

## THE 2005 BENCHMARK SURVEY OF IT-ENABLED SERVICES

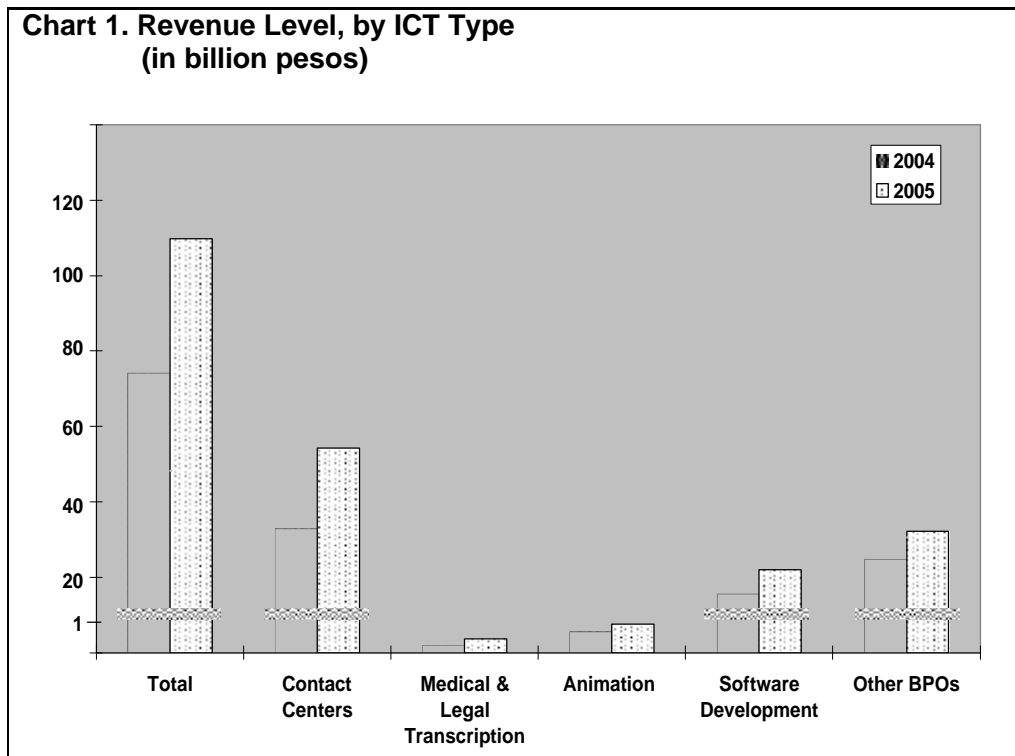
### Revenue

*The industry posts ₱109.9 billion revenue in 2005, up by 48.2 percent in 2004.* The IT-enabled industry (which is comprised of contact centers, medical and legal transcription, animation, software development and other business process outsourcing or BPOs<sup>1</sup>) covered in the survey generated a total revenue of ₱109.9 billion (US\$1,995.9 million) in 2005, 48.2 percent higher than the 2004 revenue of ₱74.2 billion (US\$1,323.5 million) (Annex Table 1).

*Contact center accounts for the highest revenue.* Contact centers accounted for the highest share of the industry's revenue. In 2005, the sector comprised 49.4 percent or ₱54.3 billion (US\$985.7 million) of the total IT-enabled sector's revenue. Other BPOs, meanwhile, had a 29.3 percent share in total revenue, while software development, animation, and medical and legal transcription accounted for 20.0 percent, 0.9 percent, and 0.4 percent, respectively, of the industry's revenue.

In terms of growth, medical and legal transcription grew at the fastest rate of 97.0 percent, followed by contact centers with a growth rate of 65.0 percent. Software development, animation, and other BPOs also grew by double-digit rates (40.8, 35.3 and 30.5 percent, respectively).

**Chart 1. Revenue Level, by ICT Type  
(in billion pesos)**



<sup>1</sup> Other BPOs include backroom operations, outsourcing activities (i.e., market research, consultancy for business and management, engineering and architectural services) and data processing.

**Table 1. Revenue by ICT Type  
(in billion pesos)**

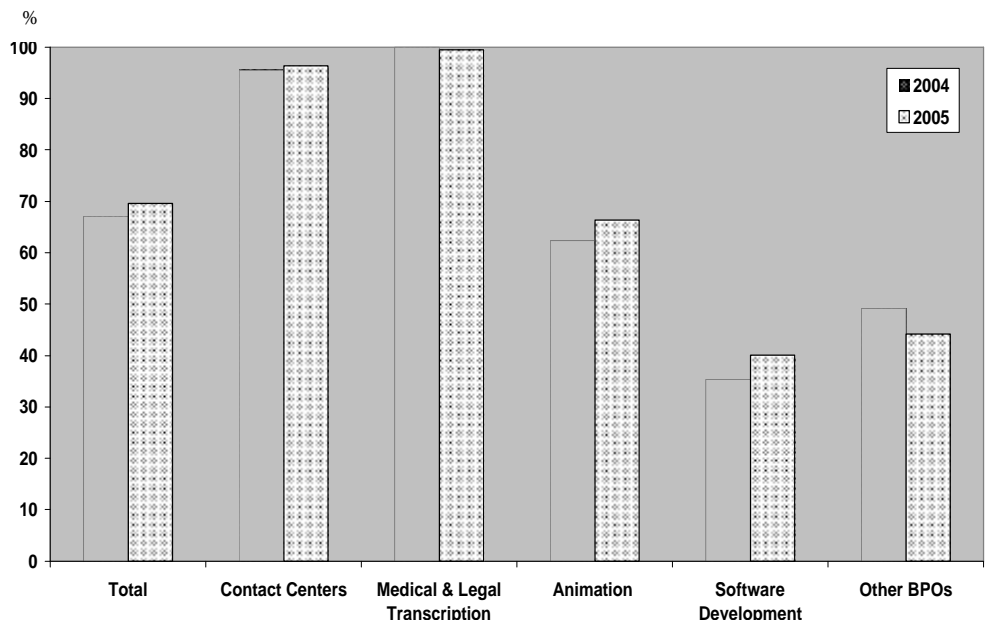
ICT Type	Revenue Level		Growth Rate (In percent)
	2004	2005	
Contact Centers	32.9	54.3	65.0
Medical & Legal Transcription	0.2	0.5	97.0
Animation	0.7	0.9	35.3
Software Development	15.6	22.0	40.8
Other BPOs	24.7	32.3	30.5
<b>Total</b>	<b>74.2</b>	<b>109.9</b>	<b>48.2</b>

**Exports**

*Exports account for most part of the industry's revenue...*

Total exports of the BPO industry amounted to ₱76.5 billion (US\$1,387.9 million) in 2005, 53.6 percent higher than the ₱49.8 billion (US\$888.2 million) reported in 2004 (Annex Table 2). For 2005, exports constituted about 69.5 percent of the total revenue of the industry. Contact centers and medical and legal transcription sub-sectors had more than 95 percent of their revenue coming from exports. Meanwhile, animation, other BPOs, and software development had an export share to revenue of 66.4 percent, 44.2 percent, and 40.1 percent, respectively, indicating that these sub-sectors are also providing services to domestic firms. Specifically, the animation industry also serves the domestic print and broadcast media, while the software industry caters to the software requirements (e.g., payroll system) of large domestic corporations.

**Chart 2. Ratio of Exports to Total Revenue, by ICT Type  
(in percent)**



**Table 2. Exports Level by ICT Type  
(in billion pesos)**

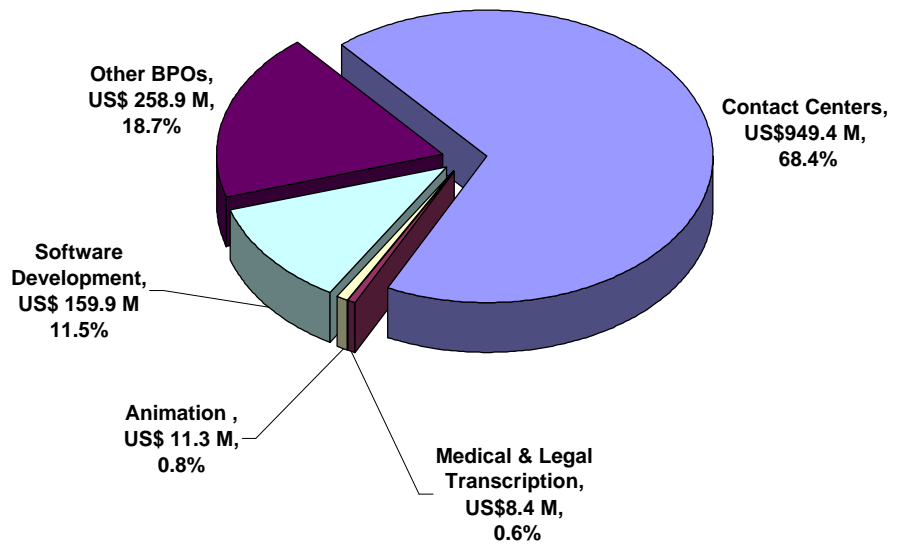
ICT Type	Exports		Growth Rate (in percent)
	2004	2005	
Contact Centers	31.4	52.3	66.3
Medical & Legal Transcription	0.2	0.5	96.0
Animation	0.4	0.6	43.8
Software Development	5.5	8.8	59.8
Other BPOs	12.1	14.3	17.4
<b>Total</b>	<b>49.8</b>	<b>76.5</b>	<b>53.6</b>

...with contact centers contributing the highest export receipts, followed by other BPOs.

Almost 70 percent of the export receipts in 2005 were accounted for by the contact centers, followed by other BPOs (18.7 percent), software development (11.5 percent), animation (0.8 percent), and medical and legal transcription (0.6 percent).

In terms of export growth during the 2004-2005 period, all ICT types registered double-digit growths, averaging 53.6 percent, with medical and legal transcription showing the fastest growth at 96.0 percent, followed by contact centers at 66.3 percent.

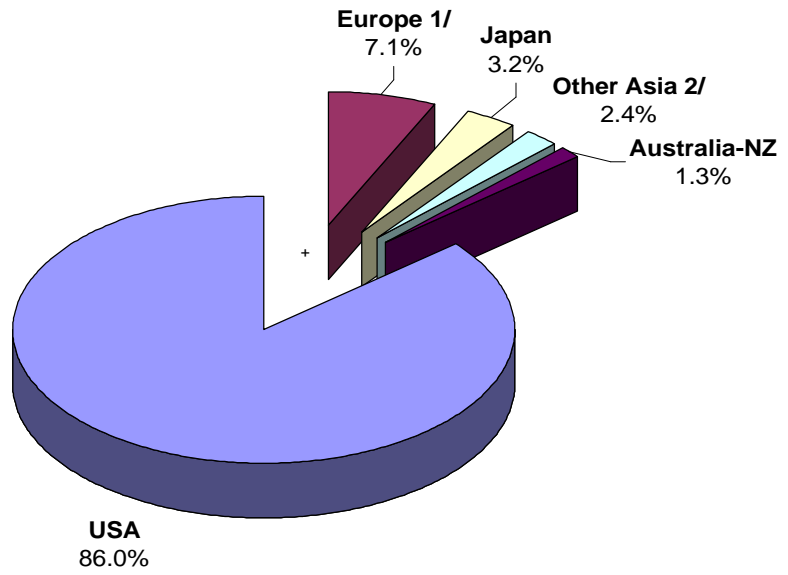
**Chart 3. Share to Total Exports by ICT Type, 2005  
(in percent)**



The Philippine IT-enabled services cater most to the US market.

By country, exports of IT-enabled services in 2005 mostly catered to the US market (86.0 percent of total exports revenue). The remaining exports went to Europe, Japan, other Asia, and Australia-New Zealand.

**Chart 4. Exports by Country, 2005  
(In percent)**



1/ In particular, United Kingdom, and Germany.

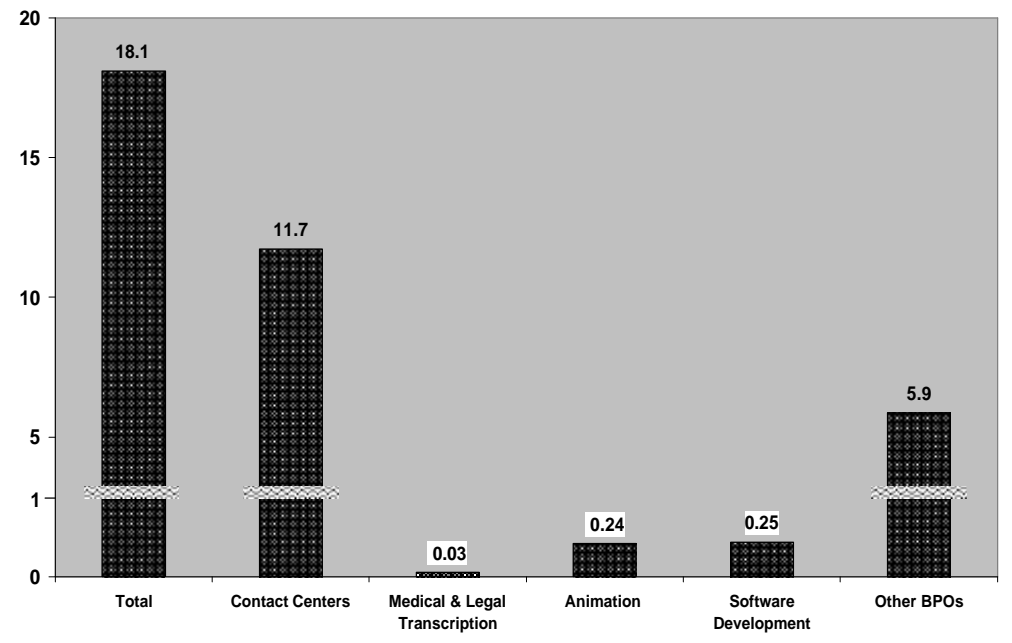
2/ In particular, India, China, Hongkong, Indonesia, Malaysia, Singapore, Taiwan, Thailand, Vietnam, UAE, and Saudi Arabia.

Outsourced services to the US, Europe, and Australia-New Zealand were dominated by contact centers. On the other hand, exports to Japan were mainly services provided by software development, as well as other BPOs and animation. For other Asian countries, exports were mostly from other BPOs (Annex Table 2.c).

### Foreign Investment

*About 67 percent of the equity of the industry is foreign-owned, with the US as the biggest investor.* Total equity in 2005 for the entire industry amounted to ₱27.1 billion (US\$491.7 million), of which ₱18.1 billion (US\$328.8 million) or 66.9 percent represents foreign equity. Contact centers had the highest share of foreign equity to total equity at 87.6 percent, followed by medical and legal transcription at 52.6 percent. The rest of the IT-enabled sectors had less than 50 percent foreign ownership (Annex Table 3).

**Chart 5. Foreign Equity by ICT Type, 2005  
(in billion pesos)**



The US accounted for over two-thirds of the foreign equity. Others which had stakes in the local IT-enabled industry were Europe, other Asia<sup>2</sup>, Japan, and Australia and Canada (Annex Table 4 – 4.a).

**Table 3. Foreign Investment by Country  
(in million pesos)**

Investor	Amount	% Distribution
USA	12,195.5	67.3
Europe	4,010.6	22.1
Japan	257.9	1.4
Other Asia 1/	1,648.0	9.1
Others 2/	0.7	0.0
<b>Total</b>	<b>18,112.8</b>	<b>100.0</b>

1/ In particular, India, Malaysia, and Singapore.

2/ In particular, Australia, and Canada.

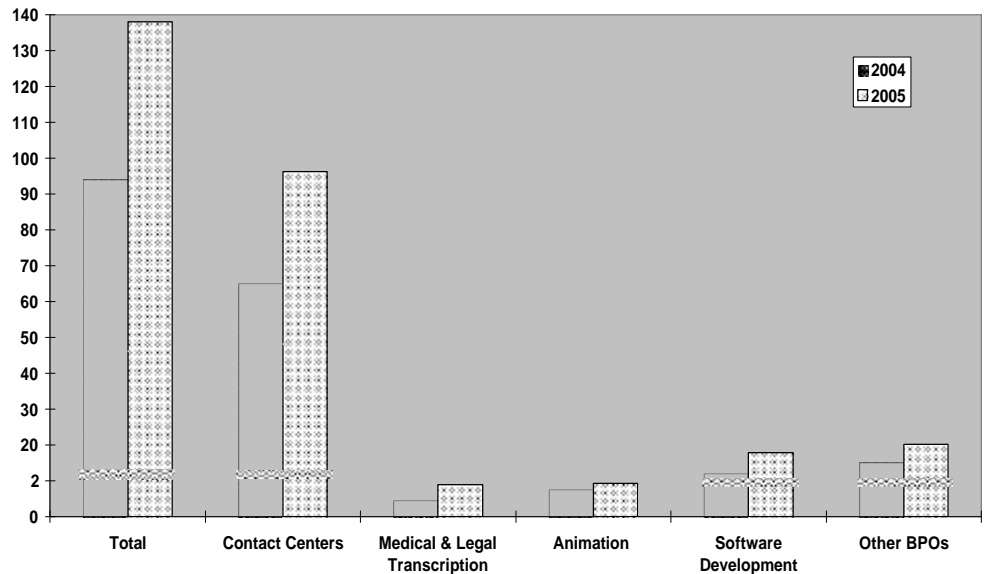
Foreign direct investments (FDI) infused in the call centers were mostly from the US, Europe and Australia. Meanwhile, FDI in software and animation were mostly from Japan, animation mostly from Canada, while that of other BPOs from Other Asia (Annex Table 4.b).

<sup>2</sup> In particular, India, Malaysia, and Singapore.

## Employment and Compensation

*Contact centers absorb the bulk of the industry's employment and compensation.* Employment generated by the industry increased by 46.1 percent to 138,002 in 2005 from 94,488 in 2004. Contact centers absorbed the bulk of employment with 96,246 hired (69.7 percent of the total) in 2005 from 65,006 in 2004, or a growth of 48.1 percent. Other BPOs ranked second in terms of labor absorption for the industry at 14.7 percent of total employment. Medical and legal transcription, while employing the least (only 1,785) in 2005 registered the highest employment growth rate of 98.2 percent compared to 901 number of employed in 2004.

**Chart 6. Employment, by ICT Type  
(in thousand persons)**



**Table 4. Employment by ICT Type**

ICT Type	Employment Level		Growth Rate (in percent)
	2004	2005	
Contact Centers	65,006	96,246	48.1
Medical & Legal Transcription	901	1,785	98.2
Animation	1,488	1,864	25.2
Software Development	11,975	17,829	48.9
Other BPOs	15,118	20,278	34.1
<b>Total</b>	<b>94,488</b>	<b>138,002</b>	<b>46.1</b>

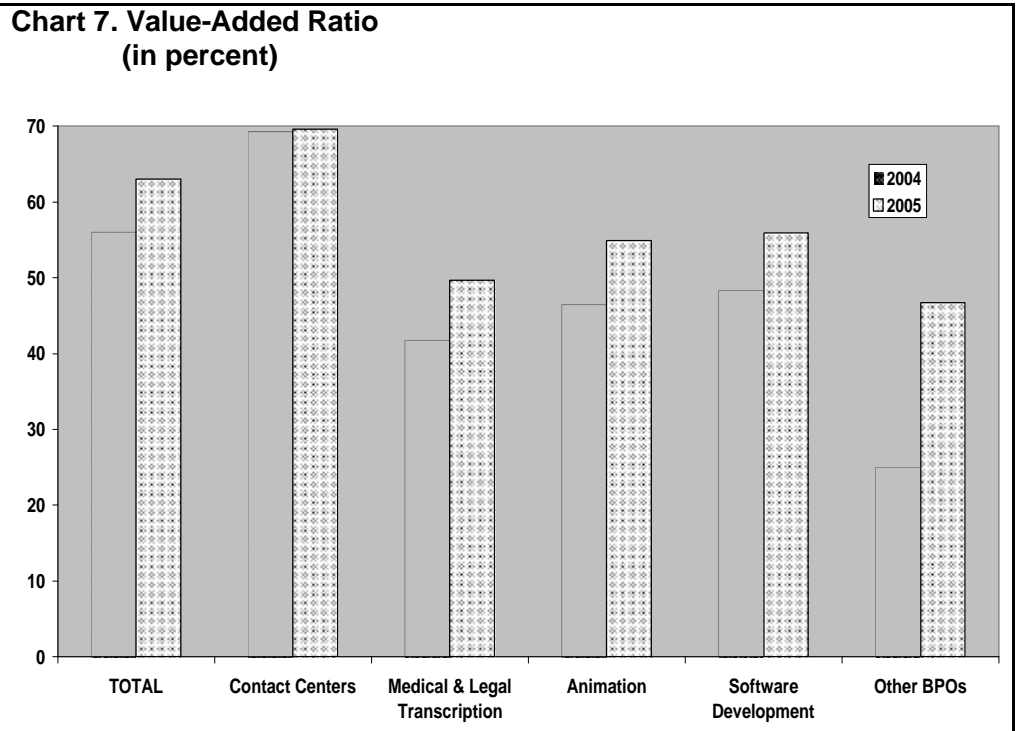
Aggregate compensation of workers in the industry amounted to ₱42.4 billion (US\$769.0 million) in 2005 from ₱26.4 billion (US\$471.4 million) in 2004, up by 60.3 percent. Compensation derived from Contact Centers in 2005 was ₱30.6 billion, up by 64.8 percent from the year-ago figure of ₱18.6 billion. Other BPOs and software development posted the next highest aggregate compensation at ₱4.4 billion and ₱6.6 billion, respectively, in 2005, from ₱2.7 billion and ₱4.7 billion, respectively, in 2004. In terms of average monthly pay

per employee, the software development sub-sector provided the highest compensation per employee (Annex Table 6-6.a) at around ₱31,000 per month.

**Contribution to GDP (Value-Added Ratio)**

*The industry's value added ratio shows an increasing trend.*

The value added ratio of the industry was estimated to have increased from 56.0 percent in 2004 to 63.0 percent in 2005, indicating the growing contribution of the industry to the country's Gross Domestic Product (GDP). This implies that for 2005, for every ₱1.00 of output generated by the industry, the value added to the economy or GDP is ₱0.63.



**Table 5. Value-Added Ratio  
(in percent)**

ICT Type	2004	2005
Contact Centers	69.3	69.6
Medical & Legal Transcription	41.8	49.7
Animation Software	46.5	54.9
Development	48.3	56.0
Other BPOs	25.0	46.7
<b>Total</b>	<b>56.0</b>	<b>63.0</b>

All ICT sub-sectors registered an increase in value added ratios from 2004 to 2005. Contact centers had the highest value added ratio at 69.6 percent (Annex Table 7).

The value added is measured by the industry's total revenue (output) less total intermediate inputs (including imported inputs). For this study, the value added of each company was derived by getting the difference between the reported revenue and its total operating costs (excluding compensation of employees and depreciation).<sup>3</sup>

### Profile of the Respondents

*Survey results cover responses from 203 companies out of the 317 target respondents.*

Respondents of the survey initially included members of the different Information and Communications Technology (ICT) Associations, namely:

- a) Business Processing Association of the Philippines (BPA/P);
- b) Contact Center Association of the Philippines (CCAP);
- c) Animation Council of the Philippines, Inc. (ACPI);
- d) Medical Transcription Industry Association of the Philippines, Inc. (MTIAPI); and
- e) Philippine Software Industry Association (PSIA).

Additional respondents, mostly those that are registered with the Department of Trade and Industry-attached agencies, namely, the Philippine Economic Zone Authority (PEZA) and Board of Investments (BOI), were included in the expansion of the survey. 59 financial statements of companies which have not responded to the survey were gathered from the SEC.

For 2005, total target respondents numbered 317. As of March 2007, the total number of responses received was 203 implying an overall response rate of about 64 percent (203 out of 317).<sup>4</sup> (Annex Table 8)

Imputation for the 114 non-responding companies were estimated using the average per company (excluding outliers) values, multiplied by the number of non-response (Annex 1).

<sup>3</sup> Implicitly, value added is equated to the sum of compensation of employees, indirect taxes less subsidies, depreciation and net operating surplus or profit. This detailed breakdown of value added, however, could not be derived from the existing survey.

<sup>4</sup> In 2004, total target respondents is 300 (excluding those not operational during the year), response rate was 68 percent.



## Prospects of the Industry

The Philippines is viewed as a favored BPO location. The quality of its workforce, including its English proficiency, is its most important asset. While contact centers still dominate the industry, the Philippines has also significant potentials in providing non-voice BPO services as there is a large and growing market for non-voice BPO functions. In particular, the animation industry has good prospects because of the creative talent of Filipino artists. Engineers, meanwhile, can leverage on software development and engineering design. The Philippines is also attractive in terms of backroom operations such as financial and accounting services due to the large number of certified public accountants (CPAs) familiar with US Financial Accounting Standards Board guidelines. Thus, prospects for the BPOs to move up the value chain, i.e., more Knowledge Process Outsourcing (KPOs), remain brightest for the Philippines.

Additional revenue from the industry will contribute to additional taxes for the country, as the industry pays a corporate tax equivalent to 32 percent of its taxable income. However, the industry may also be faced with labor resource challenges as the high quality of labor pool becomes limited over time.

In the meantime, the industry reported that competition is increasing at the lower end of the BPO service spectrum from countries like China, Vietnam, and the Eastern Europe.

## Implication on the Balance of Payments (BOP), 2004 and 2005

*Data from the ITRS show undercoverage of the IT-enabled industry.* Reports of companies covered in the survey were validated against the available recorded transactions reflected in the International Transactions Reporting System (ITRS). Data of the companies covered in the survey which were identified in the ITRS, showed that exports of the industry, at US\$35.3 million and US\$86.8 million in 2004 and in 2005, respectively, were significantly lower compared to data generated from the survey at US\$888.2 million and US\$1,387.9 million, in 2004 and 2005, respectively. It is possible, however, that some of the data reported in the survey may have been lumped in the ITRS under other categories for which the transactors could not be identified. The negative “errors and omissions” in the BOP for 2005, indicating a possible overestimation of inflows and/or underestimation of outflows, also suggests that BPO-related inflows may already have been covered in the BOP but were misclassified.<sup>5</sup>

The industry is also estimated to have contributed an additional ₱69 billion<sup>6</sup>, the estimated value added derived from the survey, to the country’s Gross Domestic Product (GDP) at 2005 prices, about 1.3 percent of GDP for 2005.

<sup>5</sup> The BPM5 recommends that classification in the BOP follows the type of activity rather than the mode by which transactions are done.

<sup>6</sup> Computed as total revenue (equated to output) times the total value added ratio or ₱109.9 billion x 63 percent.

## Plans Moving Forward

*Regular monitoring of the industry will be undertaken including through institutional arrangements with government agencies such as the DTI and NSO, among others.*

Given the growing contribution of the IT-enabled industry to the economy, in general, and to the BOP, in particular, regular monitoring of the activity of the industry will have to be undertaken for an accurate assessment of the industry's impact on the economy. A close link with the industry associations should also be maintained, while advocacy campaigns can be conducted in order to encourage greater participation in future surveys.

Toward this end, the Technical Committee on Trade Statistics agreed to establish an institutional arrangement pertaining to sharing of responsibilities among different government agencies including the BSP, Department of Trade and Industry, National Statistics Office, through enhancing the administrative reports and conduct of the survey.

## ANNEX TABLES

**Table 1. Revenue by ICT Type**

(in Million Pesos)

ICT Type	Revenue *		Share to Total Revenues		Growth Rate (in percent)
	2004	2005	2004	2005	
Contact Centers	32,904.1	54,295.1	44.4	49.4	65.0
Medical Transcription	236.7	466.2	0.3	0.4	97.0
Animation	694.2	939.1	0.9	0.9	35.3
Software Development	15,624.2	21,991.8	21.1	20.0	40.8
Other BPOs	24,712.3	32,251.9	33.3	29.3	30.5
<b>Total</b>	<b>74,171.5</b>	<b>109,944.0</b>	<b>100.0</b>	<b>100.0</b>	<b>48.2</b>
Total (in Million US Dollars) <sup>1/</sup>	1,323.5	1,995.9			

1/ Peso values were converted into US Dollars using average exchange rate of ₱56.04 and ₱55.09 per 1US\$ for 2004 and 2005, respectively.

\* Revenue according to BPA/P: US\$ 1.47 B in 2004 and US\$2.42 B in 2005.

**Table 2. Exports by ICT Type**

(in Million Pesos)

ICT Type	Exports		Growth Rate (in percent)
	2004	2005	
Contact Centers	31,446.7	52,295.8	66.3
Medical Transcription	236.7	464.0	96.0
Animation	433.3	623.1	43.8
Software Development	5,514.1	8,810.2	59.8
Other BPOs	12,142.4	14,260.3	17.4
<b>Total</b>	<b>49,773.2</b>	<b>76,453.4</b>	<b>53.6</b>
Total (in Million US Dollars)	888.2	1,387.9	

ICT Type	Share to Total Exports (in percent)		Share of Exports to Revenue (in percent)	
	2004	2005	2004	2005
Contact Centers	63.2	68.4	95.6	96.3
Medical Transcription	0.5	0.6	100.0	99.5
Animation	0.9	0.8	62.4	66.4
Software Development	11.1	11.5	35.3	40.1
Other BPOs	24.4	18.7	49.1	44.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>67.1</b>	<b>69.5</b>

**Table 2.a. Exports, 2005**

(in Million Pesos)

ICT Type	USA	Europe <sup>2/</sup>	Japan	Other Asia <sup>3/</sup>	Australia-New Zealand	Total
Contact Centers	48,378.8	2,824.0	-	209.2	883.8	52,295.8
Medical Transcription	455.5	8.2	-	0.0	0.2	464.0
Animation	394.4	15.6	133.7	79.3	0.2	623.1
Software Development	3,984.1	2,115.8	2,177.9	497.8	34.6	8,810.2
Other BPOs	12,546.2	434.9	161.1	1,072.4	45.6	14,260.3
<b>Total</b>	<b>65,759.0</b>	<b>5,398.5</b>	<b>2,472.8</b>	<b>1,858.7</b>	<b>964.5</b>	<b>76,453.4</b>
Total (in Million US Dollars)	1,193.8	98.0	44.9	33.7	17.5	1,387.9

**Table 2.b. Exports by ICT Type by Country, 2005**

(In Percent)

ICT Type	USA	Europe <sup>2/</sup>	Japan	Other Asia <sup>3/</sup>	Australia-New Zealand	Total
Contact Centers	92.5	5.4	0.0	0.4	1.7	100.0
Medical Transcription	98.2	1.8	0.0	0.0	0.1	100.0
Animation	63.3	2.5	21.5	12.7	0.0	100.0
Software Development	45.2	24.0	24.7	5.7	0.4	100.0
Other BPOs	88.0	3.1	1.1	7.5	0.3	100.0
<b>Total</b>	<b>86.0</b>	<b>7.1</b>	<b>3.2</b>	<b>2.4</b>	<b>1.3</b>	<b>100.0</b>

**Table 2.c. Exports by Country, by ICT Type, 2005**

(In Percent)

ICT Type	USA	Europe <sup>2/</sup>	Japan	Other Asia <sup>3/</sup>	Australia-New Zealand	Total
Contact Centers	73.6	52.3	0.0	11.3	91.6	68.4
Medical Transcription	0.7	0.2	0.0	0.0	0.0	0.6
Animation	0.6	0.3	5.4	4.3	0.0	0.8
Software Development	6.1	39.2	88.1	26.8	3.6	11.5
Other BPOs	19.1	8.1	6.5	57.7	4.7	18.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

2/ In particular, United Kingdom and Germany.

3/ In particular, India, China, Hongkong, Indonesia, Malaysia, Singapore, Taiwan, Thailand, Vietnam, UAE, and Saudi Arabia.

**Table 3. Equity Investments, 2005**

(in Million Pesos)

ICT Type	Total Equity	Foreign Equity	Share of Foreign to Total Equity (in percent)	ICT Type Share to Total Equity (in percent)
Contact Centers	13,373.3	11,721.3	87.6	49.4
Medical Transcription	59.0	31.0	52.6	0.2
Animation	626.1	240.4	38.4	2.3
Software Development	674.4	249.7	37.0	2.5
Other BPOs	12,354.5	5,870.3	47.5	45.6
<b>Total</b>	<b>27,087.2</b>	<b>18,112.8</b>	<b>66.9</b>	<b>100.0</b>
Total (in Million US Dollars)	491.7	328.8		

**Table 4. Foreign Equity by Country, 2005**

(in Million Pesos)

ICT Type	USA	Europe	Japan	Other Asia <sup>4/</sup>	Australia	Canada	Total
Contact Centers	7,658.7	3,978.2	-	84.4	0.0	-	11,721.3
Medical Transcription	31.0	-	-	-	-	-	31.0
Animation	175.0	-	32.0	32.7	-	0.7	240.4
Software Development	(172.9)	28.3	204.8	189.5	-	-	249.7
Other BPOs	4,503.7	4.1	21.1	1,341.4	-	-	5,870.3
<b>Total</b>	<b>12,195.6</b>	<b>4,010.6</b>	<b>257.9</b>	<b>1,648.0</b>	<b>0.0</b>	<b>0.7</b>	<b>18,112.8</b>
Total (in Million US Dollars)	221.4	72.8	4.7	29.9	0.0	0.0	328.8

**Table 4.a. Foreign Equity by ICT Type by Country of Origin, 2005**

(in Percent)

ICT Type	USA	Europe	Japan	Other Asia <sup>4/</sup>	Australia	Canada	Total
Contact Centers	65.3	33.9	0.0	0.7	0.0	0.0	100.0
Medical Transcription	100.0	0.0	0.0	0.0	0.0	0.0	100.0
Animation	72.8	0.0	13.3	13.6	0.0	0.3	100.0
Software Development	(69.3)	11.3	82.0	75.9	0.0	0.0	100.0
Other BPOs	76.7	0.1	0.4	22.9	0.0	0.0	100.0
<b>Total</b>	<b>67.3</b>	<b>22.1</b>	<b>1.4</b>	<b>9.1</b>	<b>0.0</b>	<b>0.0</b>	<b>100.0</b>

<sup>4/</sup> In particular, India, Malaysia, and Singapore.

**Table 4.b. Foreign Equity by Country of Origin by ICT Type, 2005**

(in Percent)

ICT Type	USA	Europe	Japan	Other Asia <sup>4/</sup>	Australia	Canada	Total
Contact Centers	62.8	99.2	0.0	5.1	100.0	0.0	64.7
Medical Transcription	0.3	0.0	0.0	0.0	0.0	0.0	0.2
Animation	1.4	0.0	12.4	2.0	0.0	100.0	1.3
Software Development	(1.4)	0.7	79.4	11.5	0.0	0.0	1.4
Other BPOs	36.9	0.1	8.2	81.4	0.0	0.0	32.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Table 5. Employment**

ICT Type	2004	2005	Growth Rate (in percent)
Contact Centers	65,006	96,246	48.1
Medical Transcription	901	1,785	98.2
Animation	1,488	1,864	25.2
Software Development	11,975	17,829	48.9
Other BPOs	15,118	20,278	34.1
<b>Total</b>	<b>94,488</b>	<b>138,002</b>	<b>46.1</b>

**Table 6. Compensation**

(in Million Pesos)

ICT Type	2004	2005	Growth Rate (in percent)
Contact Centers	18,575.5	30,604.0	64.8
Medical Transcription	115.9	273.4	135.8
Animation	347.9	464.3	33.5
Software Development	4,659.6	6,618.9	42.0
Other BPOs	2,719.5	4,398.6	61.7
<b>Total</b>	<b>26,418.3</b>	<b>42,359.2</b>	<b>60.3</b>
Total (in Million US Dollars)	471.4	769.0	

**Table 5.a. Employment Distribution**

(in Percent)

ICT Type	2004	2005
Contact Centers	68.8	69.7
Medical Transcription	1.0	1.3
Animation	1.6	1.4
Software Development	12.7	12.9
Other BPOs	16.0	14.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Table 6.a. Compensation Distribution**

(in Percent)

ICT Type	2004	2005
Contact Centers	70.3	72.2
Medical Transcription	0.4	0.6
Animation	1.3	1.1
Software Development	17.6	15.6
Other BPOs	10.3	10.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Table 6.b Average Monthly Compensation Per Employee**  
(in Ph Pesos)

ICT Type	2004	2005	Growth Rate (in percent)
Contact Centers	23,812.4	26,498.1	11.3
Medical Transcription	10,725.0	12,759.7	19.0
Animation	19,478.9	20,761.2	6.6
Software Development	32,425.2	30,937.5	-4.6
Other BPOs	14,990.5	18,076.1	20.6
<b>Total</b>	<b>23,299.4</b>	<b>25,578.9</b>	<b>9.8</b>
Total (in US Dollars)	415.8	464.3	

**Table 7. Value-Added Ratio**  
(in Percent)

ICT Type	2004	2005
Contact Centers	69.3	69.6
Medical Transcription	41.8	49.7
Animation	46.5	54.9
Software Development	48.3	56.0
Other BPOs	25.0	46.7
<b>Average</b>	<b>56.0</b>	<b>63.0</b>

**Table 8. Profile of Respondents**

ICT Type	Expanded Coverage	No. of Responses			Response Rate (in percent)
		Survey	SEC	Total	
Contact Centers	76	29	20	49	64
Medical Transcription	27	23	2	25	93
Animation	34	19	5	24	71
Software Development	114	49	24	73	64
Other BPOs	66	24	8	32	48
<b>Total</b>	<b>317</b>	<b>144</b>	<b>59</b>	<b>203</b>	<b>64</b>

5/ Revenue according to BPA/P: US\$ 1.47 B in 2004 and US\$2.42 B in 2005.