Palestinian Market Development Programme

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Market System Analysis BPO/ESO Outsourcing services in oPt

Executive Summary

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Acronyms and Abbreviation:

ATM	Automated Teller Machines
B-2-B	Business to Business
B-2-C	Business to Consumers
BIM	Building Information Modelling
BPO	Business Process Outsourcing
CAD	Computer aided design
CBI	The center for the promotion of imports from developing countries
CCC	Consolidated Contractors Company
CGGC	Center on Globalization, Governance & Competitiveness (CGGC), Duke University
CSR	Corporate Social Responsibility
DC	Developing countries
ERD	Engineering Research and Development
ESO	Engineering Services Outsourcing
EU	European Union
EY	Ernst and Young
FAA	Finance, accounting and administration
FDI	Foreign Direct Investment
FIT	Foreign Independent Travelers
FAO	Freelance Online Academy
FTE	Full-time equivalent
GCC	Gulf Cooperation Council Countries
GDP	Gross Domestic Product
GSE	Good Shepherd Engineering
HR	Human Resources
ICT	Information and Communication Technology
IS	Impact sourcing
ISG	Information Services Group
ISSP	Impact Sourcing Service Provider
IT	Information Technology
ITO	Information Technology Outsourcing
KPO	Knowledge Process Outsourcing
MC	Mercy Corps
MENA	Middle East, Europe and Northern Africa
MTIT	Ministry of Telecommunication and IT
NASSCOM	National Association of Software and Services Companies – Trade Association of Indian IT and BPO Industry
OCR	Optical Character recognition
OEM	Original equipment manufacturer
PACPA	Palestinian Association Certified Public Accountants
PalTel	Palestinian Telecommunications Company
PCBS	Palestinian Central Bureau of Statistics
PMA	Palestine Monitory Authority
PSI	Palestine Standards Institute
SEO	Search engine optimization
UAE	United Arab Emirates
UK	United Kingdom
US or USA	United States of America
VAR	Value Added Resellers
VoIP	Voice over Internet Protocol
WWB	Work Without Borders

Industry Terms

Business Process Outsourcing: When a company reallocates activities and services that it earlier used to perform in-house, to third party-providers.

Onshore: Onshore refers to business processes that are handled within their home country.

Nearshoring: Nearshoring refers to business processes that are handled in a country near the home jurisdiction.

Offshoring: Offshoring occurs when the outsourced activities/services are performed in a foreign location. These are usually managed by means of a contract or service level agreement.

Captive Centre: A contact or business process-outsourcing centre that is owned and managed by the organization for which the services are being provided.

Contact Centres: Some examples include: inbound customer service, inbound helpdesk, inbound sales, inbound technical support, outbound data cleaning and data capturing, outbound debt collections, outbound customer interview, research and surveys, outbound telemarketing/sales, web sales and marketing, advertising creative processes and marketing research services.

Inbound: Communications traffic that originates from customers and is received by agents in a contact centre; also refers to centres that handle such work. An example would be technical support calls.

Outbound: An outbound call center is one in which call center agents make outbound calls to customers on behalf of a business or client. Calls made from the center can include telemarketing, sales or fund-raising calls, as well as calls for contact list updating, surveys or verification services.

Back Office Processes: Some examples include: administration, data entry/preparation, data entry – scanning and archiving, document management, translation and transcription service, forms and report generation.

Impact sourcing: An emerging sub-sector within BPO which entails employing people from vulnerable socioeconomic groups into BPO centres to service clients both domestically and internationally. This task is similar to the BPO sector mentioned in this report.

Freelancing: Online Freelancing is the process of working online through some special online platforms (such as freelancer.com, upwork.com etc.) which connect the client and the freelancer in a creates a professional business atmosphere.

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Executive Summary

There are three distinct types of outsourcing. The first is the information technology outsourcing (ITO), which refers to outsourcing all or parts of IT functions to an external party. The second type is the business process outsourcing (BPO) that involves contracting of some parts of the business operations and responsibilities inside the company to a third-party service provider. The third category is the knowledge process outsourcing (KPO) that outsources core information-related business activities to third parties and requires advanced analytical and technical skills and specialization expertise.

The objective of this study is to conduct a market system analysis for the engineering services outsourcing (ESO) that falls under the KPO category and the following Business Process Outsourcing (BPO) segments: contact centre services; finance, accounting and administrative (FAA) services and the human resource (HR) services in the occupied Palestinian territories (oPt). This market system study does not address the ITO outsourcing that typically includes software programming.

As the total number of unemployed Palestinians soared by more than 25 percent in 2014 compared to the previous year to reach 338,300, creating job opportunities for the youth is paramount with higher unemployment rates amongst educated youth who are university graduates such as the below table:

Field of education	Unemployment rate	Period unemployed in months
Teacher training and education science	72.7	14.6
Humanities	66.2	17.2
Mathematics and statistics	65.7	14.3
Life sciences	65.3	11.3
Social and behavioural sciences	62.3	16.9
Personal services	63.8	11.5
Journalism and information	49.2	19.4
Business and administration	48.0	14.3
Engineering and engineering trades	46.8	14.4
Health	43.3	14.1
Architecture and construction	40.7	12.3
Computing	39.5	10.9
Law	14.5	11.0
Other disciplines	46.9	11.5

The value proposition of educated and unemployed Palestinian youth present a low attrition rates at competitive pricing for the quality of service for outsourcing, offshoring and impact sourcing for ESO and BPO buyers such as contact centres, FAA and HR.

BPO and ESO normally buyers choose a specific country destination based on a mix of factors such as price points, talent pool, language skills, economic and political stability, and cultural and geographical proximity. Advisory sourcing companies scanning the global markets for suppliers also influence these buyers.

PMDP has conducted primary and secondary research and has analyzed the Palestinian suppliers, the potential markets for local and international BPO/ESO service buyers. The study also provides analysis on the market system constraints and how to develop interventions to improve the market system between suppliers and buyers of these BPO/ESO services.

The study identified to following key facts about the service side of the Palestinian BPO and

ESO sector:

1. There is a diverse skill set available in the BPO market due to high number of graduates from different background such as humanities, social science, mathematics, business, information technology (IT), law, architecture and construction and engineering schools.
2. Palestinian BPO sector is competitive in terms of value for money for market entry English and neutral Arabic languages are widely spoken and used in many businesses. This is a competitive advantage over other countries in the region, except Jordan, where they have been able to pitch their services at 30% lower price and subcontract to Indian BPO providers.
3. The current size of BPO/ESO service providers is relatively small to meet the scaling requirement of international buyers. However, providers can scale by hiring from the pool of unemployed and educated youth; much easier for low-value than high-value BPO services or ESO services due to the specialization requirement.
4. The Palestinian BPO contact centres segment is still nascent as size of companies, constituting of only three companies providing dedicated contact centre services with two out of the three contact centres largely cater for their internal group of companies. However, these companies proved to be able to sign contracts with regional and international buyers and are providing 500 – 700 jobs opportunities.
5. While there are 12 – 14 small size companies, hiring in the range of 12 – 15 staff each, that provide finance and accounting as well as taxation services for income, sales and salaries in the local market. The big 4 accounting firms, estimated of average of 40 staff members each, are mostly engaged in conducting auditing practices and serve the donor community on donor projects and internal procedures. However, auditing services are not exported due to license requirement in other countries. There are no dedicated Palestinian BPO service providers for FAA/HR that caters to international buyers on large scale.
6. Likewise, over 500 ESO companies with 18760 registered engineers in the West Bank and 11000 in the Gaza Strip are mostly focused on the construction sector engineering services in the local market. Individual, private and public sector are the key buyers and few projects run in the millions of US$ dollars. The local market pose a limitation on growing the sector due to quota restrictions regulated by the Engineering Association on how much work they can perform per year based on the number of square meters of projects and disrupted cash flow from payment cycles received from the public sector.
7. At the same time, there are no in BPO/ESO captive centres by investors, multinationals or Diaspora groups. A unique exception is the CCC BIM Centre in Ramallah.

The study identified the following key points regarding the buying trends for BPO/ESO services:

1. North America and European Union countries are more open than Arab gulf countries to offshoring BPO services.
2. Globally, BPO buyers are at stronger position than buyers to negotiate prices and quality of services as they can choose from a wide range of options: keeping it in-house, within country, near-shore before considering offshoring to many other developing countries option competing with the oPt.
3. Low-value BPO services do not require high level of skills and are suitable to recent graduates. These services include voice such as inbound and outbound sales and non-voice services such as bookkeeping, basic accounting, data entry, digitization, social media, web chat support, email support. The Palestinian suppliers can compete in providing these services by offsetting a higher price points with better quality service.
4. High-value BPO services require specialization and experienced workforce. The skills would entail specialized knowledge in the vertical market itself e.g. health, telecommunication, oil and gas, etc, it also requires specialized knowledge in the functions, processes and service quality requirement in each buyer's country and its

associated legal rules and regulatory requirement. Furthermore, as a knowledge process outsourcing (KPO), the ESO requires specialization by default. For example, specializing in an engineering body of knowledge includes building information modeling and knowledge in steel structures that this research has identified to be in demand in the Arab gulf countries.

5. Higher-value BPO attract higher wages for the services provided than low-value BPO services.
6. While international buyers have the willingness to offshore BPO services and their propensity to afford higher price points than Arab countries in the gulf; however, they are skeptical about the quality of the Palestinian BPO/ESO services.

Furthermore, the study identified the following key points regarding the domestic and international markets:

INTERNATIONAL MARKET

The research has identified the following international geographies for various sub-segment for the BPO and ESO services:

1. In general, the Arab Gulf market is price sensitive and is not a mature market as they prefer in-house, in-country operations to outsourcing and offshoring. However, for this market the following opportunities can be targeted:
   a. Voice services through subcontracting to Indian and other foreign BPO providers targeting after normal hours shifts. However, the oPt does not have a pricing competitive advantage with their neutral Arabic language compared to Jordan. The latter is providing 30% lower price points and has already developed linkages with Indian BPO providers subcontracting after normal working hours contact centre voice shifts. The value proposition is to talk Indian and foreign companies to diversify their locations to also include the oPt.
   b. ESO services in CAD drawings, interior design and Building Information Modelling ware identified as value proposition for Arab gulf market and Jordan. Channels to these markets include establishing a Diaspora captive market to serve their internal needs and subcontracting with Jordanian firms who have better access to markets. Consolidated Contractor Company (CCC) has developed its own BIM hub in Ramallah and engaged with local universities to provide BIM courses. These companies are also located in the Arab gulf market. The other growth channel is to subcontract to Jordanian countries lured with lower attrition rates.
2. European countries and North America are the largest market for BPO and ESO service. Compared to the Arab gulf market, these geographies can appreciate the price points of the oPt as they can realize higher cost saving compared to the salary structures in their own countries. These geographies offer language compatibility in English and some require Arabic language support. They are also more open to offshoring than the Arab gulf region. For this market the following low-value BPO services can be targeted:
3. US, UK and German markets. Recommended BPO business engagements are:
   a. Contact Centres can offer low-value voice services offering such as customer service inquiries, order fulfilment, initial complaint handling, inbound and outbound sales, account inquiries and loyalty programs).
   b. Contact Centres can also upgrade their services to include back office data entry, digitization and social media services markets are also large in these markets.
   c. Due to very limited international experience, Palestinian companies can start with market entry based on low-value FAA / HR services in the following services: general accounting; accounts receivables, collection and payments and fixed asset accounting
4. Netherlands and France markets. Recommended BPO business model is:

   a. Provide low-value BPO services where the markets are large for back office data entry, digitization and social media and language skills required for these services are limited.
   b. Low-value of FAA services can also be provided since it requires limited language skills and markets are large for them.
5. ESO services to these markets are more challenging to sell and no particular construction and architecture services has been identified as part of this research that can meet the requirement of buyers located in these geographies. The only opportunity remains is to cater to Diaspora groups and companies living in these countries such as the CCC with its headquarters located in Greece.

DOMESTIC MARKET

Overall, the domestic market for the FAA/HR BPO industry is negligible since neither the supply not demand have reached a maturity level similar to the large markets in North America and Europe.

Opportunities for contact centre services for voice and non-voice was identified in different sectors such as

1. Government: low-value BPO services such as customer service inquiries, order fulfilment and initial complaint handling to be ideal as market entry opportunities.
2. Banking for outbound voice marketing campaigns and non-voice digitization and data entry to update client records. Furthermore, contact centres can apply software as a service to help these banks in setting up their inbound call centre operations. Insurance companies can value an outbound marketing campaign since this is a very competitive sector.
3. Email and live web chat support for these companies connected with social media for the tourism and hospitality sector targeting free independent travellers

Engineering services are predominantly required in the construction and infrastructure sector where buyers are characterized as individuals, private and public sector for new building and infrastructure construction and maintenance. Value of construction contracts can vary from small to large contracts. However, these are not necessarily the same type of ESO services demanded by the international buyers.

PMDP research has identified many constraints that are inhibiting BPO and ESO segments from growing. These constraints exist on many levels the supporting functions of the market system, its rules and in the relationship between the suppliers and the buyers.

As per the global industry criteria for country-level ranking for service location countries, the following constraints in the oPt requires addressing in relation to what other countries are offering:

Country Branding	**Access to Finance**
1. Indexing the country. Indexing has helped companies to do business and also helped in getting multinationals in launching their captive centre operations at these locations	1. Attract FDI. Also, encourage new company formation by accessing investments. The number of BPO companies is small; need to create a critical mass of capable outsourcing companies able to attract international contracts. 2. Financial products BPO/ESO exports
Access to Markets	**Government Reforms**

1. Integration with the global BPO and ESO markets and value chains on national level promotion 2. Travel restrictions **Country Infrastructure** 1. The oPt infrastructure is not in par with global and regional country offering e.g. business parks that houses more than 100 companies including multinationals; co-working spaces and telecommunication advancement. 2. Money bank transfer and e-payment gateways as well supporting laws 3. High input cost for utilities and office space. Intermittent supply of electricity in Gaza based on 8 hours shift	1. Reforms: Ease of doing business; telecom for lower prices and quality services; Investment incentives, Improve doing business in the oPt, upgrade education system and training; education and training as well as long-term government funds for subsidizing training of BPO employees, digital and data privacy laws 2. Stakeholders' coordination and aggregation. The establishment of an Outsourcing Association can be a strategic direction or establishing a local chapter for IAOP (International Association of Outsourcing Professionals) in the oPt is another strategic direction.

On the other hand, there are many firm-level constraints that hinder the BPO/ESO companies from growing. These constraints are internal to the companies such as their own capacity, their own investment capabilities in developing sales and marketing channels and improving their quality of their services. These constraints include:

Constraints	Contact Centres	FAA / HR	ESO
Limited Sales and Marketing Capacity	☐	☐	☐
Limited access to market information	☐	☐	☐
Clear Value Proposition that can Compete Globally and in which markets	☐	☐	☐
Lack of export knowledge and channels to markets	☐	☐	☐
Inability to reach economies of scale by securing commercial trade contacts	☐	☐	☐
Can meet the reliability and quality service required by international markets for low-tier buyers	☐	☐	☐
Meets specialized industry knowledge	☐ Not for High Value	☐ Not for High Value	☐ Not for High Value
Currently meet the quality certification required by international buyers	☐ Not all	☐	☐ BIM only
Companies are able to integrate with global value chains and multinational BPO operations	☐	☐	☐

Based on the analysis of various opportunities, the suggested engagements plan for Palestine ESO/BPO companies is depicted in the table below:

Area	Approach
Domestic Market	For the domestic ICT market of Palestine. 1. Improve local market through better stakeholder coordination and advocacy to develop and improve the industry 2. Support the government to roll-out the e-government initiative, services and application 3. Improve the supply side by upgrading the value proposition in outbound voice services, digitization and social media 4. Improve the regulation on the accounting, administration and human resource services to improve the quality of service in the local market 5. Improve Access to Finance Programs for better investment opportunities

Area	Approach
	6. Improve situation of Gaza companies 7. Attract Diaspora and multinational to develop captive centres
MENA Region	For ESO companies, the MENA region can be accessed in the following channels: 1. Through Local Partners 2. Through Diaspora companies establishing engineering captive centres 3. Sub-Contracting ESO to Jordanian companies 4. Sub-Contracting Contact centres to Indian BPO companies 5. Advisory sourcing companies Direct marketing is the best approach but also the toughest to pursue. It takes a longer time. In this approach Palestinian companies are pitted directly against local and regional companies that are larger and more formidable.
US, UK and European Continental Countries	These are the most open markets globally and present an opportunity to Palestinian companies large and small in almost all niches that Palestinian BPO companies want to target. Being open markets, these can be easily targeted. But then the competition is also extreme. The approach is to target high tier micro work projects and / or low-value BPO works as market entry strategy. Since the oPt is still an unknown BPO destination, this strategy is ideal to build experience and capability, which many Palestinian companies lack especially in the non-voice BPO space. For BPO companies, these countries can be accessed in following channels: 1. Through Local Partners and representatives 2. Through Advisory Sourcing companies 3. Sub-Contracting 4. Impact Sourcing Initiatives 5. Direct Sales

There is no one single vertical market for the Palestinian ESO/BPO companies to target, but rather road construction, oil and gas, telecommunication, financial and banking and construction firm are all potential markets. As service providers mature, specialisation and specific industry expertise will present the opportunity to distinguish Palestinian ESO and BPO from competitors. Likewise, Palestinian ESO and BPO suppliers would have a better fit with smaller customers based on quality and specialisation developed in personal relationship with clients or with larger customers based on staff augmentation model to access a talent pool.