

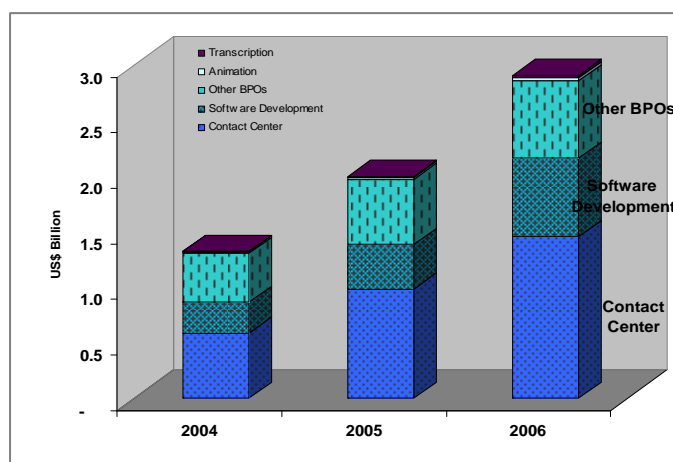
2006 SURVEY OF IT AND IT-ENABLED SERVICES

October 2008

Revenue

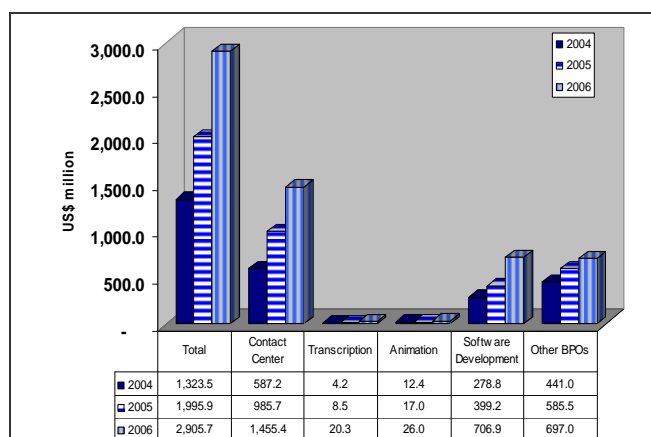
The IT-enabled services industry posts US\$2.9 billion revenue in 2006. The IT-enabled services industry—comprised of contact centers, medical and legal transcription, animation, software development and other business process outsourcing or BPOs¹—covered in the survey generated a total revenue of US\$2.9 billion in 2006, 45.6 percent higher than the 2005 revenue of US\$2.0 billion.

Figure 1. Revenue, IT-Enabled Services Industry, 2004-2006 (in US\$ billion)



Contact centers account for the highest revenue in 2006. Contact centers continued to account for the highest share of the industry's revenue, with a 50.1 percent share or US\$1.5 billion of the total. Software development, meanwhile, had a 24.3 percent share in total revenue, while other BPOs, animation, and medical and legal transcription accounted for 24.0 percent, 0.9 percent, and 0.7 percent, respectively, of the industry's revenue.

Figure 2. Revenue, by Category, 2004-2006 (in US\$ million)



¹ See Annex A for definition of terms.

In terms of growth, medical and legal transcription (MLT) subsector grew at the fastest rate of 140.0 percent, followed by software development with a growth rate of 77.1 percent. Animation, contact centers, and other BPOs also sustained their double-digit growth rates (52.6, 47.7, and 19.0 percent, respectively).

Exports

Exports constitute close to four-fifths of the total industry revenue.

Total export earnings of the BPO industry amounted to US\$2.3 billion in 2006, 64.9 percent higher than the US\$1.4 billion recorded in 2005. In 2006, exports constituted almost four-fifths of the total revenue of the industry. Exports comprised the bulk of the revenue of contact centers, transcription and animation, with medical and legal transcription posting the highest export-to-revenue ratio of almost 93 percent, followed by contact centers with ratio of 91.4 percent. Other BPOs and software development derived 66.2 and 64.3 percent of their revenues from exports, respectively.

Figure 3. Exports, by Category, 2004-2006
(in US\$ million)

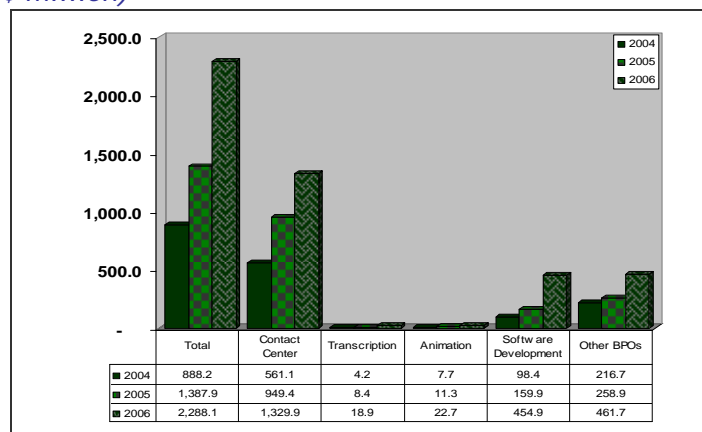
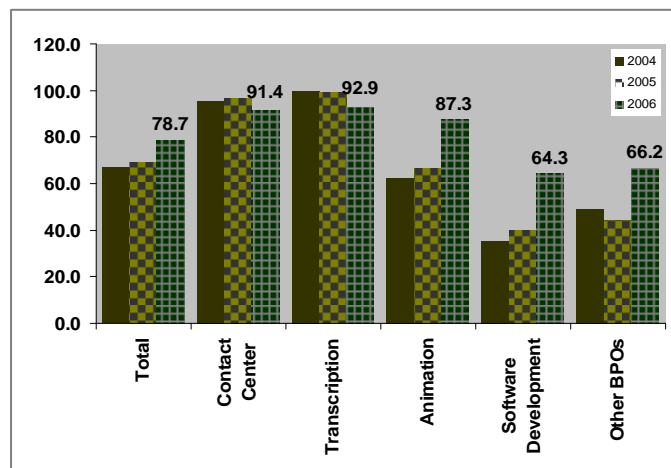


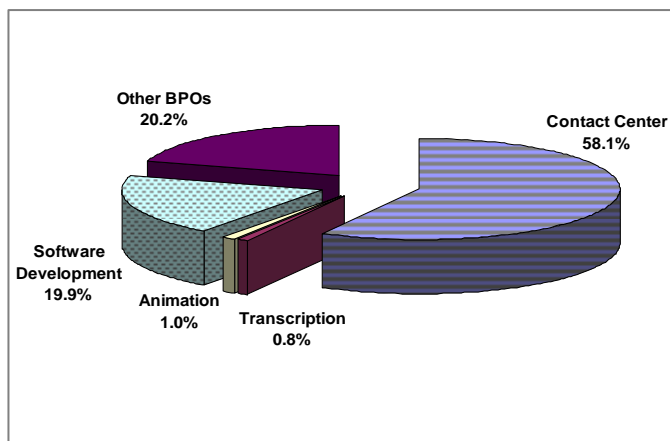
Figure 4. Export-to-Revenue Ratio, 2004-2006
(in percent)



Contact centers contribute the highest export receipts, followed by other BPOs. By category, contact centers accounted for 58.1 percent of the export receipts in 2006, followed by other BPOs (20.2 percent), software development (19.9 percent), animation (1.0 percent), and medical and legal transcription (0.8 percent).

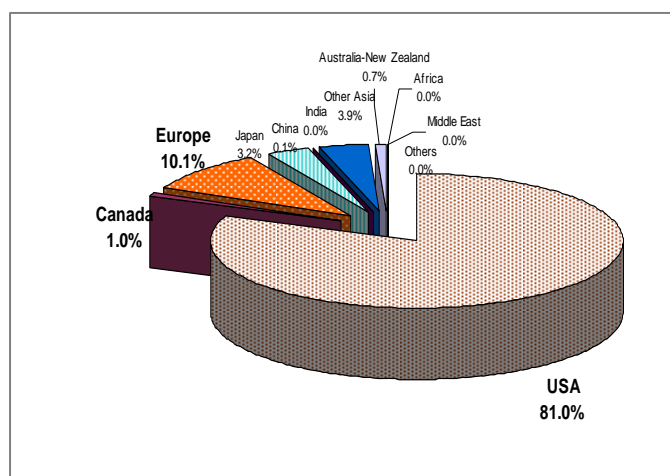
Except for contact centers and other BPOs, all categories of IT and IT-enabled services doubled their export receipts, with growth averaging 64.9 percent over the year-ago level. Software development registered the fastest export growth at 184.4 percent, followed by transcription at 124.1 percent.

Figure 5. Exports, by Category, 2006



The IT-enabled services industry caters largely to the US market, but export market is diversifying. By country, exports of IT-enabled services in 2006 mostly catered to the US market (almost 81.0 percent of total exports revenue). Compared to the 2005 export structure, the share of exports to the US declined in 2006 while the shares of exports going to Europe and Asia rose.² The industry also diversified its market to cover more export destinations, e.g., Europe, Japan, Canada, Other Asia, Australia-New Zealand, Middle East, and Africa.

Figure 6. Exports by Country of Destination, 2006



² In 2005, USA accounted for 86 percent of the industry's exports; Europe, 7.1 percent; Japan, 3.2 percent; Other Asia, 2.4 percent; and Australia-New Zealand, 1.3 percent.

Total Equity and Foreign Investments

Almost 60.4 percent of the equity of the industry is foreign-owned, with the US as the biggest investor.

Equity investments for the entire industry in 2006 amounted to US\$622.2 million, of which US\$376.0 million or 60.4 percent represented foreign equity. Animation posted the highest ratio of foreign equity to total equity at 95.8 percent, followed by contact centers at 92.0 percent. Other BPOs had the lowest ratio of foreign equity to total equity at 23.2 percent. In 2006, close to 70 percent of total FDI in IT-enabled industry went to contact centers (US\$258.8 million), while 16.9 percent (US\$63.6 million) went to other BPOs.

Figure 7. Foreign Equity, by Category, 2005-2006 (in US\$ million)

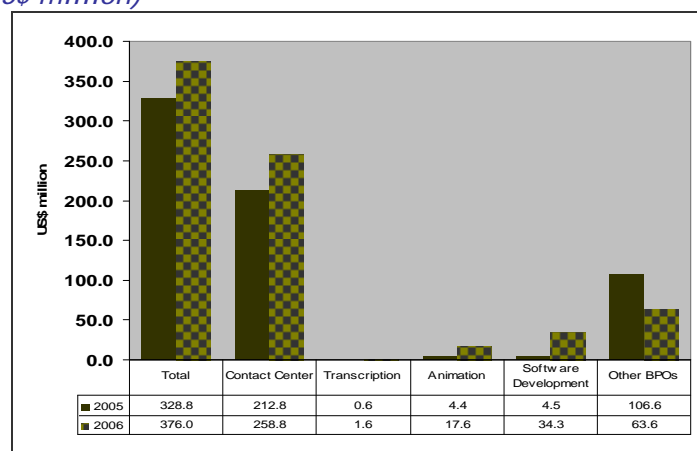
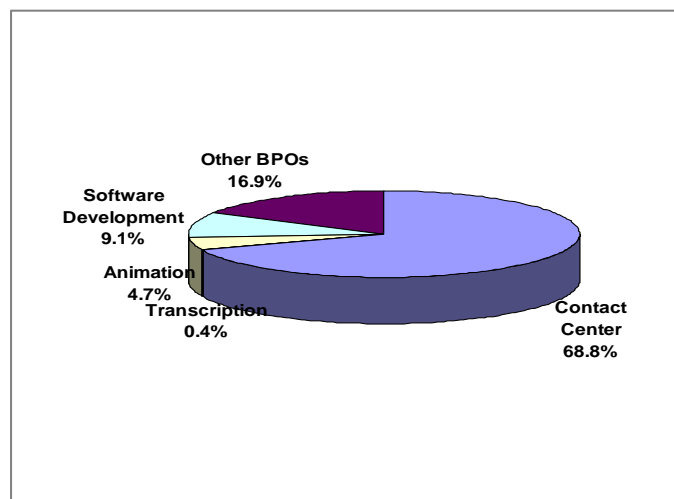


Figure 8. Percentage Share of Foreign Equity, by Category, 2006



The US accounted for 71.5 percent of the foreign equity infusion. Other foreign investors which had substantial stakes in the local IT-enabled services industry were Japan and Europe.

Table 1. Foreign Equity by Country of Investor, 2006

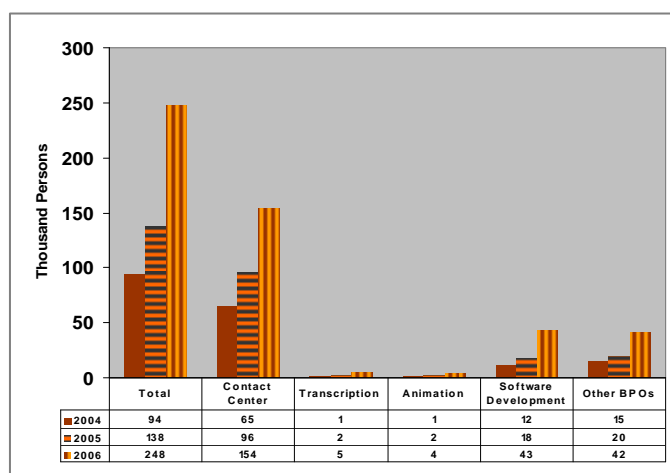
Investor	Amount (in US\$ Million)	% Distribution
USA	268.9	71.5
Japan	80.9	21.5
Europe	21.5	5.7
Asia	2.5	0.7
Australia	1.4	0.4
India	0.8	0.2
Total	376.0	100.0

Employment and Compensation

Contact centers account for the bulk of the industry's employment and compensation.

Employment generated by the industry increased by 79.7 percent to 248,045 in 2006 from 138,002 in 2005. Contact centers absorbed the bulk of employment with 153,683 hired (62.0 percent of the total) in 2006 or a growth of 59.7 percent. Software development ranked second in terms of labor absorption for the industry at 17.2 percent of total employment. Medical and legal transcription, while employing only 4,956 or 2.0 percent of the total in 2006, registered the highest employment growth rate of 177.6 percent compared to 1,785 number of employed in 2005.

Figure 9. Employment, by Category, 2004-2006
(in thousand persons)



Aggregate compensation of workers in the industry amounted to US\$1,266.4 million in 2006 from US\$769.0 million in 2005, up by 64.7 percent. Compensation derived from contact centers in 2006 was US\$766.1 million, up by 37.9 percent from the year-ago level of US\$555.6 million. Software development and other BPOs posted the next highest aggregate compensation at US\$248.5 million and US\$225.9 million, respectively, in 2006, from US\$120.2 million and US\$79.9 million, respectively, in 2005. In

terms of average monthly pay per employee, the software development sub-sector provided the highest compensation per employee at around US\$485.5 per month.

Table 2. Compensation, by Category, 2005-2006
(in US\$ million)

Category	Compensation		Growth Rate (%)
	2005	2006	
Contact centers	555.6	766.1	37.9
Transcription	5.0	12.0	142.3
Animation	8.4	13.8	63.3
Software Development	120.2	248.5	106.8
Other BPOs	79.9	225.9	183.0
Total	769.0	1,266.4	64.7

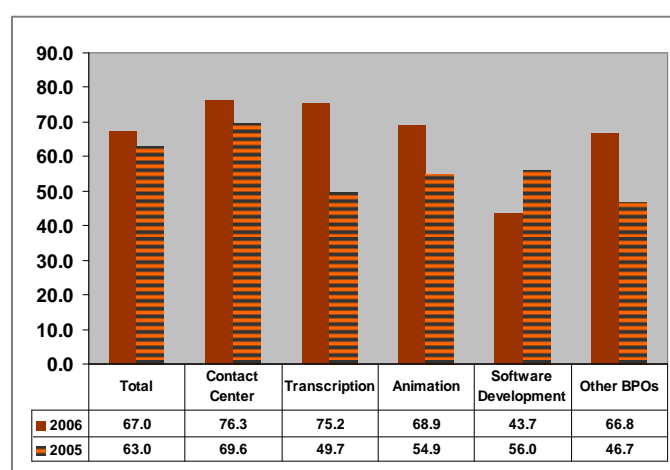
Value-Added

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

The value added ratio of the industry was estimated to have increased from 63.0 percent in 2005 to 67.0 percent in 2006, indicating the growing contribution of the industry to the country's Gross Domestic Product (GDP). This implies that in 2006, for every ₱1.00 of output generated by the industry, the value added to the economy or GDP is ₱0.67.

All categories registered increases in value added ratios from 2005 to 2006, except for software development.³ Contact centers had the highest value added ratio at 76.3 percent.

Figure 10. Value-Added Ratio



The value added is measured as the industry's total revenue (output) less total intermediate inputs (including imported

³ The value added ratio of the software development sub-sector was pulled down by the entry of a number of new firms. Since the new entrants began operations only in 2006, they still have higher operating costs and therefore lower value added.



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).⁴

Profile of Respondents

Survey results cover responses from 315 companies out of the 551 target respondents. From the 317 companies⁵ covered in the 2005 benchmark survey, coverage for the 2006 survey expanded to 551: 107 from the contact centers sub-sector, 36 from animation, 55 from transcription (such as medical and legal), 200 from software development, and 153 other business process outsourcing (BPO) (see Annex A for definition of terms). The survey respondents included companies registered with the Board of Investments (BOI) and Philippine Economic Zone Authority (PEZA).

Data came from survey responses to BSP, administrative reports submitted by registered companies to BOI and PEZA, and financial statements of non-responding companies from the Securities and Exchange Commission (SEC). The survey had an overall response rate of 57.2 percent; with contact centers having the highest response rate of 70.1 percent, followed by other BPOs with a response rate 64.7 percent.

Table 3. Profile of Respondents

Category	No. of Target Respondents	Response Received	Non-response	Response Rate
Contact centers	107	75	32	70.1
Transcription	55	30	25	54.5
Animation	36	16	20	44.4
Software Development	200	95	105	47.5
Other BPOs	153	99	54	64.7
Total	551	315	236	57.2

⁴ 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.

⁵ Companies covered in the 2005 Benchmark Survey of IT and IT-Enabled were members of the Information and Communication Technology (ICT) associations, namely: Business Processing Association of the Philippines (BPA/P), Contact centers Association of the Philippines (CCAP), Medical Transcription Industry Association of the Philippines, Inc (MTIAPI), Philippine Software Industry Association (PSIA), and Animation Council of the Philippines, Inc. (ACPI). For non-responding companies, data were gathered through their financial statements submitted to the Securities and Exchange Commission (SEC) or through financial reports submitted to the Board of Investments (BOI) and Philippine Economic Zone Authority (PEZA).



Capture in the National Accounts and Balance of Payments

IT and IT-enabled services is already captured in both the national accounts and the BOP statistics, although it cannot be distinctly identified from the standard components of these macroeconomic statistics.

In the national accounts, the value added of IT and IT-enabled services is lumped under business services sub-sector of the private services sector. On the expenditure side, value of exports is incorporated in the exports of miscellaneous services under exports of non-factor services. NSCB uses a constant value added ratio and export-to-revenue ratio, multiplied by revenue, to estimate value added and exports, respectively. Revenue data are based on estimates from the Business Processing Association of the Philippines (BPA/P), Contact Center Association of the Philippines (CCAP), Commission on Information and Communication Technology (CICT) and the Board of Investments (BOI).

In the BOP, exports of IT-and IT-enabled services are lodged within different components of services, namely, communication services; computer and information services; and miscellaneous business, professional and technical services. Data are mainly based on bank reports or the international transactions reporting system (ITRS) for banks, adjusted for undercoverage using parameters derived from the BSP's Survey of IT and IT-enabled Services.

2006 Survey of IT and IT-Enabled Services Results
Actual data and Industry Estimates
(in \$US Million, Employment in thousand persons)

Table 1. Revenue, 2004-2006
(in US\$ Million)

Category	Revenue			Growth Rate		ICT Type Share to Total		
	2004	2005	2006	2004-2005	2005-2006	2004	2005	2006
				<i>(in percent)</i>	<i>(in percent)</i>	<i>(in percent)</i>	<i>(in percent)</i>	<i>(in percent)</i>
Contact Center	587.2	985.7	1,455.4	67.9	47.7	44.4	49.4	50.1
Transcription	4.2	8.5	20.3	100.4	140.0	0.3	0.4	0.7
Animation	12.4	17.0	26.0	37.6	52.6	0.9	0.9	0.9
Software								
Development	278.8	399.2	706.9	43.2	77.1	21.1	20.0	24.3
Other BPOs	441.0	585.5	697.0	32.8	19.0	33.3	29.3	24.0
Total	1,323.5	1,995.9	2,905.7	50.8	45.6	100.0	100.0	100.0

Table 2. Exports, 2004-2006
(in US\$ Million)

Category	Export			Export to Revenue Ratio			Growth Rate		ICT Type Share to Total		
	2004	2005	2006	2004	2005	2006	2004-2005	2005-2006	2004	2005	2006
				<i>(in percent)</i>	<i>(in percent)</i>	<i>(in percent)</i>	<i>(in percent)</i>	<i>(in percent)</i>	<i>(in percent)</i>	<i>(in percent)</i>	<i>(in percent)</i>
Contact Center	561.1	949.4	1,329.9	95.6	96.3	91.4	69.2	40.1	63.2	68.4	58.1
Transcription	4.2	8.4	18.9	100.0	99.5	92.9	99.4	124.1	0.5	0.6	0.8
Animation	7.7	11.3	22.7	62.4	66.4	87.3	46.3	100.8	0.9	0.8	1.0
Software											
Development	98.4	159.9	454.9	35.3	40.1	64.3	62.5	184.4	11.1	11.5	19.9
Other BPOs	216.7	258.9	461.7	49.1	44.2	66.2	19.5	78.3	24.4	18.7	20.2
Total	888.2	1,387.9	2,288.1	67.1	69.5	78.7	56.3	64.9	100.0	100.0	100.0

Table 2.1. 2006 Exports, by Country
(in US\$ Million)

Category	USA ¹	Canada	Europe ²	Japan	India	China	Other Asia ³	Australia-New Zealand
Contact Center	1,224.2	14.3	83.8	0.4	-	-	4.7	2.5
Transcription	18.3	-	0.6	-	-	-	-	-
Animation	5.0	1.5	1.1	15.1	-	-	-	0.1
Software Development	267.1	6.1	98.1	20.6	0.5	1.2	54.8	6.1
Other BPOs	338.6	0.6	47.1	37.3	0.1	0.1	30.9	6.7
Total	1,853.2	22.5	230.7	73.4	0.6	1.3	90.4	15.4
Share to Total (in percent)	81.0	1.0	10.1	3.2	0.0	0.1	3.9	0.7

Category	Middle East ⁴	Africa	Others ⁵	Total
Contact Center	-	-	-	1,329.9
Transcription	-	-	-	18.9
Animation	-	-	-	22.7
Software Development	0.1	0.4	-	454.9
Other BPOs	0.1	0.1	0.0	461.7
Total	0.2	0.4	0.0	2,288.1
Share to Total (in percent)	0.0	0.0	0.0	100.0

¹ Includes Guam.

² In particular, United Kingdom, Germany, Denmark, Switzerland, Spain, Netherlands, Great Britain.

³ In particular, Singapore, Thailand, Hong Kong, Malaysia, Taiwan, Indonesia, Asia Pacific, Maldives, Macau.

⁴ In particular, Saudi Arabia, Qatar, Turkey.

⁵ In particular, Russia.

Table 2.2. 2005 Exports, by Country
(in US\$ Million)

Category	USA	Europe ¹	Japan	Other Asia ²	Australia- NewZealand	Total
Contact Center	878.3	51.3	-	3.8	16.0	949.4
Transcription	8.3	0.1	-	0.0	0.0	8.4
Animation	7.2	0.3	2.4	1.4	0.0	11.3
Software Development	72.3	38.4	39.5	9.0	0.6	159.9
Other BPOs	227.8	7.9	2.9	19.5	0.8	258.9
Total	1,193.8	98.0	44.9	33.7	17.5	1,387.9
Share to Total (in percent)	86.0	7.1	3.2	2.4	1.3	100.0

¹ In particular, United Kingdom and Germany.

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

Table 3. Equity, 2005-2006
(in US\$ Million)

Category	Total Equity		Foreign Equity		Total Equity	FDI
	2005	2006	2005	2006	Growth Rate	Growth Rate
					(in percent)	(in percent)
Contact Center	242.8	281.3	212.8	258.8	15.9	21.6
Transcription	1.1	2.2	0.6	1.6	104.6	175.9
Animation	11.4	18.4	4.4	17.6	61.8	303.7
Software Development	12.2	46.4	4.5	34.3	279.2	656.6
Other BPOs	224.3	273.9	106.6	63.6	22.1	(40.3)
Total	491.7	622.2	328.8	376.0	26.5	14.3

Category	% Share of Foreign Equity to Total Equity		ICT Type Share to Total Equity		ICT Type Share to Foreign Equity	
	2005	2006	2005	2006	2005	2006
Contact Center	87.6	92.0	49.4	45.2	64.7	68.8
Transcription	52.6	71.0	0.2	0.4	0.2	0.4
Animation	38.4	95.8	2.3	3.0	1.3	4.7
Software Development	37.0	73.9	2.5	7.5	1.4	9.1
Other BPOs	47.5	23.2	45.6	44.0	32.4	16.9
Total	66.9	60.4	100.0	100.0	100.0	100.0

Table 3.1. 2006 Foreign Direct Investment, by Country of Investor
(in US\$ Million)

Category	USA	Europe ¹	Asia ²	Australia	Japan	India	Total
Contact Center	256.5	1.0	0.5	-	-	0.8	258.8
Transcription	-	-	1.6	-	-	-	1.6
Animation	-	-	0.6	-	17.0	-	17.6
Software Development	8.1	0.2	(0.2) ³	(0.1) ⁴	26.3	-	34.3
Other BPOs	4.3	20.3	-	1.5	37.5	-	63.6
Total	268.9	21.5	2.5	1.4	80.9	0.8	376.0
Share to Total (in percent)	71.5	5.7	0.7	0.4	21.5	0.2	100.0

¹ In particular, United Kingdom, Germany, Switzerland, Netherlands, Austria.

² In particular, Singapore, Malaysia, Hong Kong, Taiwan.

³ One company had accumulated losses.

⁴ One company started commercial operations only in October 2007.

Table 3.2. 2005 Foreign Direct Investment, by Country of Investor
(in US\$ Million)

Category	USA	Europe	Japan	Other Asia ¹	Australia	Canada	Total
Contact Center	139.0	72.2	-	1.5	0.0	-	212.8
Transcription	0.6	-	-	-	-	-	0.6
Animation	3.2	-	0.6	0.6	-	0.0	4.4
Software Development	(3.1)	0.5	3.7	3.4	-	-	4.5
Other BPOs	81.8	0.1	0.4	24.4	-	-	106.6
Total	221.4	72.8	4.7	29.9	0.0	0.0	328.8
Share to Total (in percent)	67.3	22.1	1.4	9.1	0.0	0.0	100.0

¹ In particular, India, Malaysia, and Singapore.

Table 4. Employment and Compensation, 2004-2005
(Compensation in US\$ Million)

Category	Employment			Compensation		
	2004	2005	2006	2004	2005	2006
Contact Center	65,006	96,246	153,683	331.5	555.6	766.1
Transcription	901	1,785	4,956	2.1	5.0	12.0
Animation	1,488	1,864	4,482	6.2	8.4	13.8
Software Development	11,975	17,829	42,657	83.1	120.2	248.5
Other BPOs	15,118	20,278	42,267	48.5	79.9	225.9
Total	94,488	138,002	248,045	471.4	769.0	1,266.4

Category	Employment Growth		Compensation Growth	
	2004-2005	2005-2006	2004-2005	2005-2006
	<i>(in percent)</i>	<i>(in percent)</i>	<i>(in percent)</i>	<i>(in percent)</i>
Contact Center	48.1	59.7	67.6	37.9
Transcription	98.2	177.6	139.9	142.3
Animation	25.2	140.5	35.8	63.3
Software Development	48.9	139.3	44.5	106.8
Other BPOs	34.1	108.4	64.5	183.0
Total	46.1	79.7	63.1	64.7

Table 5. Number of Companies Covered in the 2006 Survey of IT and IT-Enabled Services Report

Category	Total Coverage	n1	n2	n3	n4	n5	Total Response	Response Rate <i>(in percent)</i>
Contact Center	107	22	44	9	9	23	75	70.1
Transcription	55	3	19	8	5	20	30	54.5
Animation	36	5	2	9	3	17	16	44.4
Software Development	200	33	44	18	19	86	95	47.5
Other BPOs	153	23	61	15	10	44	99	64.7
Total	551	86	170	59	46	190	315	57.2

Note:

n1= number of companies which responded to the survey

n2= number of companies registered with Board of Investments (BOI) and Philippine Economic Zone Authority (PEZA)

n3= number of companies whose revenue data were taken from the Securities and Exchange Commission (SEC)

n4= number of non-responding companies in the 2006 survey, but whose 2005 data are available

n5= number of non-responding companies, including BOI companies which started operations before end 2nd Qrtr. of 2006.

Table 6. Value-Added Ratio, 2005-2006

Category	2005	2006
Contact Center	69.60%	76.30%
Transcription	49.70%	75.24%
Animation	54.90%	68.89%
Software Development	56.00%	43.66%
Other BPOs	46.70%	66.83%
Total	63.00%	67.04%

ANNEX A

DEFINITION OF TERMS

IT AND IT-ENABLED SERVICES CATEGORIES

- (1) **Animation**: *Process of giving the illusion of movement to cinematographic drawings, models, or inanimate objects thru 2D, 3D, etc. Includes 2D animation from layouts to final compositing, digital ink and paint service, 3D animation using the latest software like Maya, XSI, 3DStudio Max, etc., Pre-production service from storyboarding, character & production design, key backgrounds and layouts, 3D and 2D animation for games, flash animation for animated series (broadcast quality).*
- (2) **Trancription Activities: (e.g. medical, legal, etc.)**: *Transfer of data from one form (voice / oral) to another (paper or electronic) such as medical history, diagnosis, prognosis and outcome, depositions, hearing and court tapes; data entry services; and scanning of documents.*
- (3) **Contact Center**: *Answering and transmitting call from clients by using human operators, automatic distribution, computer telephone integration, interactive voice response systems or similar methods to receive orders, provide information, deal with customer requests for assistance or address customer complaints, debt collection, collective handling of letters, faxes, e-mails, postal mail catalogues, web-site inquiries and chats and the collection of info from customers during in-store purchasing.*
- (4) **Software Development/ Publishing**: Includes:
 - a. *Software Development: Analysis and design, prototyping, programming and testing, customization, reengineering and conversion, installation and maintenance, education and training of systems software, middleware and application software, software development management;*
 - b. *Software publishing: Production, supply and documentation of ready-made (non-customized) software: operating systems; business and other applications; computer games for all platforms; and*
 - c. *Other software consultancy and supply: Development, production, supply and documentation of made-to-order software based on orders from specific users; web page design; software maintenance.*
- (5) **Other BPOs**: Includes:
 - a. *Backroom operations and shared financial and accounting services: The recording of commercial transactions for businesses or others; preparation of financial accounts; examination of financial accounts and the certification of their accuracy;*
 - b. *Outsourcing for research and public opinion polling: Investigation on market potential, acceptance, and familiarity of products and buying habits of consumers for the purpose of sales promotion and development of new product, including statistical analyses of the results; investigation on collective opinions of the public about political, economic and social issues and statistical analysis thereof;*

- c. Outsourcing for business & management consultancy activities: *The provision of advice, guidance or operational assistance to businesses (and the public service); arbitration and conciliation between management and labor; activities of management holding companies;*
- d. Data processing: *Processing of data employing either the customer's or a propriety program: complete processing of data supplied by the customer; management and operation on a continuing basis of data-processing facilities belonging to others; time share computer services; and web hosting;*
- e. Data base activities and online distribution of electronic content: *Online distribution of content, but not to units where online publishing is done in additional forms of publishing; assembly of compilations of data from one or more sources; provision of on-line access to proprietary databases; on-line data base publishing; on-line directory and mailing list publishing; other on-line publishing, including e-book; web search portals; internet search sites, internet gamesites, internet entertainment sites, and electronic learning; and*
- f. Hardware Consultancy: *Consultancy on type and configuration of hardware with or without associated software application.*
- g. Outsourcing for Architectural and Engineering Services: *Consulting, civil engineering design, architectural drawings, engineering drafting, printed circuit design, wireless devices, display technology, electronic components, printers, CAD/CAM, geographic information system, digital mapping.*
- h. Others: *Other IT enabled services not elsewhere classified.*