The marketing strategy comprises the following components: a vision, mission and value proposition; a focus on three countries from which it was aimed to source investments; the prioritisation of four industry sectors in which SA has high domain knowledge; and the offering of both contact centre and back office services. The strategy relied on the core assumption that the enabling environment would be improved by a lowering of telecommunications costs, the deepening of the talent pool, and the offering of investment incentives.
The core of South Africa’s value proposition has been built around three elements:

1. South Africa offers a high quality, low cost destination for offshoring business processes, in a stable investment environment supported by world-class infrastructure.

2. South Africa has a vibrant offshoring industry, which draws on the country’s linguistic, cultural and product affinity with the USA, UK and Europe to deliver distinctive quality across service lines.

3. The public and private sectors in South Africa have made a high-profile, long-term commitment to the offshoring industry, resulting in strong investor support and sustainable reductions in costs over the next several years.

South Africa offers:

**A solid foundation**
- low-cost position;
- superior quality levels;
- deep talent pool;
- attractive social, economic and political environment;
- quality lifestyle; and
- world-class connectivity and infrastructure.

**Structural distinctiveness**
- distinctive quality levels in service industries (e.g. banking and insurance);
- vibrant offshore trade;
- Western business ethics; and
- cultural affinity with Europe and the USA.

**Public sector commitment to developing BPO**
- five-year development plan;
- focus on talent development;
- broadening access to the labour pool; and
- commitment to continually securing competitive cost position.
In order to attract investors into the sector, a two-pronged approach of broad-based and targeted marketing was developed.

The approach is summarised below:

<table>
<thead>
<tr>
<th>South Africa’s marketing approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Broad-based marketing:</strong></td>
</tr>
<tr>
<td>● to promote SA’s BPO brand locally and internationally; and</td>
</tr>
<tr>
<td>● to make potential investors aware of SA as a BPO destination and move them to consider investing in SA.</td>
</tr>
<tr>
<td><strong>Targeted marketing:</strong></td>
</tr>
<tr>
<td>● to persuade targeted global investors who were considering SA to actually set up operations in SA; and</td>
</tr>
<tr>
<td>● to assist investors in the local implementation of their investment decision.</td>
</tr>
</tbody>
</table>

“South Africa is also a very attractive location for us.”
Pramod Bhasin
CEO, Genpact

South Africa:
● A fair balance between cost and quality
● An excellent nearshore option for Europe due to time zone

What South Africa offers

Cost-based offshore India, Philippines, Jamaica and Malaysia
Value-based offshore South Africa
Onshore USA, UK and the Netherlands

Onshore USA, UK and the Netherlands

"South Africa is also a very attractive location for us.”
Pramod Bhasin
CEO, Genpact

QUALITY

COST
A number of initiatives were undertaken to execute the marketing strategy:

- Market intelligence was gathered which focused on global research for the purpose of strategy development. Local and international scans were undertaken to track developments in the operating environment and research undertaken into selected issues.
- Broad-based marketing focused primarily on the organisation of outbound marketing missions and the production of collateral material to support these.
- Targeted marketing was based on the creation of a database of over 120 potential investors, the prioritisation of eleven targets, the development of key account plans and fact packs for the priority targets, the creation of an economic model (that could be used by investors to assess potential investments in South Africa), and the provision of support to the lead managers for the priority targets.
- Value propositions were developed that included the following:
  - South Africa;
  - industry sectors: call centres, IT services, retail banking, insurance; and
  - target companies.
- Support was provided for a number of marketing missions. These included:
  - 2006 Mission to UK and India: Deputy President’s visit to UK and India to meet potential investors;
  - 2006 Mission to UK and Switzerland (including FT Conference);
  - 2006 Mission to UK: National Outsourcing Association;
  - 2007 Mission to USA: Gartner Outsourcing Summit - Dallas, Texas;
  - 2007 European Contact Week;
  - 2007 Mission to UK: Birmingham Call Centre Expo;
  - 2007 Mission to India;
  - 2007 Mission to USA: Financial Services, New York BPO Seminar, BAI Banking Conference (Las Vegas);
  - 2008 Mission to UK: Gartner Outsourcing Summit; and
- Support was provided to facilitate the entry of new investors to SA.
- A process of strategy review was undertaken.
Review of the marketing strategy

During 2007, the national marketing strategy was reviewed to ensure that lessons learned, market developments and new market intelligence informed the 2008 marketing strategy. The industry analysis showed that there was continuing growth in the global BPO market and identified the countries that are gaining and losing market share. It confirmed the understanding on which the BPO marketing strategy was based: that there is a large and growing global market for BPO services which provides South Africa with an opportunity to capture a share of this growing market.

The customer analysis showed that the bulk of the global BPO market (70%) is driven by about 400 mega companies (more than $10-billion in annual revenues). The USA and UK account for 80% of global BPO expenditure. This highlights a trend toward the use of third party service providers (and away from companies managing their own captive centres) and it emphasised the importance of intermediary advisors and confirms the continued demand for English language services.

The competitor analysis confirmed that costs are rising in competitor countries like India and the Philippines, geopolitical instability is present in certain of the existing BPO regions, there is a continuing need to diversify, and there is limited English language capability in some of the new competitors in Eastern Europe and South America. In this context, South Africa retains the potential to compete on the basis of its inherent strengths in its English language skills, cultural proximity to key source geographies, as well as domain knowledge in banking, financial services, insurance (BFSI) and telecommunications.

Relatively high personnel and telecommunications costs, a lack of detailed information on which to build business cases, and the complexity of setting up operations in SA undermine South Africa’s competitiveness. The 2008 marketing strategy was designed to leverage South Africa’s inherent strengths.

Lessons drawn from a review of marketing activities and an assessment of strengths and weaknesses highlighted the need for improved market intelligence and a differentiated value proposition. Other lessons include a greater focus on investors and their advisors who already have some knowledge of South Africa, and improved execution which integrates broad-based and targeted marketing, avoids conflicting messages, and responds to niche opportunities. It is also important to work more closely with South African firms with a direct interest in attracting investment to South Africa.

A number of strategic shifts were indicated for the 2008 marketing strategy. These are summarised below:

<table>
<thead>
<tr>
<th>2008 MARKETING STRATEGY SHIFTS</th>
<th>Original</th>
<th>Proposed</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision</td>
<td>To become a recognised BPO destination by 2010</td>
<td>Retain the vision to become a recognised BPO destination by 2010</td>
<td>This retained the focus on leading global companies, but also opened the scope to include companies with an existing presence in SA and new niche players</td>
</tr>
<tr>
<td>Mission</td>
<td>To attract the top global companies to set up operations and remain in SA</td>
<td>Adapt the mission: To attract companies, within identified segments, who can benefit from operating in South Africa and expand employment for South Africans</td>
<td>This retained the focus on leading global companies, but also opened the scope to include companies with an existing presence in SA and new niche players</td>
</tr>
<tr>
<td>Value proposition</td>
<td>South Africa offers a high quality, low cost destination for the offshoring of business processes in a stable investment environment supported by world-class infrastructure and government commitment</td>
<td>Supplement the general value proposition with tailored propositions for the key source markets and priority verticals</td>
<td>This allowed for market and sector specific information to be included in the value proposition</td>
</tr>
<tr>
<td>Source markets</td>
<td>USA, UK, India</td>
<td>Retain the focus on these markets</td>
<td>These remained the largest markets</td>
</tr>
<tr>
<td>Key verticals</td>
<td>Banking, Finance, Insurance, Telecommunications, Information technology</td>
<td>Continue to prioritise these verticals</td>
<td>These remained areas in which South Africa has recognised capability</td>
</tr>
<tr>
<td>Key service lines</td>
<td>Contact centres, Back-office operations</td>
<td>Adapt to target specific niches within the contact centre and back-office offerings</td>
<td>A balance had to be struck between the global trend toward increasingly sophisticated back-office outsourcing and South Africa’s need to absorb labour at the lower end of the skills continuum</td>
</tr>
<tr>
<td>Priority targets</td>
<td>The top global companies</td>
<td>Shift to include third-party service providers, captives and advisors (decision influencers) and don’t limit to the largest companies only</td>
<td>This flowed from the analysis that there is a global trend toward the use of third-party service providers and that advisors play an increasing role in location choices</td>
</tr>
</tbody>
</table>
As the programme entered 2008 it was clear that marketing South Africa as a BPO destination was possible, provided the right organisational capacity could be built.

The marketing of South Africa as a BPO destination should be a manageable task in a rapidly growing global market where about 400 large companies account for 70% of market share and 80% of outsourcing emanates from the US and the UK. For marketing purposes this means that the task is not about getting key messages to millions of people but rather to hundreds.

Focused communication requires understanding what different segments and firms in the market want, and getting the right information to the right decision makers in the right way at the right time. But to do this, a fine-grained understanding is needed of the different components of the market.

While more information is needed about potential investors, it was clear that those investors need much more targeted information about South Africa than is currently available. For effective execution marketers need to be able to provide access to information required by investors to build their business cases.

While the acquisition and dissemination of information is at the base of the marketing effort, the conversion of potential investors into investors requires more than information. It requires sustained and dedicated attention to potential investors under the direction of dedicated leadership capable of engaging senior corporate decision makers at their level.

The experience of the BPO programme pointed to the organisational principles that should guide effective execution:

- a clear mandate (focused on marketing);
- focused tasks structured around gathering intelligence, building a brand, getting investors to commit to SA (possibly through a presence in the source countries) and facilitating location in SA);
- sufficient resources to execute the strategy;
- the freedom to operate within the mandate and accept accountability for results. This will require a delineation of roles between the government, the industry and the BPO marketing organisation; and
- support from key government agencies from which approvals or resources may be required and support from the industry on industry conditions.
Improving market intelligence

In response to the strategic review and the demonstrated competitiveness of South Africa in the banking, financial services and insurance (BFSI) sectors, enhanced intelligence was produced on this sector.27

The financial services sector constitutes the largest segment (about 45%) of the global sourcing industry. South Africa’s standing in this sector is world-class. It is backed by a sound regulatory and legal framework and has a large number of domestic and foreign institutions providing a full range of services: commercial, retail and merchant banking, mortgage lending, insurance and investment.

The sector presents a significant opportunity for firms building offshore global delivery networks. It offers a 50 to 60% cost advantage over international destinations and a quality and sophistication that compare with the major source markets in this sector. The analysis showed that:

● Despite the global financial crisis, the sector has significant growth potential for offshore business process outsourcing, with the potential to reach $250-billion. As major financial sector organisations extend their offshore footprint, they are looking beyond the leading offshore destinations.

● South Africa’s BPO industry is focused on financial services at significant scale. There are some 11 000 people employed by companies that provide services to third parties and in companies based outside South Africa that have already located their back-office operations in this country. In addition, up to 75 000 people are employed in business processing by South African financial services companies for their own purposes.

The service provider community has established a good track record of delivery across the industry (front and back-office) by delivering robust cost benefits, meeting client quality and service-level expectations, and delivering additional benefits beyond lower labour costs.

About 2,900 people are employed to provide services to offshore financial service clients. However, there is significant potential for growth, driven by four key factors:

- a large experienced talent pool with service delivery and domain skills in the domestic financial services sector;
- a sizeable talent pool of specialised skills (e.g. actuaries);
- the narrowing of differences in operating costs between South Africa and other low-cost destinations; and
- the availability of scalable, high-quality English skills at low cost.

Although there are some risks, especially around telecommunications infrastructure, crime and the prevalence of HIV/AIDS, the experience of multinationals in South Africa suggests that these risks can be managed by making appropriate investments.

South Africa offers a number of opportunities to investors in the financial services sector by:

- providing an offshore destination for high-quality English language front-office work;
- providing an offshore destination for complex financial services back-office work;
- serving as a near-shore destination for sub-Saharan Africa investors; and
- serving as a risk-diversification option for investors from India and the Philippines.
Assessing the impact of the global crisis

While the global economic crisis will reduce the level of growth for BPO, it will be one of the few sectors to remain in positive territory.

While outsourcing activity produced only a slight dip in the fourth quarter of 2008, the decrease is likely to be more significant starting in the first quarter of 2009. This view is further corroborated by the fact that suppliers have revised their growth plans downwards for 2009. An analysis undertaken for the BPO support programme concluded that offshore BPO growth is likely to be tempered (5 to 15% growth rate) in the short-term (12 to 18 months), given the effect of countervailing forces impacting on the growth of the industry. However, the medium to long-term outlook is likely to remain robust, with the growth rate expected to pick up to between 20 and 30%. Many companies are viewing offshoring as a key lever to respond to the global economic crisis. While processes related to collections, fraud, legal/compliance could witness up-drift in demand, processes related to customer origination (e.g. outbound calling) could see slower growth relative to the market.

The global outsourcing and offshoring market has continued to grow rapidly as a result of increased acceptance of offshoring among large and medium-sized corporations in North America and Europe.

Since the inception of South Africa’s BPO development programme in 2005, the value of the global offshored BPO market has grown by over $10-billion. If offshored IT work was included in that figure, the growth would exceed $20-billion, as shown on the right.

As the graph on the share of offshore BPO market (which is measured by the value of offshore BPO exports per destination country) shows, India has continued to grow and the Philippines has shown substantial growth over the period between 2004 and 2007. The nearshore locations (Canada for the USA and Ireland for the UK and Europe have both declined in their percentage share) while Central and Eastern Europe (CEE) has doubled its market share. Mexico and others (primarily in Latin America and South East Asia) have more than doubled their share of the market.

The significance of this for the South African BPO programme is that the basic assumption of a rapidly growing global BPO market that was predicted in 2004 continues to hold, and non-traditional destinations for this work such as China, Central and Eastern Europe, Mexico, South America and South East Asia have all shown significant growth.

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Global sourcing market share


The growth in investments attracted and the impact on jobs and training is shown in the graph alongside. Of the 20 firms attracted to date, three large global companies account for more than half the investment made.

The global investors provide important global links for South Africa:

- Aegis services its clients from 32 locations with 20,000 seats and more than 31,000 employees. It is part of the Essor Group, one of India’s largest conglomerates.
- TeleTech employs more than 55,000 people in over 17 countries who help handle more than 3.5-million customer interactions each day.
- Teleperformance has the largest global footprint in the industry with 249 contact centres, a presence in 47 countries, servicing over 75 markets and 18 geographically diverse nearshore and offshore locations.

In addition to the above, the recent investment into the country by Genpact, a major global player, bodes well for the future.
Investment attracted to the South African BPO market

- Jobs contracted
- Training contracted

<table>
<thead>
<tr>
<th>Year</th>
<th>Jobs Contracted</th>
<th>Training Contracted</th>
<th>Investment Attracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>7,732</td>
<td>R510-m</td>
<td>R197-m</td>
</tr>
<tr>
<td>2008</td>
<td>8,019</td>
<td>R927-m</td>
<td>R355-m</td>
</tr>
<tr>
<td>2009</td>
<td>12,342</td>
<td>15,251</td>
<td>21,752</td>
</tr>
</tbody>
</table>

- 21,752 jobs contracted
- 15,845 training incentives contracted
- R1,531 million investment contracted

Marketing South Africa as a BPO destination
Refining the *institutional framework* for the development of the BPO sector
Creating a framework for **sector development**

<table>
<thead>
<tr>
<th>GOAL</th>
<th>Develop an institutional framework that allows for a concerted effort by public and private actors to develop the BPO sector.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Approach</strong></td>
<td>Create a government assistance and support programme</td>
</tr>
<tr>
<td><strong>Indicator</strong></td>
<td>Industry association developed and quality assured</td>
</tr>
<tr>
<td><strong>Responsible</strong></td>
<td>BPeSA</td>
</tr>
<tr>
<td><strong>Long-term strategy</strong></td>
<td>Capacitated and productive government and industry organisations co-operating to promote BPO in South Africa</td>
</tr>
<tr>
<td><strong>Short-term actions</strong></td>
<td>Build BPeSA and launch a quality assurance system</td>
</tr>
<tr>
<td><strong>BPO programme role</strong></td>
<td>Support development of BPeSA</td>
</tr>
<tr>
<td><strong>Current status</strong></td>
<td>GAS approved</td>
</tr>
</tbody>
</table>
The framework for the development of the BPO sector was established on an understanding of the complementary roles to be played by government, the industry association and firms operating in this sector.

On this understanding government would be required to set policy, secure infrastructure, provide incentives, and regulate competition. The industry association would promote the sector, lobby for benefits for its members, assure quality, undertake research and provide market intelligence. Firms operating in the BPO&O sector would compete, invest their resources, provide training and develop skills – all on a profitable basis.

In addition to those complementary roles, the BPO Sector Support Programme was developed as a short-term intervention to enable the public and private sectors to work together to attract the new investment needed to make South Africa a recognised BPO destination.

With limited capacity in the industry association, a government with a wide remit, and intense global competition to attract BPO investment, special support was required to enable the public and private sectors to co-operate. To do that a facility was required to initiate the process of sector support. Furthermore, the industry association had to be strengthened and a partnership vehicle created.
The roles of the partners

Government
- Setting policy
- Securing infrastructure
- Providing incentives
- Regulating competition

Industry
- Promoting
- Lobbying
- Assuring quality
- Research intelligence

Firms
- Competing
- Investing
- Training
- Profiting

Refining the institutional framework for the development of the BPO&O sector
In August 2005 a sector support facility was created by the Business Trust to enable actors in the public and private sectors to work together to establish South Africa as a preferred location for business process outsourcing and thereby create 100 000 new jobs.

Through the Business Trust, specialist skills were procured in the areas of strategy, marketing, training and organisation design.

The sector support facility provided a focal point for a concerted effort to enhance South Africa's competitiveness in this sector. Five streams of work were initiated. A targeted marketing campaign was launched. A training programme to train an initial 1 000 and ultimately 30 000 people was designed and piloted. Incentive options were identified and quantified. A quality assurance system was designed, and a plan for the restructuring of the industry association was developed for the industry body.

The outcomes of the five work streams include:

- a marketing strategy;
- a database of over 120 potential investors;
- a South African BPO value proposition and value propositions at country level for India, the UK and the USA, as well as targeted propositions for the top ten potential investors;
- a lead management system;
- an incentives framework and concept documents for each of the main categories of incentive;
- a skills development plan;
- a work readiness programme for training 30 000 people;
- a business plan for the development of the industry association;
- quality assurance and standards setting systems for BPO firms;
- a concept proposal for addressing the needs of the second economy; and
- a draft proposal for the creation of a special purpose vehicle.
Effective industry associations have been central to the successful development of the BPO sector.

Industry associations have been developed in countries such as the Philippines and India. In India, the industry association NASSCOM has played a pivotal role in that country’s success.

In South Africa, the BPO industry started developing in the late 1990s. Regional associations developed in different ways in different parts of the country, notably in Cape Town and Johannesburg in the early days, followed by other regions.

A national body was established in June 2004 by the regional associations, which hoped to represent their interests nationally by forming the South African Contact Centre Community (SACCCOM). The initiators were the regional body in Gauteng called ‘ContactinGauteng’ which had a membership of 100 companies and ‘CallingtheCape’ with some 140 corporate members. Subsequently, ‘KZNNonSource’ (launched in January 2006 with five members) and Coega were invited to participate in the national body.

The national body lobbied for support for the BPO industry, for the reduction in telecommunications prices and for SMME support. A memorandum of understanding was entered into with the world’s leading BPO promotion agency, NASSCOM in India, which is the industry association for the IT and BPO industries in that country.

The organisation was supported by the Business Trust BPO Sector Support Programme during 2006 and 2007 and mobilised industry support for the development of the BPO sector.

In 2007 the organisation started a process of restructuring to unify the industry under a single national umbrella and changed its name to Business Process enabling South Africa. (BPeSA). The national members represent over 25 000 agents (30% of South Africa’s agent base).
Toward the end of 2007 BPeSA and the dti agreed on their respective roles for the development of the BPO sector in South Africa.

They acknowledged that the BPO sector offers an important opportunity for the achievement of the country’s development goals and agreed that the following factors would influence the development of the sector:

- First, the growth of a vibrant BPO market of local and foreign firms that develop human capital and other resources to invest in the country. They should compete globally and do so profitably, legally and within the context of the government’s development framework.
- Second, the establishment and implementation by government of sound policy and the maintenance of supportive government institutions. This should be accompanied by the provision and deployment of attractive incentives that ensure the development and maintenance of competitive infrastructure.
- Third, an industry association that is representative of the firms in the industry and able to, amongst other things, promote its members’ interests, lobby the government and assure quality. It should also undertake research into national and international developments, provide market intelligence and other forms of support for its members, and participate in joint ventures with government and third parties to attract BPO business to South Africa.

In order to achieve those desired results, the dti and BPeSA agreed to work together to:

- build an enabling environment based on secure and competitive costs, competitive market conditions, a good supply of skills, attractive incentives, a strengthened industry organisation and assured quality standards in BPO operations;
- attract and retain investment by raising awareness of the value of South Africa
as a BPO destination, accelerating decisions for targeted firms, providing easy access for decided investors and ensuring the efficient administration of incentives, and providing access to all government sector support programmes; and

- support linkages with the second economy to ensure the widest possible benefit of an expanding BPO sector for the country by providing enterprise linkage support, encouraging the attraction of outsourced activities to designated areas, supporting ownership by previously disadvantaged individuals, and encouraging socially responsible operations.

They also agreed that the industry association should:

- effectively represent the firms in the BPO sector in a manner that is not diluted by government participation;
- operate under the governance of a board comprised largely of industry representatives;
- create the requisite structures to effectively lobby industry interests to government and expose government views to industry; and
- maintain an operating infrastructure that can be self-sustained through internal fundraising programmes.

The dti and BPeSA agreed to co-operate by co-ordinating their activities to develop the BPO sector in South Africa while simultaneously building their respective strengths and capacities. They agreed that BPeSA would:

- be independent and non-political;
- representative of the industry;
- operate to promote and protect the interests of its members by inter alia:
  - acting as the voice of business in the BPO sector
  - lobbying members’ interests within government
  - allowing a fair scrutiny of government views by the industry; and
- establish a suitable vehicle under the name ‘BPO2SA’ to co-ordinate their joint actions to develop the sector.
Assuring quality

In order to safeguard South Africa’s reputation, a nationally adopted code of practice, an industry regulation framework and monitoring process was developed.

The rationale for systematic quality assurance was agreed among firms in the industry:

- standards benefit the country as a whole, since adherence to these standards gives investors confidence in South Africa’s quality offering;
- effective quality management strikes a balance between the positive experience of the customer and the business risk of the service provider in delivering it, so ensuring benefit to all parties;
- business risk is kept to a minimum because the requirement for planning is thorough, the tools for success are provided and interdependencies are managed;
- conformity to the standards provides outsourcers with the peace of mind that all areas of BPO&O have been considered and nothing has been left to chance, minimising their exposure to unstructured environments; and
- from a so-called ‘captive’ perspective, standards help to manage the cost and effectiveness of the BPO environment.

Standards were developed with industry representatives from all over South Africa.

The process of setting standards involved a number of processes and drew on the expertise of over 70 people. The working groups that were formed studied available international material including:

- the ISO 9000:2000 series of standards for quality management;
- the commercial American suite of standards, Customer Operations Performance Centre (COPC);
- the United Kingdom's Call Centre Association (CCA) standard;
- the ISO/IEC 20000:2005 standards for information technology (IT) service management;
- the ISO/IEC 27001:2005 standard for information management security systems; and
- the Call Centre Charter developed by the Italian national standards body, UNI.
Other influential bodies of work that were studied included:

- the Six Sigma quality approach;
- Merchants’ Global Benchmarking reports;
- the USA’s Malcolm Baldrige national quality awards;
- call centre operations and establishment guidelines developed in Australia and Canada; and
- the Benchmarking Project carried out in Scotland.

The working groups examined the needs both of potential clients and industry service providers. Three new standards which address important areas within BPO&O were drafted:

- standards for inbound contact centres;
- standards for outbound contact centres; and
- standards for back-office processing operations.

Over 70 people representing companies across the sector were part of the standards development exercise. This included big business (local and international), small business, banks, insurers, telecommunications operators, IT companies, and so-called ‘captives’ (companies that run contact centres for their own customers), outsourcers (companies that process work for other companies and their customers), and service providers (training providers, technology companies and others providing services to captives and outsourcers).
Consensus was achieved and businesses started to align themselves to the new draft standards. The South African Bureau of Standards (SABS) initiated the process for adopting these industry standards as official national standards (designated SANS 9999) and issued guidelines so that businesses could become compliant without waiting for the official adoption process to be completed.

The standards are structured under four main headings and specify the requirements for quality operational practices in the business process outsourcing and offshoring sector:

**Leadership and customer service management practices.** This includes standards for organisational focus and quality, operational plans, the meeting of legislative requirements and the meeting of industry sector requirements. It also includes the ability to conduct ‘root cause analysis’ that enables the organisation that meets the standard to understand the reasons for any breakdown in customer related processes and helps to prevent breakdown from recurring.

**Human resource management practices.** The standard focuses on the management structure, the code of conduct, the staff management model, recruitment and selection practices, skills requirements and skills evaluation. It also deals with internal communication, performance management and training, shift management, health and environment management, safety and security procedures, reward and recognition programmes, the management of the use of staffing agencies, and the management of attrition.

**Operations management practices:** Here the focus is on a description of capabilities, capacity planning, customer related process management, support processes from various internal and external suppliers, quality assessment and performance reporting.

**Technical resource management practices.** As far as technical resource management practice is concerned, the standard focuses on data security, data recovery and the management of internal technical support to prevent compromising the integrity of customer related processes. It also covers the management of external technical suppliers, data management, management of information systems, fraud and risk management, and security procedures.
Refining the institutional framework for the development of the BPO&O sector
Meeting *second economy* objectives
Supporting people, places and enterprises in the second economy

<table>
<thead>
<tr>
<th>GOAL</th>
<th>To channel the growth of the BPO sector to maximise job creation and skills development for marginalised communities, including the unemployed and those living in designated areas.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approach</td>
<td>Develop the national BPO programme to focus on the unemployed</td>
</tr>
<tr>
<td>Indicator</td>
<td>New employment created</td>
</tr>
<tr>
<td>Responsible</td>
<td>The dti for the development of policy and procurement of incentives for second economy projects</td>
</tr>
<tr>
<td>Long-term strategy</td>
<td>Increasing investment attracted to secondary towns and marginalised areas as the BPO sector matures</td>
</tr>
<tr>
<td>Short-term actions</td>
<td>Define designated areas</td>
</tr>
<tr>
<td>BPO programme role</td>
<td>Develop proposals for designation</td>
</tr>
<tr>
<td>Current status</td>
<td>Unemployed people are gaining work</td>
</tr>
<tr>
<td></td>
<td>Two investments made in designated areas</td>
</tr>
</tbody>
</table>
BPO was selected as a priority sector because of its ability to contribute to the broad objectives of growth, development and transformation.

It does this by responding to the challenge of the second economy, which is described by the Presidency as “a mainly informal, marginalised and unskilled economy populated by the unemployed and those unemployable in the formal economy”. BPO&O is able to respond to the characteristics of the second economy by focusing on:

- **people** who are unemployed and lack skills; and
- **places** that are unable to attract investment.

The needs of people who are unemployed and lack skills are met by providing employment and skills through the attraction of investment and provision of training. Places that are unable to attract investment are supported by encouraging the establishment of BPO operations in areas designated for special assistance.

It was agreed that growth in the BPO&O sector in South Africa will come from increased foreign direct investment and from local organic growth. To ensure that this growth can be used to address relevant aspects of the second economy, it is necessary to focus on achieving clearly defined goals underpinned by customised incentives and support as well as effective strategies.

The entire BPO development programme aims to provide work and skills for unemployed people.

As the BPO market matures, a natural progression to second and third tier towns and cities can be expected.\(^\text{29}\)

In India, while 61% of the BPO operations measured by the number of employees are located in Bangalore and Mumbai, second tier cities like Chennai and Kolkata have begun to develop, as have third tier cities such as Jaipur, Pirvandrum and Vishakapatnam. Indeed if growth over the past three years is assessed, 41 new centres were developed in tier one cities, while 42 centres were developed in tier two and 23 in tier three.

The affinity to second and third tier cities is attributed mainly to lower operating costs in these locations. In India, typically, the cost of operations in second and third tier towns and cities is 25 to 30% less than in the tier one cities. Also, skills shortages have developed in Indian tier one localities and the degree of attrition in second and third tier towns is less than in the major cities.

The move to second and third tier towns and cities in mature BPO countries has been based on long-term systematic government policy and programmes.

The Indian government has supported talent enhancement initiatives, investments to improve infrastructure, the simplification of set-up procedures, the development of IT networking initiatives and the provision of local level incentives. The industry association has developed a training and talent assessment programme and is setting up industry government partnerships with colleges etc.

The initial focus of the second economy programme was on the places that have significant needs and some potential to attract investment.

The objectives of the programme were to:

- develop criteria for the designation of areas for BPO&O developmental support;
- identify potential outsourcers in the public and private sectors with the potential to locate BPO&O operations in depressed areas;
- define the conditions that will be required to locate BPO&O operations in depressed areas; and
- prepare a plan for the implementation of the movement of BPO&O operations to depressed areas.

Designated areas were defined on the basis of need and potential. The process involved three phases:

- **Phase 1 (pre-screening):** The goal in this phase was to filter out areas with no potential for attracting BPO&O investments. The following criteria were applied to all local municipalities and to arrive at the short-list of areas:
  - number of people living in the area;
  - population size – if the total population is less than 50,000, the area is excluded from further analysis;
  - the extent to which the area is rural/urban; and
  - urbanisation rate – all areas were considered except those that are between 90 and 100% rural.

- **Phase 2 (potential index):** The goal of this phase was to create the final index of local municipalities with the potential to attract BPO&O investments and to host a sustainable BPO&O sector. The BPO&O potential index is a summary measure of the potential and capability that local municipalities have to attract, support and sustain the BPO&O industry. It measures the potential in six dimensions: infrastructure, labour, municipal services, productivity, capability and sector support. The dimensions are defined as follows:
  - Infrastructure – the availability and access to key infrastructure that is indispensable to the BPO&O operations. It is measured by the availability of telecommunications and electricity infrastructure and transportation networks.
  - Labour – the level of education in the area and the annual supply and availability of matriculants that could be used as entry-level agents.
  - Municipal services – the quality of life in terms of general access to basic services such as water, sanitation and housing in the area.
  - Productivity – the contribution of each area to the national economy measured by the gross value-add of the area and employment.
  - Capability – the capability of the municipality to support future investments by assessing the capacity for the generation of own income by the municipalities.
  - Sector support – the support that could be provided by the services sector to the BPO&O industry by assessing the number of people working in the services and business sector.

- **Phase 3 (development of a schedule of designated areas):** 130 municipalities were ranked to identify areas for designation. They spanned:
  - 6 metros;
  - 17 secondary cities;
  - 93 large towns; and
  - 14 dense settlements.

Twenty-four areas were identified by the dti for special attention on the basis of their potential. High-level profiles were developed for eleven of the areas and value propositions for four. In addition, two other value propositions were developed – one for Amathole and one for Kgalagadi.
An adjustment was made to the incentive guidelines and special support was provided to investors interested in locating in designated areas.

Following an adjustment to the incentive guidelines, projects locating in a designated area were excluded from the 90% offshoring requirement. That resulted in the investment incentive and training support grant becoming available to all companies investing in these areas.

By June 2009 this had resulted in the approval of support for investments in Polokwane and Sol Plaatjie, resulting in the establishment of call centres of 450 seats for Polokwane and 250 seats for Sol Plaatjie.
## Ranking of municipalities

<table>
<thead>
<tr>
<th>CATEGORY AND NUMBER</th>
<th>Local municipality</th>
<th>Main towns</th>
<th>Profile</th>
<th>Value proposition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Secondary cities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Sol Plaatjie</td>
<td>Kimberley</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Msunduzi</td>
<td>Pietermaritzburg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Mangaung</td>
<td>Bloemfontein</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Umhlatuze</td>
<td>Richards Bay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>City of Matlosana</td>
<td>Klerksdorp</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Newcastle</td>
<td>Newcastle</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Govan Mbeki</td>
<td>Secunda</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Emalahleni</td>
<td>Witbank</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Merafong City</td>
<td>Carletonville</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Bufallo City</td>
<td>East London</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Matjhabeng</td>
<td>Welkom</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Rustenburg</td>
<td>Rustenburg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Mbombela</td>
<td>Nelspruit</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Polokwane</td>
<td>Polokwane</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Madibeng</td>
<td>Brits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Endumeni</td>
<td>Dundee</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Umgeni</td>
<td>Howick</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>18</td>
<td>Ga-Segonyana</td>
<td>Kuruman</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Large towns</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Hibiscus Coast</td>
<td>Port Shepstone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Mafikeng</td>
<td>Mmabatho</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Emnambithi</td>
<td>Ladysmith</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Moses Kotane</td>
<td>Madikwe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Dr J S Moroka</td>
<td>Siyabuswa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Mogalakawena</td>
<td>Mokopane</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td><strong>Dense settlements</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Conclusion
The development of the BPO sector has tested SA’s ability to:

- compete internationally;
- organise a cooperative effort across government departments and between government and the private sector; and
- use sector strategies to meet South Africa’s development goals, especially the provision of work for young unemployed people.

This report has shown SA’s ability to rise to those challenges.

The strategy agreed by the dti and leading firms in the private sector provides an example of the way in which sector strategies may be crafted in the future. It resulted in the approval of substantial government assistance and support for the sector, which has triggered in excess of R1-billion investment and brought some of the world’s leading outsource companies to South Africa. Over 21 000 direct jobs have been created thus far and these have the potential to change the destiny of the young people who become call centre agents or back-office operators in BPO firms.

Over and above the co-operation between firms in the BPO industry and the dti, the support of the Business Trust and its corporate partners, who are generally not participants in the BPO sector, demonstrates a commitment by business and government to work together in the national interest.

However global competition remains intense and South Africa’s competitors have also made substantial progress in recent years. Some are moving to build a competitive advantage that South Africa will find difficult to match unless it can improve its performance.

South Africa’s potential to compete has been tested and proven to be sound. The contribution to the country’s development objectives has been demonstrated and during the course of the last year it has become increasingly clear that this is one of the few sectors where new investment and new jobs are likely to be created in these difficult economic times. While Team South Africa has proven its ability to get into the game, it has its work cut out if it is to realise its potential to compete and win in the years ahead.

Just prior to completing this report, it was decided not to proceed with the establishment of a Special Purpose Vehicle to co-ordinate public and private actions and those of different components of government. Instead the dti, led by Trade and Investment South Africa (TISA), and the industry, led by Business Process enabling South Africa (BPeSA), have agreed to develop a joint operating plan with clear targets and deliverables that will systematically allocate resources and accountability across government and industry. It was decided that the short-term stimulus that a Special Purpose Vehicle was to provide, has already been provided by the BPO Sector Support Programme over the last two and a half years.

As this report shows, success ultimately depends upon government, the industry associations and the firms operating in this sector playing their roles effectively. Government needs to set policy, secure infrastructure, provide incentives and regulate competition. The industry association needs to promote the sector, lobby the interests of its members, assure quality, undertake research and provide market intelligence. And firms in the sector must compete for business, invest their resources, provide training and do so on a sustainable basis.

The experience of the last two and a half years has built new relationships and has given both government and business the confidence to play their respective roles and develop the co-operation networks needed for success in the future. Over the coming months a joint operating plan will be produced, responsibilities allocated, and a monitoring and review system set up to track its implementation.

The sector is well placed to provide an attractive home for the world’s leading outsourcers and to contribute to South Africa’s long-term development goals.
1 **Opportunity identification, strategy development and economic justification**

2 **Telecommunications costs**

3 **Talent development**

4 **Creating attractive incentives**


5 **Improving industry organisation**


6 **Building world-class quality**


6.2. SABS Approval:

   6.2.1. Part 1 – Outbound Contact Centre Operations.
   6.2.2. Part 2 – Inbound Contact Centre Operations.

7 **Attracting and expanding investments**


8 **Supporting the second economy**


8.2. Siseko se Afrika (2007) *A Review of Municipal Support Incentives for the BPO&O.*


9 **Partnership organisation**
