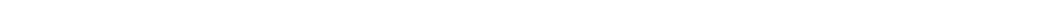


**CALL CENTRES / BUSINESS PROCESSING OUTSOURCING
(BPOs) SECOND PAPER**

Policy Recommendations and Interventions

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1 Introduction

1.1 Purpose of this study

This is the second of two papers that are part of a study to identify and recommend strategies and policies to the Department of Economic Development & Tourism of the Provincial Government of the Western Cape (PGWC) that will contribute to the growth of the regional economy and the creation of equitable jobs through the expansion and development of the call centre and BPO sector.

The first paper is an analysis of the current situation. Its high level conclusions are recapped in section 2 of this paper.

This second paper identifies strategies and policies to promote the development of the sector and makes recommendations for Provincial Government support.

1.2 Approach

The approach to this research has been to:

- Build on the findings of the first paper and the derived industry value chain. This is built around four industry segments or quadrants, each of which has a different mix of factors required for it to grow (section 2)
- Identify the range of factors relevant to all four segments; these are grouped under three headings:
 - Ensuring the core intrinsics
 - Encouraging and supporting market maturity
 - Promoting the opportunities
- Correlate these to identify which have the widest impact across segments and/or support the segments with the greatest growth potential (section 3)
- Identify the activities necessary to support industry growth (section 4)
- Summarise the priority recommendations (section 5)

2 Recap – the call centre and BPO industry value chain

The dynamics of the global BPO industry are complex, and the nature of the opportunity and factors influencing it are equally involved. From a policy formulation perspective, the issues are as follows:

1. The best opportunity for the growth of call centres and BPO in the Western Cape lies in the industry positioning itself as offering an attractive price/ performance capability for complex voice based services, especially in the financial services industry. The local workforce (agents and management) has historical expertise in the financial services and insurance industries, whose products and services are similar to those of these same industries in the main counties with demand (the UK and the USA).
2. Depending on how successfully this opportunity can be addressed, then conservatively between 5,000 and 40,000 new direct agent jobs could be created nationally during the period 2005 – 2008. This depends on a variety of factors – some of which (such as the growth in demand) are outside of the control of the South African industry or government.
3. A further consideration is the proportion of all new South African jobs created in the industry that are in the Western Cape. As the local industry develops and its ability to scale increases, the region can reasonably expect to attract a greater proportion of the national total. On this basis, the Western Cape may attract anywhere between 20-50% of all national jobs created.

From this perspective the following scenarios are envisaged¹:

	Scenario 1 – Fringe Player	Scenario 2 – Tier II player	Scenario 3 – Premier Tier II Player
New agent seats created nationally (direct)	5,000	18,000	40,000
Western Cape share	20%	30%	50%
New jobs created locally (direct)	1,000	5,400	20,000

The most likely route to the achievement of the more favorable scenarios is through attracting foreign investment by established global BPO vendors or from corporates establishing captive operations in the Western Cape.

4. The drivers of demand are those factors that investors consider when looking for an offshore BPO location. These are:
 - Competitive cost of operations

¹ The meaning of the terminology 'Tier 2 player' is expanded on in the first paper

- Availability of skilled staff
 - Clear understanding by the Western Cape industry of the risk alleviation strategies and needs of investors, and an appropriate response
 - Availability of appropriate incentives and government support
 - Vigorous international promotion by *Calling the Cape* (at a provincial level) and by SACCCOM (at a national level)
5. The key supply factors that must be assured to meet higher levels of demand are:
- Skills development and assuring a supply of trained labour
 - Low cost telecommunications and the infrastructure that supports it
 - The availability of suitable buildings to accommodate BPO operations (up to 500 agent seats per site)
 - The availability of support services, including technical support, training, business process migration consultants, disaster recovery facilities, etc.
 - Ease of business set up and prevalence of red-tapism (including bureaucratic obstacles to accessing incentives)
 - Industry mobilization, including integration of effort between industry and government, and industry awareness of international investor's perceptions of South Africa's capabilities

BPO & Call Centre value chain

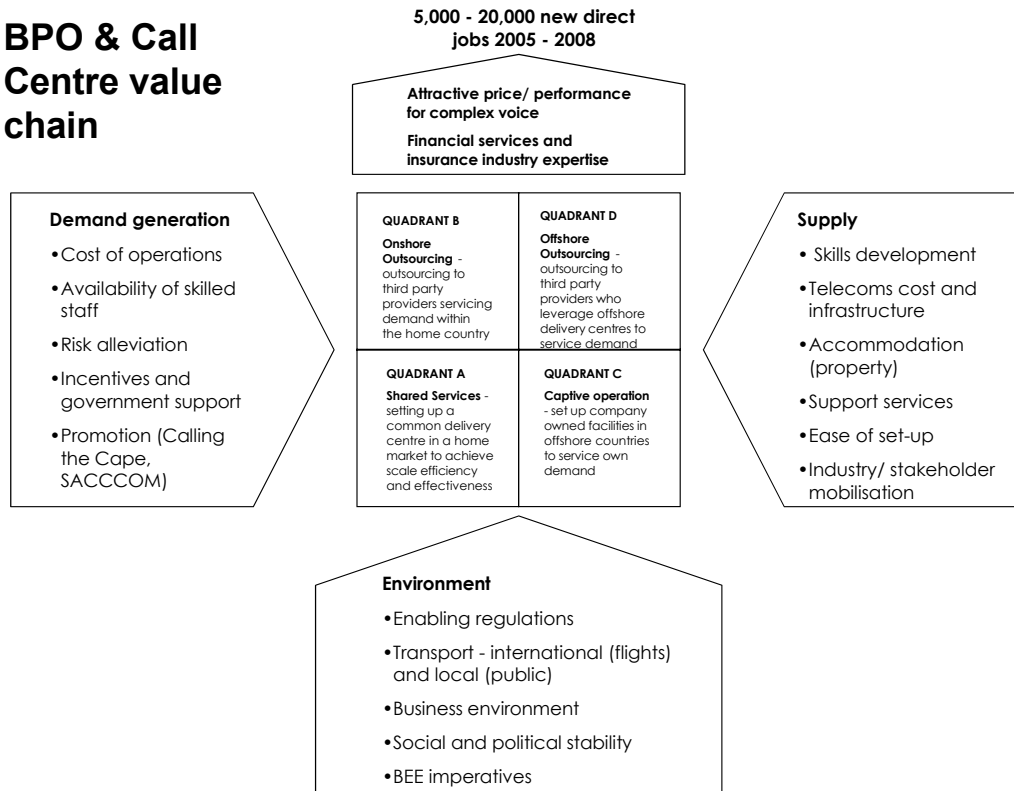


Figure 1: Western Cape BPO industry value chain

6. The wider environmental factors that more directly impact the industry are:
- The extent to which the regulations that directly impact the industry are enabling (or not)
 - The frequency and availability of international flights connecting to the UK, USA and Europe
 - The efficiency and safety of local public transport (for agents)
 - The stability and transparency of the overall business environment
 - Social and political stability of the country
 - BEE imperatives, firstly for the growth of BEE operations and secondly, the extent that these have an impact on foreign investors decisions

3 Analysis

3.1 Industry segments

The specific issues facing the industry with respect to its growth were identified by considering the supply and demand factors relevant to each 'quadrant' or 'segment' of the industry. As illustrated in the value chain (Fig. 1), these segments are:

Shared services (quadrant A) – that is, call centres and other shared process delivery facilities in the Western Cape operated by parent South African corporations.

Growth in this segment requires the Western Cape to be a more attractive location for the establishment of call centres and BPO operations than competing regions of the country, i.e. the regional location must be nationally competitive.

Shared service facilities are established by large corporates to support the common activities of their divisions more efficiently. For example, all of the payroll administration for the various division of a diversified conglomerate may be performed from one location.

The scope for the establishment of such facilities on a large scale is limited, but there is potential to persuade South African multinationals to manage back office processes for their global operations in South Africa.

Onshore outsourcing (quadrant B) – that is outsourcing by South African companies to other local (independent, South African) companies.

Growth in this segment requires Western Cape call centre and BPO companies to be more successful in competing for and retaining business than their competitors elsewhere in South Africa, i.e. local companies must at least be nationally competitive.

South African companies do not generally outsource their non-core or back office processes as much as elsewhere in the developed economies. However, the use of outsourced call centres is growing, and this segment as a whole has considerable potential. Attracting local business is important if locally owned start-up call centres and BPO firms are to gain the experience and scale needed to take on larger overseas contracts.

Offshore captive operations (quadrant C) – these are call centre or other BPO operations in the Western Cape run by a foreign (parent) corporation. This foreign corporation may be the final customer of these services; alternately, this may be a

foreign BPO service provider that sets up such an operation to serve the needs of its client or clients.

Growth in this segment requires the Western Cape to be a more attractive investment location for the establishment of call centres and BPO operations than other competing countries and other competing regions of South Africa i.e, the location must be globally competitive.

The most likely route to the achievement of rapid growth by the South African industry is by attracting investment by foreign firms in their captive call centre BPO operations. This will require significant promotion in the face of strong – and growing – international competition. As explored in the preceding paper, South Africa is in a strong position to successfully attract a portion of the global surplus demand, especially in the niche areas of high-complexity unscripted voice services for the banking, financial services and insurance industries.

Offshore outsourcing (quadrant D) – this is outsourcing by foreign corporations to independent, locally owned companies in the Western Cape

Growth in this segment requires Western Cape call centre and BPO companies to be more successful in competing for and retaining business than their competitors in other competing countries and elsewhere in South Africa. In this scenario, therefore it is the combination of a globally competitive location and globally competitive companies that provides strategic advantage.

There are currently very few locally owned firms in South Africa capable of taking on large international contracts. Those that are successful - such as the recently publicised *America Online* contract with *Merchants* (a Dimension Data subsidiary) in Johannesburg - represent useful case studies that can be used by the industry to demonstrate capability to potential clients and investors.

A likely route to the emergence of large, locally owned BPO firms is through the sale to the local management of firms initially set up as captives by their parent.

3.2 Identification of policy levers

The fifteen different issues that affect these industry segments are as follows:²

² The terminology used to define these categories is borrowed from McKinsey & Company 'Creating employment and economic wealth through developing the South African BPO&O sector', executive summary prepared for Johannesburg City Council, 8 November 2004

- ***Ensuring the core intrinsics***
 1. **Labour:** Availability and cost of skilled staff (agents, managers and support)
 2. **Specialised infrastructure:** Availability and cost of specialised infrastructure (buildings, telecommunications)
 3. **Economic infrastructure:** Attractiveness of general economic infrastructure (roads, public transport, power supply etc.); overall quality of life (security, healthcare, etc.) and social infrastructure
 4. **Competitive BEE firms:** Existence of existing companies able to compete for national business; level of BEE/ charter compliance by the call centre and BPO industry, and supporting industries especially IT
 5. **Cost of compliance:** level of regulatory burden
 6. **Competitive local BPO firms:** Existence of local companies able to compete for international (offshore) business
- ***Encouraging and supporting market maturity***
 7. **Specialist talent:** Availability of an experienced labour pool, many with personal industry certifications; existence of labour pool with client industry knowledge, e.g. financial services, healthcare, etc.
 8. **Support services:** Existence of support services, including recruitment, training, standards certifications, IT systems and support, industry consultants, disaster recovery facilities
 9. **Regional track record:** Existing operations that demonstrate service quality, high productivity, ability to scale
 10. **Industry standards:** Existence of firms with accredited standards ratings (ISO, COPC, CMM, BS7799 security standard)
- ***Promoting the opportunities***
 11. **Industry coordination:** Existence of a well supported local industry body
 12. **Industry promotion:** Effectiveness of a local promotional agency
 13. **Incentives:** Local, provincial or national government incentives
 14. **Firm promotion:** Individual firms must have the capacity to position and promote themselves effectively and in a coherent way

15. Cost of set up and time to market: Set up assistance, transparent requirements, easily navigable bureaucracy, ease of regulatory compliance; availability of expatriate manager work permits

Not all of these factors affect each industry segment (quadrant). The particular factors relevant to each segment are summarized in the flowing table:

Table 1: Relevance of factors to industry segments

Issue	Shared Services	Onshore Outsourcing	Offshore Captive Operations	Offshore Outsourcing
1 Labour	✓	✓	✓	✓
2 Specialised infrastructure	✓	✓	✓	✓
3 Economic infrastructure	✓	✓	✓	✓
4 Competitive BEE firms		✓		
5 Cost of compliance			✓	
6 Competitive local BPO firms		✓		✓
7 Specialist talent	✓	✓	✓	✓
8 Support services	✓	✓	✓	✓
9 Regional track record	✓	✓	✓	✓
10 Industry standards		✓		✓
11 Industry coordination	✓	✓	✓	✓
12 Industry promotion	✓	✓	✓	✓
13 Incentives	✓		✓	
14 Firm promotion		✓		✓
15 Cost of set-up/ time to market			✓	

This table indicates that: for example, the factors that affect the future off all segments of the industry are:

- Labour
- Specialised infrastructure

- Economic infrastructure
- Specialist talent
- Support services
- Regional track record
- Industry coordination
- Industry promotion

The existence of competitive firms (including BEE firms), adherence to internationally recognised quality standards and the ability of firms to promote themselves properly is only important for the growth of locally owned independent firms. The existence of industry standards helps to sell locally owned firms to foreign clients.

The cost of compliance, cost of set-up/ time to market, and incentives are relevant only to the decision to make investment in establishing captives; for locally owned businesses these factors are not relevant as they are a given feature of the local industry and business environment.

4 Key Interventions

Proposed actions are limited to those that could possibly either be undertaken by the Provincial Government (PGWC) itself or by industry bodies such as *Calling the Cape* (CtC). Some activities already being performed by these organisations are included in this section.

Core intrinsics

4.1 Labour

Availability and cost of skilled staff (agents, managers and support)

Assuring the future availability of a pool of appropriately skilled is a key industry challenge. There is an existing, large pool of matriculants and high levels of school-leaver unemployment; the need is to ensure that this labour pool is pre-disposed towards employment in the call centre and BPO industry, and that labour costs do not escalate through diminished supply relative to demand.

Potential investors look at the availability of skilled labour to see if the Western Cape is even a location worth considering. There must be a existing pool of pre-trained call centre agents for investors to tap into. Creating this will require informing school learners, leavers and students of other educational establishments of the potential opportunities provided by the industry. This can be done by:

- Mention of the employment opportunities in all **press and publicity campaigns** (CtC)
- **Promotion to schools and other educational establishments** using direct presentations, and/ or leaflets distributed through libraries and career guidance teachers (PGWC Education Department, CtC). Other approaches include hosting summer internships for pre-final year students, and sponsoring relevant inter-school events such as debating competitions, knowledge quizzes and maths olympiads
- Providing information about general industry opportunities, entry qualifications, and training courses on the **Calling the Cape website** (CtC)
- Encouraging private training institutions to provide basic accredited '**pre-employment' training** to prepare interested individuals for employment within the industry. This could be motivated and promoted by *Calling the Cape*
- The promotion of **learnerships** to the industry and conclusion of successful programs also adds to the labour pool. *Calling the Cape* already has a 'Cadet' programme that makes use of learnerships to train agents. The provincial Government should ensure that *Calling the Cape* has the resources needed to expand this to accommodate the planned 2,000 learnerships a year

Industry specific skills are developed through experience and workplace skills training. Domain (client industry) knowledge (e.g. knowledge of the insurance industry) is gained through experience in that industry or by specific training. The established banking and insurance industries in the Western Cape have produced a labour pool with experience of these industries, products and sales methods. Companies in these industries are effectively an important supplier of workers with this domain experience – though they are unlikely to want to be seen as such as new operations will be poaching from their workforce. This issue has to be faced: perhaps the larger companies (Old Mutual, Sanlam and Metropolitan) could be persuaded to provide some their generic industry training resources and methods for use by the call centre training industry.

Support for and accreditation of this **training supported by the Services SETA** is of critical importance. *Calling the Cape* needs to continue to work closely with the Services SETA to ensure appropriate support is maintained and developed. Inadequacies in Services SETA support should be communicated to the Provincial Government so that pressure can be brought to bear to rectify this (CtC, PGWC).

Calling the Cape already plans “intervention at pre- and post-matriculation level, in and through FET and workplace skills training schemes, career counseling, close collaboration with the existing call centre industry and probably also some direct intervention into the skills market. The goal is to put call centre, sales and customer service skills training in the direct education mainstream.”³

Calling the Cape has planned a **Contact Centre Training Facility** “to demonstrate the technological capabilities of South Africa as an investment destination, to be used by investors who wish to run pilot schemes, and to be used to train agents using best practice contact centre technologies”. ⁴This could also be used for “senior and middle management and technical training”. Two satellite-training centres are planned in Khayelitsha and Mitchells Plain. These could potentially train up to 2,000 school leavers to be ready to enter the industry over the next three years. The very existence of such a pool of skilled labour would be an attractive feature to potential investors. The Provincial Government should ensure that *Calling the Cape* has the resources to implement this plan.

Lowering or maintaining current staff cost levels may come about through increasing the scale of operations, driving down voluntary attrition and absenteeism, and increasing productivity. All of these are dealt with primarily at the firm level. *Calling the Cape* can support this by encouraging the **sharing of good practice** and firm adoption and compliance with internationally accepted **industry quality standards**.

Another approach suggested by McKinsey that has merit is to initiate a **low cost talent development program** (for clarity – the talent is low cost, not the program). Details of this are given in their report. The training materials and other resources needed to make this happen might best be funded and created at a national level through SACCCOM.

The Provincial Government should also accept that its own internal call centre operations are a potential source of skilled labour for the wider industry. It should ensure that its own call centre employees are properly trained according to the NQF.

4.2 Specialised infrastructure

Availability and cost of specialised infrastructure (buildings, telecommunications)

Building accommodation suitable for call centre and BPO operations is difficult to assure. The property industry and business accommodation industry is dynamic and

³ *Calling the Cape* ‘Sector Development Strategy and Summary Business Plan: July 2004 – July 2007’

⁴ *Calling the Cape* 2004, ibid

responsive. Specific actions for the Provincial Government and *Calling the Cape* could include:

- Maintaining a **register of City of Cape Town and Provincially owned land and buildings** suitable for new operations. This should be available to investors in both new offshore captive operations and new local shared services operations (PGWC)
- Establishing a **register of property agents** to be contacted to locate available privately held property, when required for new or expanding operations (CtC)
- Establishing a '**BPO Business Park**' (or 'Call Centre City') for start-up operations, based in buildings already owned by the City of Cape Town, and/or the Provincial Government and/ or national government (of which there are a considerable number). These could be placed into the hands of a property manager, and pre-configured to accommodate call centre and BPO operations. These can then be leased at commercial rates to either start-up firms, or for use by offshore captive operations so that they can get up-and-running quickly before moving to more permanent (and probably larger) premises. Training, recruitment and other support services could also be clustered in the locality. (PGWC & CtC)
- Such a BPO Park could also be used to accommodate a BPO incubator for start-up businesses based on a shared services model. Serviced office space is provided together with shared network infrastructure, meeting space, reception, cleaning services, etc. This greatly reduces the set-up complexity for start-ups. (CtC)

4.3 Economic infrastructure

Attractiveness of general economic infrastructure (roads, public transport, power supply etc.); overall quality of life (security, healthcare, etc.) and social infrastructure

The need for efficient, safe and reliable **public transport** and shared use of **night transport schemes** is the main industry specific need that should be addressed. The Provincial Government is already aware of and reported to be tackling this issue. It should also support a Night Bus Network to link call centre and BPO operations that work 24/7 to the major residential nodes. (PGWC)

The importance of access to sophisticated yet **low cost telecommunications** is well understood. Even with the current liberalisation process, low cost international telecommunications are unlikely because the pending duopoly will probably maintain current high prices. Further, low cost international bandwidth will only become

available when there is open access to all telecommunications providers to the **SAT-3 cable**. This requires that Telkom (the currently controlling shareholder in the SAT-3 cable) should no longer be able to set the price for international bandwidth; rather the regulator should set it.

The PGWC, in conjunction with *Calling the Cape* and other interested industry bodies and stakeholders – such as the Cape IT Initiative (CITI) – should lobby to achieve this. The national SACCCOM should also take up this issue with government.

The creation of a **municipal area network** by the City of Cape Town would effectively create an alternative provider for bandwidth and voice telecommunications; this may lower the cost of local telecommunications and make it easier for geographically separate operations located in different parts of the city to link together. This would bolster the regional competitiveness of firms engaged in onshore outsourcing.

4.4 Competitive BEE firms

The Existence of companies able to compete for national business; level of BEE/ charter compliance by the call centre and BPO industry, and supporting industries especially IT

The existence of competitive BEE firms is of importance for social and political stability, but of no direct relevance to offshore customers or investors (other than they may perceive this to be a potential hindrance to doing business). However, companies providing outsource services to other South African organisations are better placed if their BEE credentials are in order.

Whilst the PGWC does not have a BEE strategy for the Industry, *Calling the Cape* already has a detailed **BEE strategy**, focused on:

- Greater levels of black ownership at shareholder level in existing (white owned) firms
- Greater numbers of black-owned and managed businesses
- Greater levels of preferential procurement
- Higher levels of black management in the industry
- Greater numbers of black staff

The PGWC should consider either adopt this as its BEE strategy, or else develop its own clear policy and guidelines. Programs to help BEE firms attract more business and to assist their growth through business mentoring are in process. However,

currently *Calling the Cape* only has sufficient funding for the initial stages of this program; further funding is required if it is to be carried through.

The establishment of a BPO Park or BPO Incubator could also be used to specifically assist newly established BEE companies.

Another aspect of ensuring successful firms is ensuring that they have access to capital funding. *Calling the Cape* has suggested that the Province engage with the IDC, Development Bank and others with a view to establishing a **BPO investment fund** on a public/ private partnership basis, with a specific bias towards BEE companies. Currently no such co-operative financial support programs specifically exist for the call centre and BPO industry. (PGWC)

The Provincial government currently has at least one contract with a local call centre operation that is not a locally owned or black empowered company. As a short-term sign of commitment, all procurement of public call centre and BPO work in the Province should give preference to locally owned BEE firms. When contracts are due for renewal this **preferential procurement policy** should be adopted. (PGWC)

4.5 Cost of compliance

Level of regulatory burden

An assessment of the relative cost of compliance with business regulations is only of relevance to investors considering establishing a captive operation or direct investment into a new offshore outsourcing firm. The reality is that South Africa compares well with its competitors, so this should not be an issue. Whilst the McKinsey study has identified a few real concerns, these are all outside of the Provincial Government's control.

What is also required is a succinct **document that objectively captures the various regulatory requirements involved in establishing and running a business in South Africa**, and to provide this to enquirers so that they are fully aware of the regulatory requirements, and can assess them from an informed perspective. The existing *Calling the Cape* sponsored KPMG document deals with this from a tax perspective, but ignores many of the other company requirements or set-up needs.

4.6 Competitive locally owned BPO firms

Existence of local companies able to compete for international (offshore) business

The international competitiveness of locally owned BPO firms is an obvious requirement if the local industry is to compete in the offshore BPO segment. The problems and limitations faced by locally owned companies entering this segment were explored and articulated in Paper 1. The most viable routes to the growth for this segment are either through large foreign firms establishing local captives which are later localised i.e. sold off to local investors/companies (as has happened, for example, in India), or for established international BPO providers to partner with local firms, bringing about technology transfer and organizational learning for the local companies.

Local companies need to quickly mature and grow so that they can credibly compete for offshore business; the development of the onshore outsourcing business is a route to this.

Other **mentoring and export readiness programs** such as that run by European Information Technology Exchange (ITX)⁵ should be proactively identified and engaged with local providers. This programme has been developed in recognition of the lack by local BPO firms of place branding, market knowledge, marketing capacity, project management discipline, appropriate size/ resources/ maturity, and awareness of cultural issues in the target market (which, for the purposes of the ITX program, is the European Union).

Supporting market maturity

4.7 Specialist talent

Availability of an experienced labour pool, many with personal industry certifications; existence of labour pool with client industry knowledge, e.g. financial services, healthcare, etc.

Market maturity is – by definition – the result of a well-established and mature industry. An important element identified as a possible future constraint is the expansion of the pool of specialist talent. This will itself develop with the industry, especially as a wider choice of career paths opens up.

Calling the Cape is developing an **Executive Management Program** for industry managers in conjunction with the UCT Graduate School of Business. *Calling the Cape* proposes subsidizing this for PDI managers, which should be considered by the Provincial Government as a part of its future funding.

⁵ See www.euroitx.com

Calling the Cape could also promote and assist with the development and offering of higher-level NQF qualifications and internationally recognised **call centre management qualifications**. This would help define industry career paths and hence attract high caliber management into the industry from elsewhere.

4.8 Support services

Existence of support services, including recruitment, training, standards certifications, IT systems and support, industry consultants, disaster recovery facilities

The range (choice) of providers and depth of their experience is an important attribute of a mature industry. Assuming that the growth of the industry as it matures is obvious and public, then market forces should attract and grow the support services companies that the industry needs. To ensure this awareness of the downstream business opportunities created by a growing call centre and BPO industry, *Calling the Cape* should continue to take every opportunity to publicise the growth and potential of the industry locally within the Western Cape.

Calling the Cape already has a basic **directory of support service providers** on its web site. This should be expanded, and additional companies actively recruited. Investors and potential clients can be directed to this as evidence of the availability of a full range of inputs to support operations.

4.9 Regional track record

Existing operations that demonstrate service quality, high productivity, and ability to scale

A regional track record benefits all segments of the industry. It is built over time though:

- publicity and third party industry and firm mentions in reports, research and articles
- the availability of current case studies, which can be independently verified
- direct access to a range of companies and their operations by visiting potential investors and clients

These are essentially a by-product of other firm level and industry level promotional activities. *Calling the Cape* should be mandated to **expand its range of case studies** already available through its web site, and to encourage and support individual firms to generate their own – possibly as a part of already proposed mentoring activities. New case studies should be used as the basis for newsletters, included in press packs, and used in presentations to potential clients and investors.

Calling the Cape should also add other related industry bodies – such as the Cape IT Initiative (CITI), the recruitment industry and other – to its **key alliances**.

4.10 Industry standards

Existence of firms with accredited standards ratings (ISO, COPC, CMM, BS7799 security standard)

Adherence to internationally recognised quality standards is one way to get around the ‘need to be big in order to grow’ Catch-22 that most locally owned Western Cape firms face. For example, in Mumbai a large proportion of the software development firms established to take advantage of the trend towards IT outsourcing have acquired CMM certification at an early stage of development, in order to demonstrate capability and capacity of staff and processes even though particular firms may be newly established.

A number of such standards exist; industry members co-ordinated by *Calling the Cape* should identify which are most appropriate for the local industry (and – importantly – which are recognised by key target clients) and create a local program to take firms through the process improvement and accreditation process.

Having said this, it is also true that technical standards are of less importance in the industry segments where the Western Cape has a competitive opportunity, where the key indicator of performance is customer satisfaction. This is best assessed and improved through benchmarking activities.

Therefore a firm level cluster **benchmarking club** could be established to share key indicators and case studies. Local firms must be persuaded that the market potential is such that collaboration is preferable to competition. (CtC)

4.11 Cost of set-up/ time to market

Set up assistance, transparent requirements, easily navigable bureaucracy, ease of regulatory compliance; availability of expatriate manager work permits

Whilst only relevant to attracting new offshore captive operations, this is the segment with the greatest growth and employment generation opportunities.

First priority should be the development and publication of a complete and succinct **business set-up road map** detailing all of the registrations and permissions required, contacts and other details, and the information needed to make key decisions and overcome major obstacles such as identifying accommodation and staff.

Briefings should be given regularly to all government and related departments about the potential and needs of the industry, and their commitment solicited and retained to assist referrals promptly and efficiently.

Service providers could then be accredited or licensed to walk clients and investors through the set-up process on a contract basis.

Particular attention should be paid to identified bottlenecks (for example, work visas for external management is frequently mentioned) and these addressed at the appropriate level (national through SACCCOM, provincial or local through PGWC and CtC).

Promoting opportunities

4.12 Industry coordination

Existence of a well-supported local industry body; availability to quickly network with existing operations

In the Western Cape there is 'a well supported industry body' in the form of *Calling the Cape*. Its structure – comprising both member firms and government representation and support – has allowed a good degree of industry co-ordination to be achieved with very limited resources. *Calling the Cape* has already identified key issues that affect the growth of the industry (including many listed in this report) and has plans to address them in various ways. But at present ***Calling the Cape lacks resources*** to put these plans into effect.

As noted in Paper 1, *Calling the Cape* has been remarkably effective in the last year, especially considering its limited resources. Current provincial government funding is ±R800,000 a year. It has a staff of two plus an office assistant, and has very little in the way of promotional material or other collateral. The majority of executive time is taken up dealing with investor queries and visits, or fielding industry problems, for example relating to telecommunications costs. Yet it has managed to play an important role in attracting R200 million in new investment into the sector in 2004. Young school leavers take many of the jobs created, and the workforce is overwhelmingly non-white. It has the apparent support of firms in the industry, and has managed to forge important links with similar bodies, government departments and industry decision makers both in South Africa and in overseas target markets.

These efforts already stretch *Calling the Cape* to its limits. Further support for the existing industry firms plus the promotion needed to ensure that the Western Cape attracts a share of potential global business and works on the supply of the

necessary inputs (primarily trained labour) to meet this demand will require a considerable increase in funding support. The spending priorities and the potential impact in terms of employment created are outlined in section 5.

An important outcome of industry collaboration (and the thing that gives the perception that collaborative network exists) is when *all players speak with one voice*. This requires all member firms to understand the market niches where the Western Cape has a competitive advantage, and to buy into the market positioning and message adopted by *Calling the Cape* locally and SACCCOM nationally. As noted in Paper 1, a trawl through current web sites and promotional material reveals that at present this is not the case. Rectifying this requires better communication of the market situation and position to all; *Calling the Cape* should take ownership of **educating small and medium sized firms** and assist them to identify and research segment opportunities and approach prospects. The **existing SME program** is designed to address this to the extent that resources allow.

Industry coordination can only happen when all participants know what is happening; the *Calling the Cape newsletter* and industry **networking events** already fulfill this need to a degree. *Calling the Cape* needs the resources to gather, organise and distribute more such information. And this expanding store of data should be organised and published through the existing online **knowledge store**. Whilst this is already receiving attention and growing in size and scope, this needs a dedicated resource to be focused on this activity.

At the national level, the **South African Call Centre Community** is getting off the ground; this needs to be more actively supported. Many issues are best addressed (or can *only* be addressed) at a national level; the Western Cape stands to gather disproportionate benefit from its activities. SACCCOM and the call centre desk at the DTI is currently under resourced. As McKinsey point out, much work needs to be done to ensure alignment between the objectives of government and its ministries and those of the industry. *Calling the Cape* needs to be mandated and funded to participate in and support SACCCOM to the fullest extent.

4.13 Industry promotion

Effectiveness of a local promotional agency; availability of case studies; easy availability of information about local industry capabilities, capacity and ability to scale

Industry promotion has been well thought through by both *Calling the Cape*, McKinsey and others. *Calling the Cape* has a slate of planned programs that need the funding resources to implement effectively. These include:

- Development of marketing materials and case studies
- SA and UK media PR campaigns
- Representation at international industry conferences and the Birmingham call centre expo
- Targeting of the top five offshore service providers (McKinsey have identified a number together with their current 'pain points')
- Investor roadshows to UK, Netherlands, USA and India
- Building relationships with international consultants

A team permanently available to handle investor RFPs and investor delegations is also needed.

Added to this, *Calling the Cape* should implement a comprehensive **market intelligence system** using international industry consultants to identify hot leads, embassies to research and contact prospective clients, information exchange with other industry associations, and even tapping into the expat community in target industries and firms.

From the provincial perspective, **adequate funding to support *Calling the Cape's* promotional activities should therefore be a priority**. If such promotion is not funded or effective, then all other activities will be irrelevant as there will be no growing industry to coordinate, or to take up the skilled school levers envisaged elsewhere in this paper. Industry co-ordination activities, SME and BEE development programs and skills development initiatives are each important and must precede in-step with one another. But promotion to attract new investment is the critical driver.

At the national level, SACCCOM should be supported to ensure that an appropriate **national market positioning and promotional campaign** is developed and implemented. This should include the adoption of appropriate country branding, consistent with the other national tourism and investment branding. SACCCOM should seek to strengthen the 'South Africa' brand by contributing the perceived 'high service high tech' attributes of the BPO industry to the brand image. It is important that this positioning is communicated back to the firms that make up the industry, and that they position and promote themselves within this framework so that the industry is seen to speak with one voice and so that they individually get maximum spin-off from themselves from the national efforts.

It may be that many of the promotional programs (as above) planned by *Calling the Cape* are best undertaken at a national level, provided that the Western Cape can be assured of disproportionate benefits.

Other marketing activities proposed for SACCCOM include:

- **Targeting of multinational companies** with a high propensity to outsource
- **Engagement with South African multinationals** to bring management of their own back office processes to South Africa – and specifically the Western Cape.

Calling the Cape need to be involved with these initiatives so that the Western Cape can draw maximum benefit from them.

4.14 Incentives

Local, provincial or national government incentives

The nature of the incentives theoretically available to the industry is given in Paper 1.

The role of incentives in attracting investment or new clients is debatable. The argument (by McKinsey and others) seems to be that South Africa must have them because others do – incentives are needed to ‘demonstrate government commitment’. But incentives can create distortions and tend to lead to convoluted and hard-to-manage bureaucratic processes that can confuse and frustrate.

The better position is that the industry be able to demonstrate that it is financially competitive in its niches without resorting to incentives. Clear **generic cost profiles** for different types of operation and process should be developed and made available (see the industry benchmarking proposal above at 3.10). (CtC)

Having said this, **subsidies for training** can be justified in the cause of supporting job creation. These can take a number of forms, including ensuring a supply of pre-trained agents (at government expense); SETA provided training support and direct grants for skills training of new hires. The learnership program can also be an effective subsidy. The DTI also is supposed to have a national BPO incentive grant focused on skills development. The problem is that these programs are complex to access and slow to pay out – put simply **the intention is there but they just don't work very well**. Promises are made but there is no delivery. The DTI currently lacks personnel focused on this area; elsewhere a lack of professionalism and a convoluted bureaucracy add to the problems. Before any further incentives or subsidies are contemplated, effort by the Provincial Government and *Calling the Cape* should be directed towards rectifying this.

Establishing new operations requires considerable investment in equipment, much of which is imported. Through SACCCOM, an **offset program** could be motivated to national government whereby the cost of imported capital equipment is returned against foreign exchange earned through the export of services.

4.15 Firm promotion

Individual firms must have the capacity to position and promote themselves effectively and in a coherent way

Firm level promotion is an area over which neither the Provincial Government or *Calling the Cape* can have any direct input or control. But through the industry networking and cluster activities of *Calling the Cape*, it should be possible to motivate and persuade local firms to:

- Understand and reinforce the competitive niche a value proposition that Western Cape firms have
- Adopt a common industry positioning and communicate within this framework when talking to prospective clients and investors
- Have input into the creation of industry promotional material, and make use of this in their promotional activities. (Few Western Cape firms even have obvious links to the *Calling the Cape* web site on their own web sites.)

As a part of its SME program, *Calling the Cape* could assist new firms with their market positioning and promotional programs.

5 Recommendations

Underlying each of the following recommendations is the promotion of stakeholder alignment. Firms, the industry, government and its agencies, and suppliers must be informed and committed to working together to achieve the common goal of making Cape Town a premier global contact centre and BPO services hub. The call centre and BPO industry is a non-extractive, labour intensive export oriented service industry, capable of attracting inward investment, with a wide range of up stream benefits and potential economic multipliers, and is therefore an ideal target for government attention and support.

The potential exists to create up to 20,000 new, well paying, sustainable knowledge economy jobs over the next three to four years. Each new call centre seat has a multiplier effect that results in around four more jobs being created elsewhere in the

economy. Using the creation of 20,000 new call centre seats as a starting point, this would:

- Employ 22,000 agents working shifts
- Employ in direct employment of a further 4,400 managerial, training and other staff in support industries
- Result in a further 66,000 jobs being created elsewhere in the economy (on the basis of a 3.5 times multiplier)

Total jobs created could therefore be as many as 92,400. The following recommendations seek to enable the achievement of this.

5.1 Recommendation 1 : Expanded support for *Calling the Cape*

First, if an industry body did not already exist, then the priority recommendation would be that the Provincial government should consult with the firms in the local industry and form one. Such an organisation is the preferred vehicle for many of the programs and activities needed to realize the growth and employment potential of the industry.

The need for *Calling the Cape* is not in question. The priority recommendation is that the Provincial Government should expand its funding to *Calling the Cape* to enable it to better deliver its existing actual and planned programs. Current funding is relatively *ad hoc*, and insufficient to deliver the investment and employment potential open to the Western Cape over the next three – four years.

Commitment to funding

Specifically, *Calling the Cape* would greatly benefit from a longer term funding commitment. In line with the medium term expenditure frameworks currently being adopted by government, the Provincial Government should make a rolling three-year funding commitment to *Calling the Cape*. This would allow it to plan longer-term projects, attract and retain staff, and would demonstrate commitment to the industry and potential investors by government.

Funding priorities

Government funding for *Calling the Cape* should be channeled into four main programs:

Investment promotion: national marketing campaigns are best undertaken at a national level – see 5.2 following, but critical effort needs to be put into local activities.

This program is the basis for the other activities; investment promotion drives growth whilst other activities ensure that there are appropriate conditions to attract investors and to meet their downstream needs.

Provided investment promotion is properly funded, then the other programs need to be run in lock-step.

Industry coordination: given commitment by government to the other programs, the industry itself should be capable and willing to fund this activity itself.

Skills development: the supply of trained agents is a key constraint on the growth of the industry; the availability of such a workforce is a key decision factor for investors. Calling the Cape therefore needs to support activities that will grow the pool of employment ready agents in the Western Cape.

SME development: the business opportunities created by a growing call centre and BPO industry are not just in the running of call centre operations themselves, but also in the supply of industry inputs and support services, including recruitment, training, technology support, etc.

Funding requirement

Optimum funding to effectively run all five programs outlined above is of the order of R7.7 million per year for the next three years. Given the benefits that an industry program of this nature would deliver, ±R1 million of this can be reasonably contributed by the industry itself. The required public sector budget is therefore ±R6.7 million. These funds would be applied as follows:

Table 2: High level budget

Program	Activities	Budget
Investment promotion	<ul style="list-style-type: none"> • Dealing with investor information requests, running investor visit itineraries and follow-ups • Research to back up the industry’s value proposition, for example demonstrating the cultural empathy and English language equivalency of the local workforce, which is a key aspect of the region’s value proposition. • Marketing and PR activities, including the commissioning of promotional videos and other collateral and expanding the knowledge store • Participation in road shows in target markets and participation in major global industry conferences 	R3.2 m Public sector contribution: 100% (R3.2m)

Program	Activities	Budget
Industry coordination	<ul style="list-style-type: none"> • Stakeholder forums • Event management • Promoting the adoption of industry standards • Industry intelligence • Newsletter and knowledge store • Lobbying on behalf of industry • Annual awards and AGM 	R500 k Public sector contribution: 0%
Skills development	<ul style="list-style-type: none"> • Promoting employment opportunities to schools and teachers • Running a cadet program for school levers • Supporting the establishment of training centres • Sponsoring further managerial development 	R2.2 m Public sector contribution: 100% (R2.2 m)
SME development	<ul style="list-style-type: none"> • Industry intelligence and business opportunities matchmaking • BEE support and mentorship • SME standards raising and certification • Establishing and managing a BPO fund • Establishing and managing a BPO Park 	R800 k Public sector contribution: 75% (R600 k)
Operations		R1 m (includes office rent, telephones, etc.) Public sector contribution: 75% (R750 k)

Total budget = R7.7 m

Public sector contribution: R6.75 m (88%)

Sensitivity assessment

Three different funding scenarios ranging from the current level of public sector funding (\pm R1m per year) to the above optimum of R6.7 m per year have been assessed. The results of this assessment are summarised in the following table.

Table 3: Impact of funding scenarios

Level of public sector funding	Scenario 1: R1 m pa	Scenario 2: R4.5 m pa	Scenario 3: R6.7 m pa	Assumptions

Level of public sector funding	Scenario 1: R1 m pa	Scenario 2: R4.5 m pa	Scenario 3: R6.7 m pa	Assumptions
New agent seats by 2008	2,500	10,000	20,000	
Number of agents directly employed	2,750	11,000	22,000	1.1 x shift utilization
Number of people directly employed	3,300	13,200	26,400	+ 20% managerial and direct support staff
Number of people trained	6,050	24,200	48,400	40% annual attrition
Total jobs created	11,550	46,200	92,400	3.5 jobs multiplier
Value of capex invested	R75 m	R300 m	R600 m	R30 k per agent seat
Value of training investment	R90.75 m	R363 m	R726 m	R15 k per agent trained
Total investment value	R165.75 m	R663 m	R1,326 m	
Number of new SMEs formed	4	10	20	Contact centre operators only – not including suppliers
Number of new black-owned SMEs	2	5	10	New companies net of start-up failures
Number of people directly trained by Calling the Cape	100	400	2,000	Including training by third parties with funding sourced by CtC and programs designed by CtC
Public sector funding per direct job created	R909 (note: low levels of industry growth may mean that these jobs are not sustainable)	R1,023 (note: low levels of industry growth may mean that these jobs are not sustainable)	R762	Funding sustained for three years, beginning Q3 2005

Given this employment creation potential and its spin-off benefits for the Western Cape economy as a whole; the relatively low levels of funding support needed to create jobs; and the demonstrable effectiveness of *Calling the Cape* to date, then increasing the current level of funding support to R6.7 million per year is recommended.

5.2 Recommendation 2: Support for SACCCOM

The role of South African Call Centre Community is critical. SACCCOM should be appropriately funded by national government and the private sector; the Business Trust is reported to be considering funding SACCCOM in view of the huge positive impact that growth of the call centre and BPO industry could have on the national economy. The Western Cape stands to gain disproportionately from these activities. The Provincial Government should therefore put specific effort into lobbying national government to ensure that SACCCOM gets off the ground, and have ongoing input into its affairs.

The activities that SACCCOM should undertake are:

- A **national market positioning and promotional campaign**; this could include participation in conferences and exhibitions that *Calling the Cape* has already identified, and investor roadshows to the UK, Netherlands, USA and India
- A program to **target multinational companies** with a high propensity to outsource
- A program to **engage South African multinationals** to bring the back office processes of their overseas operations 'home' to South Africa
- Address with national government the **problem issues** relating to the cost of telecommunications and access to the SAT-3 cable; the inadequacies and failures of the SETA training support funding; and failure of DTI to deliver BPO industry employment incentive grants

5.3 Recommendation 3: Direct provincial initiatives

Using the potential benefits to the call centre and BPO industry as a motivation, the provincial government – through the relevant internal departments – should address the following issues. These will all have wider economic and social benefit.

5.3.1 Support of the Premier, the Minister and Senior Management

The Premier has already frequently shown public support for the local call centre and BPO industry. He and his close advisors should be given regular briefings on the status of the industry, and public support for it should be expressed by him when ever appropriate. It is imperative that the PGWC show their commitment to growing this industry by allocating senior management involvement in the board of *Calling the Cape* and by allocating multi-year funding in its budget to ensure stability and enable reasonable planning.

5.3.2 Consistent policy toward the industry

The apparent attention given to the industry by the provincial government has been erratic and inconsistent in the past: individuals with oversight responsibility have been frequently rotated and funding support for the industry body has been sometimes slow in coming. This situation needs to be rectified.

5.3.3 Lobbying of national government

The provincial government should state its case with regard to a number of national issues with significant impact on the local call centre and BPO industry. These include:

- Bringing about a wholesale change in the way that national government thinks about telecommunications. Direct concerns are:
 - The introduction of competition into the national telecommunications market
 - The potential impacts of the proposed telecommunications convergence bill. The freedom of VANS to carry voice needs to be explicitly preserved
 - Regulation of access to and pricing of the SAT-3 cable
- Effectiveness of the DTI especially with regard to the call centre and BPO industry
- Resolving problems associated with the operation of the national SETAs
- Ensuring the establishment and national funding of SACCCOM

The provincial government should consider allocating responsibility for oversight of this industry to a senior official, who would pursue these lobbying activities, brief the Premier (5.3.1 above) and maintain links with Calling the Cape as the supported industry association.

5.3.4 Property survey

Together with the City of Cape Town and the national government, undertake a property survey of publicly owned building and land with Cape Town and the Western Cape, with the specific intention of making under utilized or unused property available to use by call centre and BPO firms. Identified property could then be refurbished and managed in partnership with the private sector.

5.3.5 BPO Business Park

The feasibility of establishing a BPO business park to support new firms, and/or provide business-ready facilities for new investors to move into, should be

investigated. Such projects could make use of unused public property identified as a part of the recommended property survey.

5.3.6 Public transport

The limits to economic growth created by a public transport system perceived as inadequate, unreliable and unsafe are well documented. This is a particular constraint facing the BPO industry, which must be able to ensure that large numbers of people can travel to and from central locations round the clock. Action on an integrated public transport plan for Cape Town is overdue.

5.3.7 Municipal area network

Alternative service providers for the creation of virtual private networks will lower the cost of telecommunications within Cape Town and South Africa. The City of Cape Town is in a position to build a municipal area network, which would have direct benefits for its own administration and the Provincial administration, and potential benefits for the regions universities and other knowledge economy businesses including the BPO industry, IT, film and other creative and digital media industries. Specifically, access to such an alternative network provider should lower the costs of local onshore outsourcing firms (quadrant B) by providing them with access to a choice of infrastructure providers. Set-up times are also likely to be reduced.

The Provincial Centre for e-Innovation in the Premier's Department should seek to support and co-operate with the City's IT Directorate responsible for telecommunications to make this a reality.

5.3.8 BEE procurement

When the existing contracts that the provincial administration has with existing call centre service providers end, then **appropriate BEE procurement policies** should be applied to any new contracts issued.

6 Conclusion

The rise of the call centre and BPO industry is a recent global phenomenon. Though the Western Cape missed the first wave, increasing globalisation and the technical ability of firms to split operations and transfer pieces to the lowest cost-for-quality locations means that there is still considerable opportunity to attract fixed investment and sustainable jobs.

Getting to grips with the dynamics of a service industry that earns foreign exchange by working for clients in other countries by dealing with their customers for them is complex. The purchase or investment decision involves consideration of issues unlike those of almost any other industry... factors like the availability of raw materials or proximity to markets are irrelevant. Rather, the core intrinsics of a viable local industry are skills, telecoms and other infrastructure, and the extent that the government demonstrates that that it wants and welcomes it.

The Western Cape cannot compete internationally on cost alone, but in certain market niches where service quality, language compatibility and cultural empathy are also important, then the local cost/quality offering is particularly appealing to specific industries and territorial markets. If this potential is promoted vigorously and appropriately, up to 20,000 new agents seats could be created in the next three years. Shifts work and other multiplier effects could result in a direct and indirect employment of up to 92,000 people. The positive economic and social impacts on Cape Town and the region would be considerable, far exceeding the growth potential of any other emerging industry. The development of locally owned firms that are globally competitive as call centre and BPO outsourcers is dependent on local procurement, the development of competitiveness in local companies and an effective BEE development programme. In the short term however, foreign companies drive job growth and industry growth through inward investment.

Three recommendations have been proposed in this paper to achieve industry and job growth. Underlying these is the requirement that the Provincial Government shows interest and commitment to making it happen by committing resources to projects and programmes, which it has created.

Provincial government needs to attend to getting the existing stumbling blocks out of the way; some of these are the domain of national government, and co-ordination of the industry's interests across the country through the South African Call Centre Community is one way to address these. Priority issues are the cost of telecommunications and the reach of the telecommunication industry regulator; the implementation of incentive schemes entrusted to the DTI and others; and the need for a nationally supported international brand driven campaign to position South Africa as a BPO location of choice. Cape Town stands to gain disproportionate benefit from moves in these areas.

A functioning and well-supported industry association and investment promotion organisation already exists. This should be the main vehicle for the Provincial Government's tangible support. It needs to be able to state the case for bringing call

centre and BPO work to the Western Cape in the face of massively funded and determined local and international competition. The funding of this organisation is modest when compared with competition from other regions in South Africa and in other comparable countries; whilst the potential returns in terms of jobs created make this decision a 'no-brainer'.

End