

Industry Performance and Outlook

A. Overview of the Philippine IT-BPM Industry

- The Philippines is a top-tier destination for IT-BPM services and remains as one of the leaders in the global IT-BPM industry, ranking 1st in voice-related services and accounting for 13% of global market share.
- The country has since evolved from being an alternative destination for low-cost services to providing high-quality services at competitive price points. The Philippines is rapidly growing its capability to offer non-voice BPM and IT services to an increasingly broader set of clients worldwide, expanding its horizontal BPM services in areas such as finance and accounting, as well as vertical-focused solutions such as healthcare information services.
- In terms of revenue, the Philippine IT-BPM industry reached US\$26.7B in 2020 and there is still potential for the industry to reach US\$29B by 2022, despite the effects of the COVID-19 pandemic. Meanwhile, in terms of manpower, the industry grew by 1.8% from 2019 to 2020, representing about 23k full-time equivalents (FTE), bringing the total industry headcount to 1.32M. Based on the recalibration study conducted by the Everest Group, it aims to attain headcount growth of 5% and revenue growth of 5.5% per annum from 2021 to 2022.
- According to the 2021 Tholons Services Globalization Index, the Philippines ranks 18th in the Top 50 Digital Nations, while Manila and Cebu City were also included in the list of the Top 100 Super Cities, ranking 8th and 52nd, respectively.¹

B. Industry Outlook

- With the advent of the Fourth Industrial Revolution (Industry 4.0) and with the accelerated digitization of government, industry, and society as a whole due to the COVID-19 pandemic², there is an opportunity for accelerated growth in high-value services, particularly in animation, game development, global in-house centers, health information management (HIM), IT, and software development.
- The IT-BPM Industry experienced growth between 1.4% - 1.8% in 2020; however, growth is expected to pick up again in 2021 and 2022, much of which will be led by digital transformation.
- The top trends emerging in Industry 4.0 include Big Data and Analytics (BDA), Internet-of-Things (IoT), Automation and Artificial Intelligence (AI), and Cloud Computing, all of which rely heavily on the IT-BPM industry. With the formulation of the AI Roadmap, the Philippines is laying the foundations to keep up with rapidly changing times and improve its technology adoption and competitiveness.

¹ Tholons (2021). "Tholons Services Globalization Index 2021: Innovation at Scale – Digital Nations and Super Cities."

² Accenture (2020). "How COVID-19 will permanently change consumer behavior."

- IT Services, Contact Centers and BPOs, and Animation were down in 2020, while Global In-house Centers and Healthcare Services experienced some gains, although growth rates will be lower compared to the 2019 forecast due to COVID-19.

Philippine IT-BPM Industry Outlook, 2020-2022

	2019 Recalibration	2020 Recalibration
Revenue	3.5-7.5%	3.2-5.5%
Headcount	3.0-7.0%	2.7-5.0%

Source: IBPAP, Everest Forecast

- The Philippines is the leading offshore-nearshore location for healthcare services delivery and the segment is expected to grow steadily driven by the global increase in demand, especially in light of COVID-19.
- The Philippine Game Development industry is also on the threshold of an impending boom. The growth of local industry continues and the expanded market share and range of services is evident as homegrown companies take advantage of global video game industry opportunities. This brings an ever-increasing likelihood that the next big video game title will have Filipino imprint on it.
- The Information Technology and Software Development sector serves as the engines of the country's manufacturing and services sectors. This sector plays a significant role in improving the business environment, increasing productivity and efficiency, and in enhancing the consumer experience. Thus, the Philippine government has gone the extra mile to enable these sectors to continue thriving as the country paves the way to leapfrog into Industry 4.0.
- As players move to high value complex and digital services, the revenue growth is expected to be marginally higher than headcount growth.
- In an industry-wide survey carried out by IT & Business Process Association of the Philippines (IBPAP), it was shown that 87% of IT-BPM companies are expecting to see between 5-15% growth in 2021, with the other 13% anticipating flat growth. There was also a good number of firms expressing that they have plans to expand in the countryside within the next 12 to 18 months.

A majority of organizations are also saying that hybrid working models will continue to prevail in 2021 and possibly, in 2022 as well. Currently, the IT-BPM sector is able to deliver work and provide service through a 70-30 split between work-from-home and on-site work. Moving forward, this will most likely change depending on company policies, government mandates, and digital capabilities.

The survey also found that IT-BPM firms will be prioritizing optimization of existing operations, digital transformation, and the upskilling of their human capital in 2021.

- Below are the imperatives in achieving the industry's growth potential
 1. Accelerate Digital Transformation
 2. Upskill to Digital Talent

3. Improve Ease of Doing Business
4. Strengthen Country Positioning
5. Fortify the IT-BPM Ecosystem

C. The Impact of COVID-19

- As one of the more resilient sectors in the face of the COVID-19 pandemic, the IT-BPM industry plays a crucial role in the Philippine's economic recovery by fostering innovation and providing high-value services and employment opportunities.
- 41% of job openings are from the IT-BPM industry, while PEZA investment pledges for the industry remained flat in 2020 whereas total investment pledges fell by 19.1% during the same period.
- In parallel, a report by Leechiu Property Consultants (LPC) stated that office space demand reached 389K sqm. in 2020 and that close to 50% or 189K sqm. came from the IT-BPM sector. It was also recorded that the Province of Iloilo captured 48K sqm. of the take-up by Business Process Outsourcing (BPO), higher than even key cities in Metro Manila.
- In the early phase of the lockdown in March/April, even when productivity was at 50%, IT-BPM companies did not lay off employees, but rather worked to enable their employees to be able to either work remotely or on-site. The industry was quick to adapt to various work arrangements and institute health protocols with work productivity now reaching near 100%.
- With most organizations regaining their momentum by September 2020, the Philippine IT-BPM sector was already able to display signs of recovery by the fourth quarter. There was also a notable upturn in IT Outsourcing (ITO) projects in the latter part of the year as clients invested more in digitization to mitigate prevailing issues caused by the outbreak and as a way to enhance their Business Continuity Plans (BCPs).
- While there are industries heavily affected by this pandemic such as travel, hospitality, and tourism, IT-BPM firms are expanding their head count in services related to healthcare, electronic commerce, telecommunications, and logistics. The growth of emerging segments such as financial (e.g., fintech, insurance, financial administration) services, gaming and animation shows an encouraging sign for the IT-BPM industry. Additionally, multinational and global companies will be looking into outsourcing or offshoring more of their operations to cut down on costs, potentially benefiting the local industry.
- In view of the accelerated adoption of automated services, the industry is keen on attracting investments in higher value-added services to sustain the competitiveness and support the growth of the industry.

D. Key Players

- Major industry players include Accenture, Concentrix, Teleperformance, and Wells Fargo. The Philippines also hosts a number of Indian BPOs such as Aegis, Hinduja Global Solutions, Infosys, Genpact, and Tata Consultancy Services.
- The industry is also supported by the IT & Business Process Association of the Philippines (IBPAP), the industry's primary enabling association, as well as its partner associations which include the Animation Council of the Philippines Inc. (ACPI), the Contact Center Association of the Philippines (CCAP), the Game Developers Association of the Philippines (GDAP), the Global In-House Center Council Philippines (GICC), Healthcare Information Management Association of the Philippines (HIMAP), and the Philippine Software Industry Association (PSIA).

II. Key Advantages of the Philippines

- The Philippines still remains a conducive place to do business and is considered one of the top emerging economies and countries for investments. The Economist business magazine cited the Philippines as 6th among the emerging economies with a high level of financial strength. Meanwhile, CEO World considers the Philippines as one of the top 10 countries for investments in the post-COVID era.
- Amidst the pandemic, the Philippines is still well positioned to recover strongly in 2021 because of its strong fiscal management and stable economic fundamentals.³
 - The Philippine economy grew at an average of 6.6% over the period 2016 to 2019. The country is the 3rd fastest growing economy in Asia.
 - In 2019, the Philippines per capita GDP stood at US\$3400-3500 and the country is projecting to breach the US\$ 4000 mark to become an upper middle-income country by 2020, if COVID-19 did not happen.
 - The country's astute monetary policy enabled us to have low and stable inflation rates averaging at 3% from 2016 to 2019.
 - In 2019, the country also had a strong fiscal position, whereby the Philippines achieved highest revenues and lowest debt as shares of GDP. The country's strong fiscal position: highest revenues (16.1%) and lowest debt (39.6%) as shares of GDP in 2019.
 - The Build Build Build Infrastructure Program doubled as a share of GDP compared to the past five decades (4.5% of the GDP or PhP 882 billion pesos in 2019).
 - The country has the highest ever credit ratings in the range of BBB+ to A-.

³ Source: NEDA

- Among the lowest unemployment (5.3%) and underemployment (14.8%) rates in Jan 2020. Lowest poverty incidence (16.8%) as of 2018. The 2022 promise of lifting 6 million from poverty was achieved in 2018.
- With over 30 years of experience, the Philippine IT-BPM industry is expanding to multi-tier and higher-value services that have attracted investors and locators globally. The industry has also showcased its ability to offer more complex and digitally-enabled non-voice services and niche business process services to various industries.
- The Philippine population is currently in a “demographic sweet spot” – which means that a prominent number of its population is of working age. About 62.4% of the population is of working age, that is, between 15 and 64. The median age is 24.1 years old, which is equivalent to the age of someone who recently graduated from college.
- The Philippines has a wage advantage compared to most emerging IT-BPM centers, with the exception of India. The country has a high rate of tertiary enrollment, thus providing access to an educated workforce at competitive prices.
- The Philippines produces over 500,000 college graduates annually, with over 100,000 in the fields of IT and Engineering. Additionally, the Philippines is the 3rd largest English-speaking country in the world, with over 70% of the population able to converse in English. This equates to a workforce that is highly educated and English-proficient, highly trainable, and adaptable to universal cultures.
- The Philippines has also shown a strong respect for intellectual property (IP) rights. It has consistently kept itself out of the United States’ watch list since 2014⁴ and has even improved its score on the US Chamber of Commerce’s (USCC) International Intellectual Property Index by 4%.⁵ Despite gaps in its current IP framework, the Philippines is set to improve its IP environment with two bills pending in Congress that will pave the way for better IP enforcement in the country.
- The Philippines continues to make considerable progress in the areas of ease of doing business and country competitiveness. According to the World Bank’s 2020 *Doing Business* report, the Philippines jumped 29 spots, ranking 29th from 124th in the previous year.⁶ Although dropping a few slots from 56th to 64th in the World Economic Forum’s *Global Competitiveness Report*,⁷ the Philippines is set to improve its standing as it seeks to lower its corporate income tax rates and provide a better incentives package with the passage of the CREATE Bill.

III. Government and Private Sector Partnership

- The IT-BPM industry is one of the priority industries identified under the DTI/BOI’s Inclusive Innovation Industrial Strategy (i3S) which directly supports the achievement

⁴ IPOPHL. “PH maintains positive standing on intellectual property rights enforcement.”

⁵ Business World (2020). “Philippines improves score in International Intellectual Property Index.”

⁶ World Bank (2020). *Doing Business 2020*.

⁷ World Economic Forum (2019). *The Global Competitiveness Report 2019*.

of the Philippine Development Plan's goal of expanding economic opportunities through *trabaho* and *negosyo*.

- With the DICT's Digital Cities 2025 Program, the IT-BPM industry is a prime mover in promoting countryside development and inclusive growth in strategic locations outside of Metro Manila. 25 digital cities across the country have already been identified by the DICT, in collaboration with the IBPAP and Leechiu Property Consultants.
- IBPAP's IT-BPM Roadmap 2019-2022 highlighted the need for key interventions to support the growth of the country's IT-BPM sector. These interventions are classified along the following:
 - 1) *Human Capital*: Interventions to expand, upgrade, and attract the supply of fresh graduates and career shifters, as well as retain and develop the existing workforce.
 - 2) *Inclusive Growth*: Interventions to create more diversified, nationwide growth of the IT-BPM sector and the improved capabilities of Local Government Units (LGUs) to attract and sustain IT-BPM sector investments.
 - 3) *Country Competitiveness*: Interventions to enhance international competitive positioning of the Philippine IT-BPM sector.
 - 4) *Government Support*: Interventions to strengthen government-industry collaboration.
 - 5) *SMEs and Startups*: Interventions to create a vibrant SME and start-up ecosystem contributing to the IT-BPM sector.
 - 6) *Impact of Technology*: Interventions to enable increased adoption of technology with a view to drive productivity and competitiveness of the sector and to ensure the development of a future-ready workforce.