BUSINESS SERVICES SECTOR IN POLAND 2015

ABSL

Report prepared by
the Association of Business Service Leaders (ABSL)

in cooperation with:
ANTAL International, Baker & McKenzie, Everest Group, JLL

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Executive Summary

The chief editor of this report has set me a clear task: the foreword should fit within three paragraphs! But how can I describe all the business services sector successes in Poland with only a few sentences? How to present the enormous growth we are now witnessing? Over 20 thousand new jobs have been created in this area in the last 12 months. If I wanted to list all the new centers and brands which have appeared on the market, I would cover half a page. Where should I describe all the initiatives undertaken by ABSL to develop this sector? The "Get Real" campaign, the ABSL Academy, the activities of HR, IT and BIFS Clubs or Poland Business Run would require a whole chapter. But there are also the ABSL Regional Chapters which operate dynamically in the seven largest cities. I would be short of space to describe all the favorable reviews of our country and sector written by independent international experts and analysts. Three paragraphs will not be enough to fit the description of our field's increasing professionalism and the abrupt change that is taking place if we take advanced, knowledge-based services into account. Certainly, there is not enough space to describe the increasing influence of the sector on our country's economy, in particular to the labor market.

Thus, I will limit myself to one statement: the Polish economy is based on business services! And I invite you to read the report.

Marek Grodziński
Vice President Business Insights, ABSL
& Head of European Delivery Centers, Capgemini BPO

Chapter content provider: **ABSL**

1 | Profile of the business services sector in Poland

With each year, Poland has been strengthening its presence on the global map of business services. The country has permanently set its foot in the cross-border network of business connections in the area of offshoring services, which at the same time are the source of competitive advantage for transnational corporations and affect their development potential. This was possible thanks to investors who recognize Poland as a stable and reliable place of business. This chapter describes the most important characteristics of the business services sector in Poland.

Key information

Employment in the business services sector in Poland systematically increases[1]. During the last two years, the number of employees in service centers with foreign capital has increased by over 1/3, from 110,000 to 150,000 employees[2]. In the last 12 months (since April 2014) 22 000 new jobs have been added. In Poland, there are currently 532 service centers with foreign capital[3] belonging to 356 investors. Considering recent developments in the industry, it can be calculated that by 2020, foreign business service centers in Poland will have employed at least 250,000 people.

146

the number of companies that took part in this year's ABSL study

96,000

the number of people employed by respondents of the ABSL research in their service centers in Poland

About the Report

The purpose of this ABSL report is to provide a comprehensive profile of business service centers in Poland, including an overview of selected aspects of the office space market in the context of investors' needs, salaries in the sector, and the system of investment incentives. The publication also includes a chapter on trends and forecasts for business service centers on the global market. A broad definition of the industry has been adopted in the report, including the activity of: shared services centers (SSC), companies providing business process outsourcing (BPO) and IT outsourcing (ITO) as well as research and development centers (R&D). An important element related to the preparation of this publication was a survey directed to business service centers operating in Poland. The survey has been completed by 146 respondents representing investors from 20 countries and employing 96,000 people in their business service centers in Poland. The information obtained through the survey enhances the database on the sector and allows for generating aggregate statistical studies related to activities of the entities (thematic analysis).

I would like to thank all those who have dedicated their time to complete the survey or provide information used for the purposes of this publication.

Janusz Górecki
Head of Research, ABSL

[1] Any figures on employment and the number of business service centers presented in the report relate to the entities with foreign capital.

[2] Data current as of: April 30, 2015.

[3] Submissions in the publication are evaluated using a geographical criterion. The individual locations of business service centers are recognized as separate analytical units if they are in different localities (urban areas).

BPOs, ITOs, SSCs, R&Ds WITH FOREIGN CAPITAL IN POLAND (2015)

150,000

employment in business service centers with foreign capital

532

the number of business service centers with foreign capital

356

the number of foreign investors

36%

employment growth in the sector during the last two years (from April 30, 2013 to April 30, 2015)

285

average number of employees in business service centers in Poland

60

the number of newly opened business service centers since the beginning of 2014

250,000

projected employment in the sector by the year 2020

Figure 1
BPOs, ITOs, SSCs, R&Ds with foreign capital in Poland (2015) (1)
Source: ABSL own study, data as of: April 30, 2015

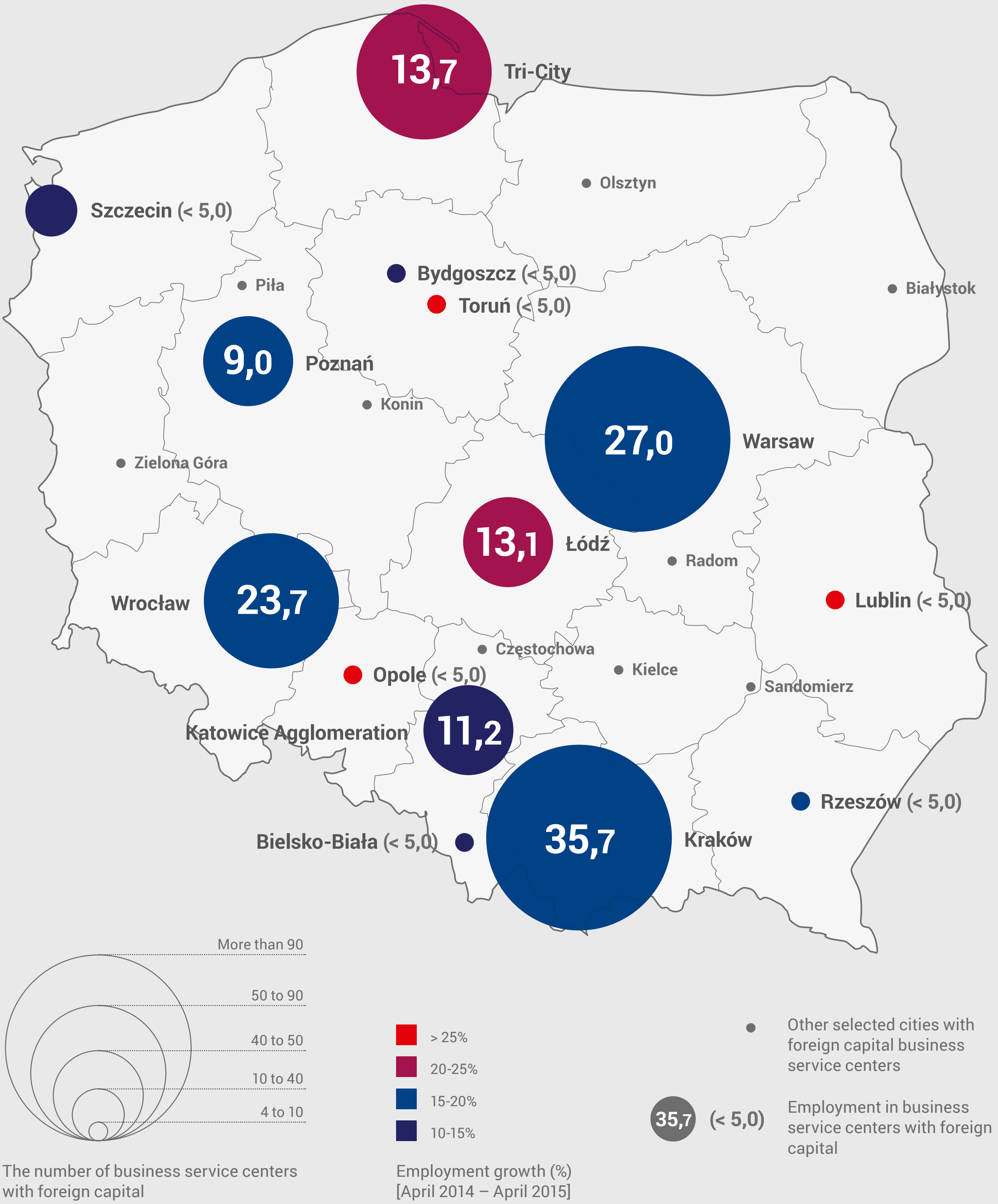


Figure 2
Major business service locations in Poland (2015): the number of business service centers with foreign capital, employment, and change over time
Source: ABSL own study

Development of the business services sector in Poland

In April 2015, there were 532 business service centers with foreign capital in Poland, belonging to 356 investors. It means that from the beginning of 2014 until the end of April 2014 there were 60 newly opened service centers (48 in 2014 and another 12 in the first few months of 2015). Most of them belong to companies that previously had not conducted such activities in Poland. It can be estimated that so far these investments have generated about 20% of new (2014-2015) jobs. Entities that started to operate their services before 2014 account for the dominant share in employment growth (80%).

In the 10 largest business service locations[4] (Kraków, Warsaw, Wrocław, Gdańsk, Łódź, the Katowice Agglomeration, Poznań, Bydgoszcz, Szczecin, Lublin) there are a total of 95% of employees in business service centers with foreign capital in Poland. The biggest employment is concentrated in Kraków, where foreign business service centers employ 35,700 employees, representing 24% of the total employees [of the centers] in Poland. In general, share of the most important business service locations in the employment structure has not significantly changed in recent years.

Over the last two years, since April 2013, employment in the sector in each of the 10 largest business service locations has increased by at least 25%. During this period, the biggest increase was recorded in Lublin and Bydgoszcz, where it exceeded 50%. An increase in the number of jobs

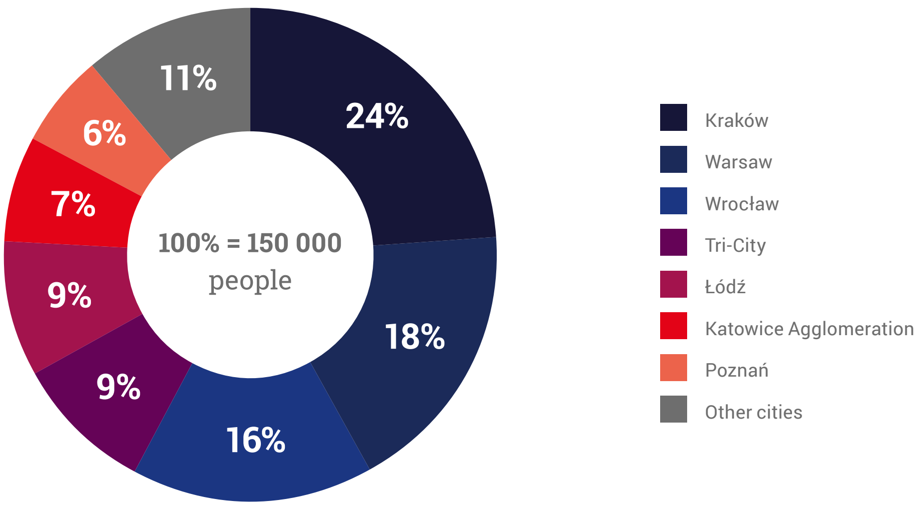


Figure 3
Share of individual business service locations in overall employment in foreign business service centers in Poland (2015)
Source: ABSL own study

[4] It should be noted that the unit of analysis in the report are metropolitan areas. For example: Kraków is analyzed together with the suburb of Zabierzów, and Tri-City as Gdańsk, Gdynia and Sopot. The submissions for the Katowice Agglomeration in various combinations consist of data on service centers operating in: Katowice, Gliwice, Sosnowiec, Ruda Śląska, Dąbrowa Górnicza, and Tychy.

of around 40% has been recorded in the Katowice Agglomeration, Kraków, Łódź, Poznań and Tri-City. It is also worth noting that some of the other smaller cities are becoming more and more noticeable on the Polish map of business services. In the past two years the following business service locations with foreign capital have recorded significant increases in employment: Opole, Rzeszów, Toruń, Piła and Olsztyn.

During the period from April 2014 to April 2015, in the group of the 10 largest business service locations, the following cities have emerged as leaders in employment growth (%): Lublin, Tri-City and Łódź. During that period, the largest number of new jobs in the sector was created in Kraków (5,000) and Warsaw, Wrocław, Tri-City and Łódź.

Until 2002 (inclusive), there were 60 business service centers with foreign capital established in Poland. In 2007, there were over 200 centers and in 2010, 300 centers. In 2012, the number increased to over 400 of such entities. In the second half of 2014, more than 500 centers operated. It can be assumed that in 2016 the number of business service centers with foreign capital in Poland will grow to more than 600.

Over **100,000** people

employment increase in business service centers with foreign capital in Poland since 2009

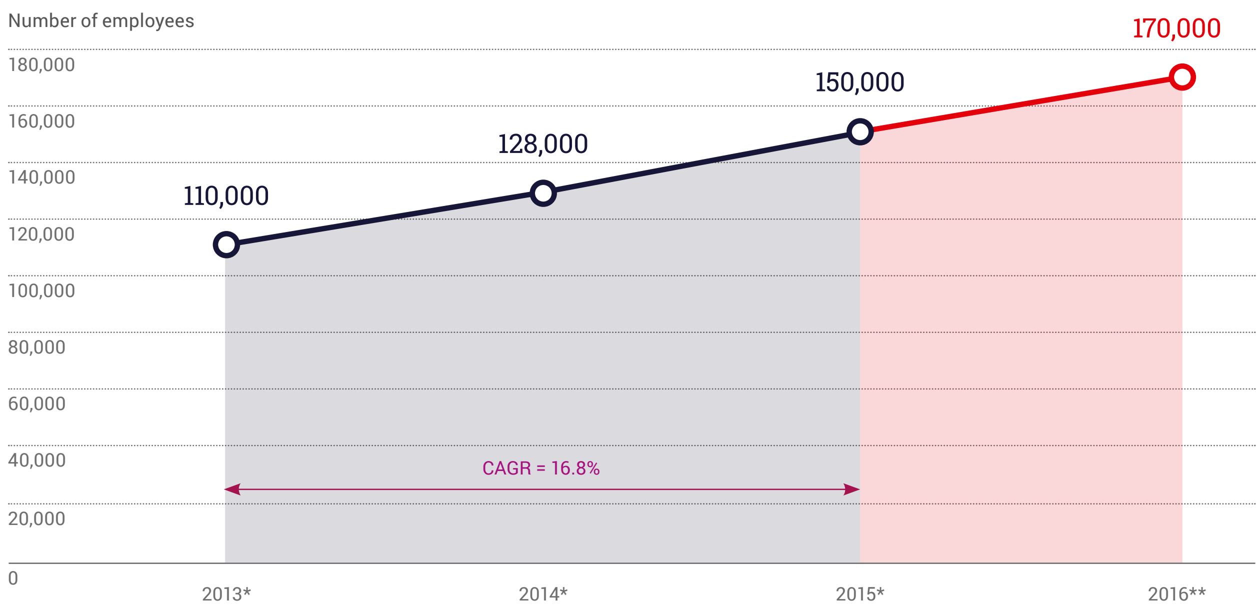


Figure 4
Employment growth in business service centers with foreign capital in Poland
Source: ABSL own study
* data as of: April 30, 2013, 2014, 2015
** forecast: April 30, 2016

The year 2012 was a record year in terms of numbers of newly created business service centers with foreign capital in Poland: 61 centers opened that year. Most of the service centers that started operations in the years 2014-2015 opened in Tri-City (15) and Kraków (13).

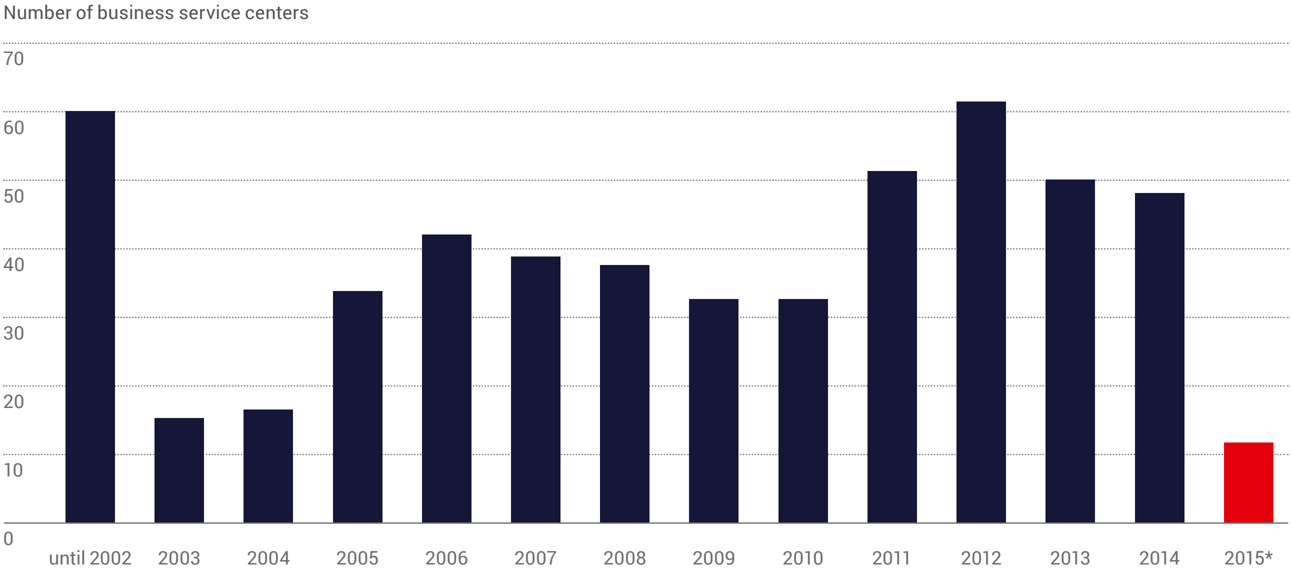


Figure 5
Number of newly opened service centers with foreign capital in Poland by years
Source: ABSL own study
* data as of April 30, 2015

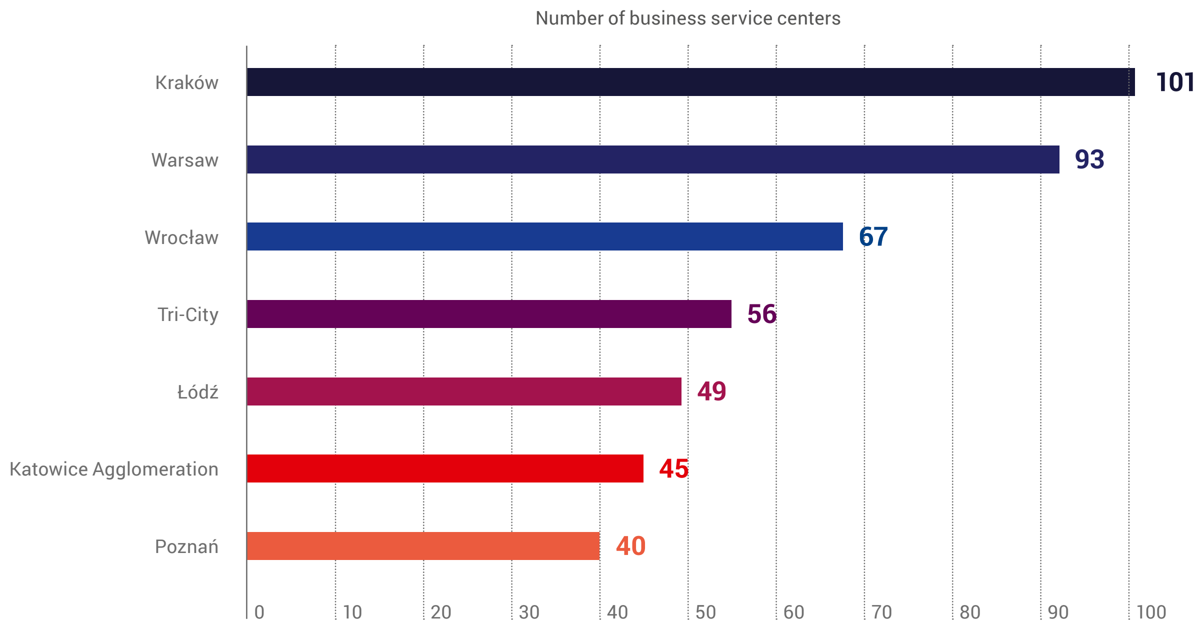


Figure 6
Number of service centers with foreign capital in selected business service locations in Poland
Source: ABSL own study

Szczecin

INVEST
in Szczecin
www.invest.szczecin.eu

Szczecin_good location for your business

ʃtʃɛ'tʃin 2050 floating garden project

Table 1
Examples of new investments in selected business service locations in Poland (2014-2015)

City	Companies
Tri-City	Alexander Mann Solutions, EPAM Systems, MOL, PwC, Schibsted Tech, Staples, ThyssenKrupp, Unifeeder
Kraków	ALK-Abello, FedEx, Getinge Group, Grid Dynamics, IAG Dassault Systems, Lundbeck
Wrocław	Acturis, Axiom Law, Fresenius Kabi, Fresenius Medical Care, Medserv, SoftServe, Toyota
Łódź	McCormick, Oberthur Technologies, Sanitec, UPS
Katowice Agglomeration	General Motors, PERFORM, Sii, SMS Metallurgy, Teleperformance
Poznań	Mars, Owens-Illinois, Polaris Laboratories
Warsaw	MoneyGram, TNT Express

Source: ABSL own study

In Poland, business service centers with foreign capital on average employ 285 employees[5]. This value increases year to year (by 34 people from April 2013). The average self-declared target level of employment in the newly opened centers (2014-2015) is lower and in the range of 150-200 employees. It is worth noting that in many cases an increase in employment was often larger than had been assumed originally by investors.

In Poland, there are 30 service centers employing at least 1,000 employees (close to 6% of the total number of centers with foreign capital). Together they employ more than 55,000 people, representing 37% of the total employment in the sector.

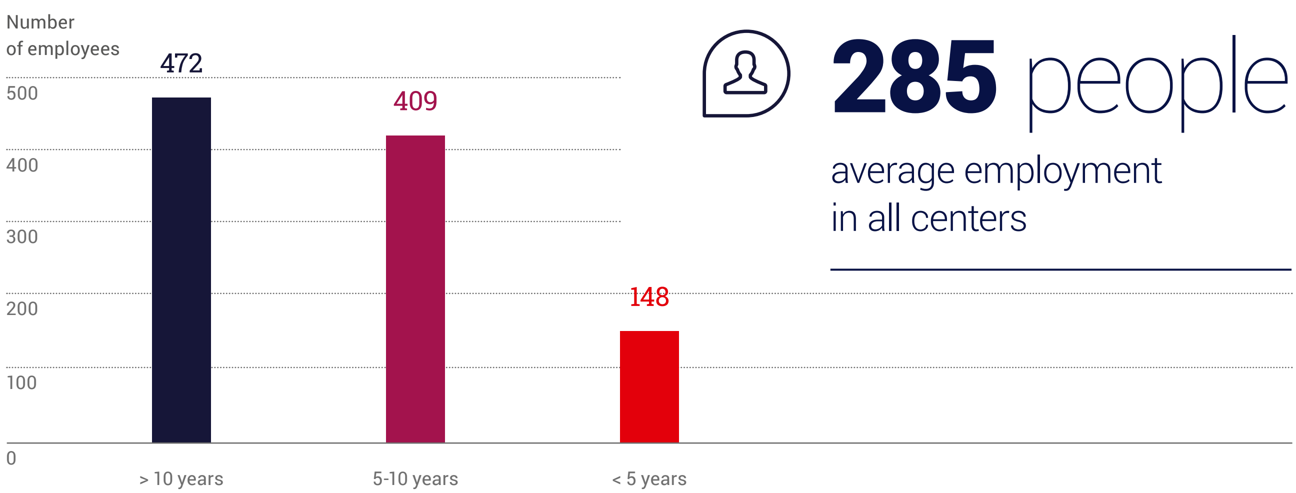


Figure 7
Average employment in service centers by period of operation
Source: ABSL own study based on service centers database

[5] The median value is 140 people.

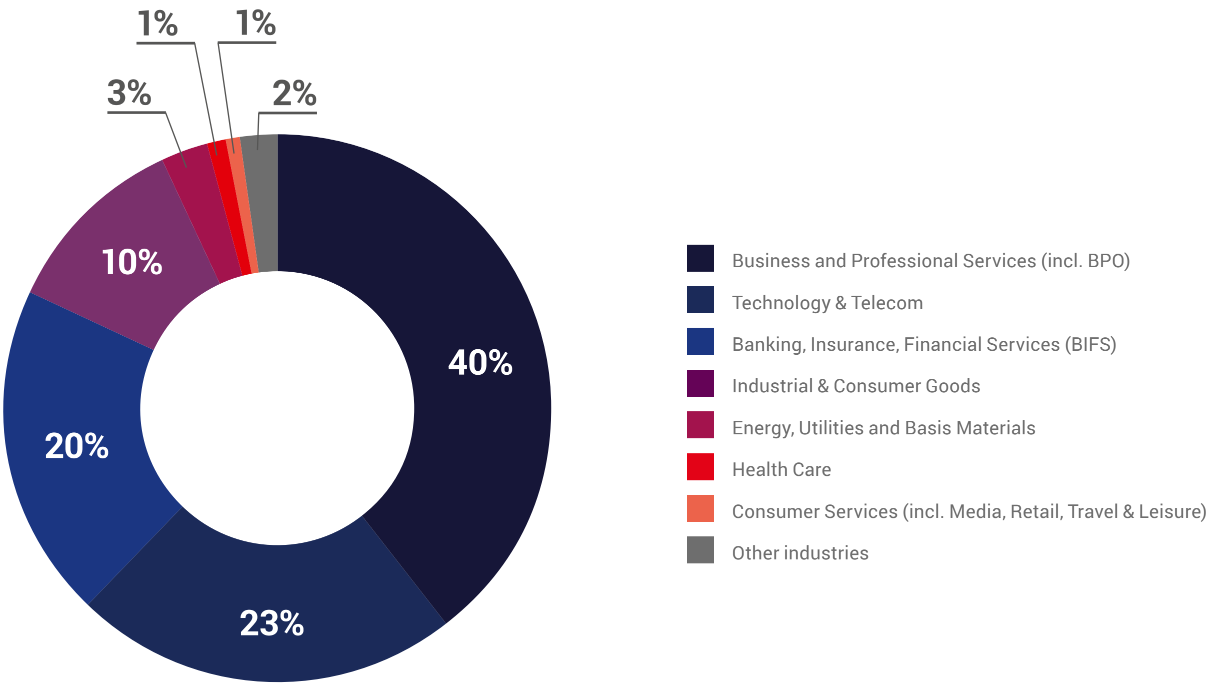


Figure 8
Structure of employment in service centers by industries of their parent companies
Source: ABSL own study based on survey addressed to service centers (N=146 companies employing 95,791 employees)

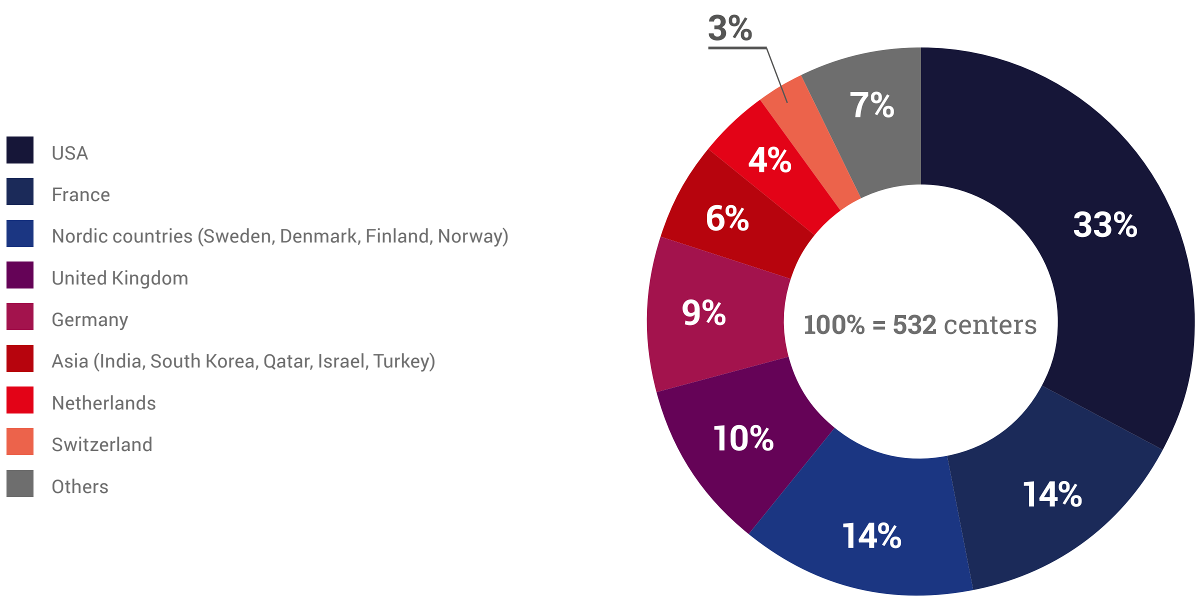


Figure 9
Structure of business service centers with foreign capital by parent company headquarter location
Source: ABSL own study based on service centers database

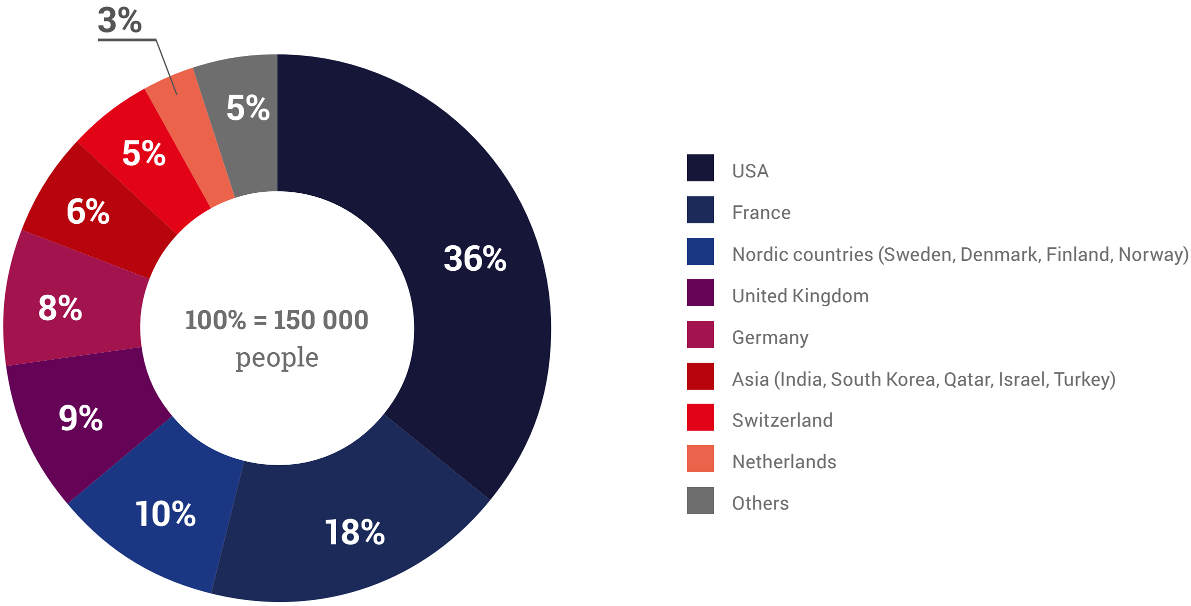


Figure 10
Employment in business service centers with foreign capital by parent company headquarter location
Source: ABSL own study based on service centers database

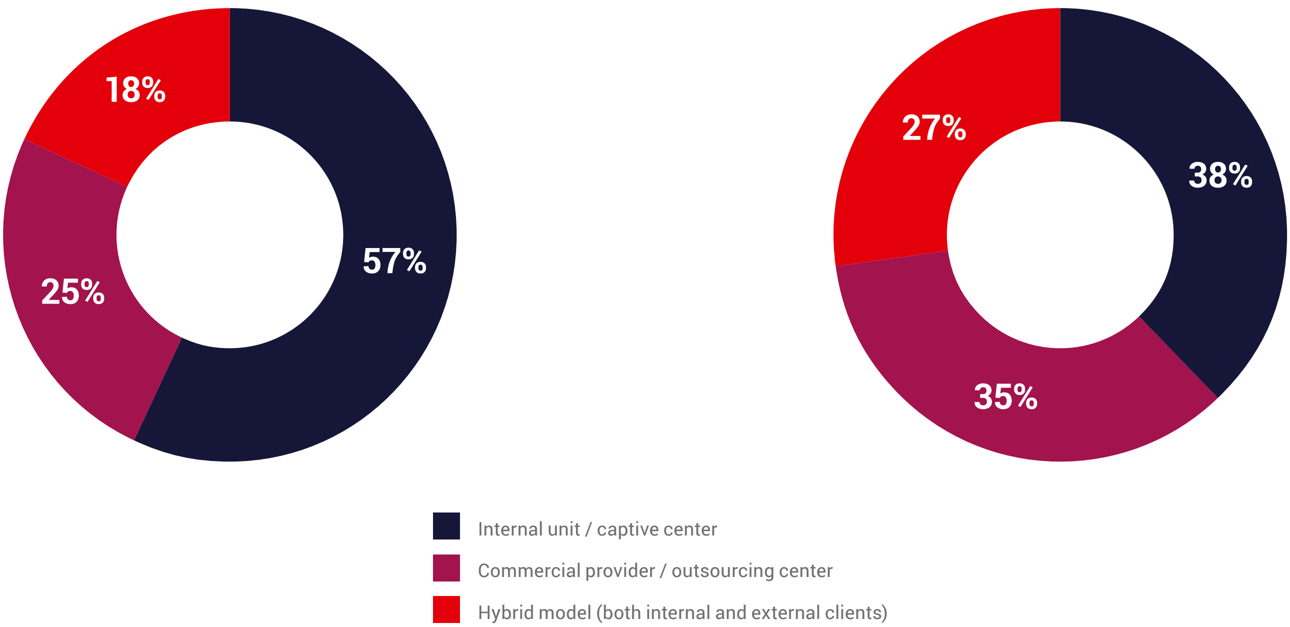


Figure 11
The organizational structure of service centers
Source: ABSL own study based on survey addressed to service centers (N=146 companies)

Figure 12
Employment in service centers by organizational model of companies
Source: ABSL own study based on survey addressed to service centers (N=146 companies employing 95,791 employees)

BPOs, ITOs, SSCs, R&Ds WITH FOREIGN CAPITAL IN POLAND (2015)

48%

share of centers providing services to companies in the financial sector (BIFS)

36%

share of centers from the USA in the structure of employment of business service centers with foreign capital

33%

share of employees providing IT services (including software development) at total employment in business service centers with foreign capital in Poland

30

number of business service centers in Poland employing over 1,000 employees

40

number of locations in Poland with foreign capital business service centers

70

number of companies in the Fortune Global 500 list, which have business service centers in Poland

Figure 13
BPOs, ITOs, SSCs, R&Ds with foreign capital in Poland (2015) (2)
Source: ABSL own study

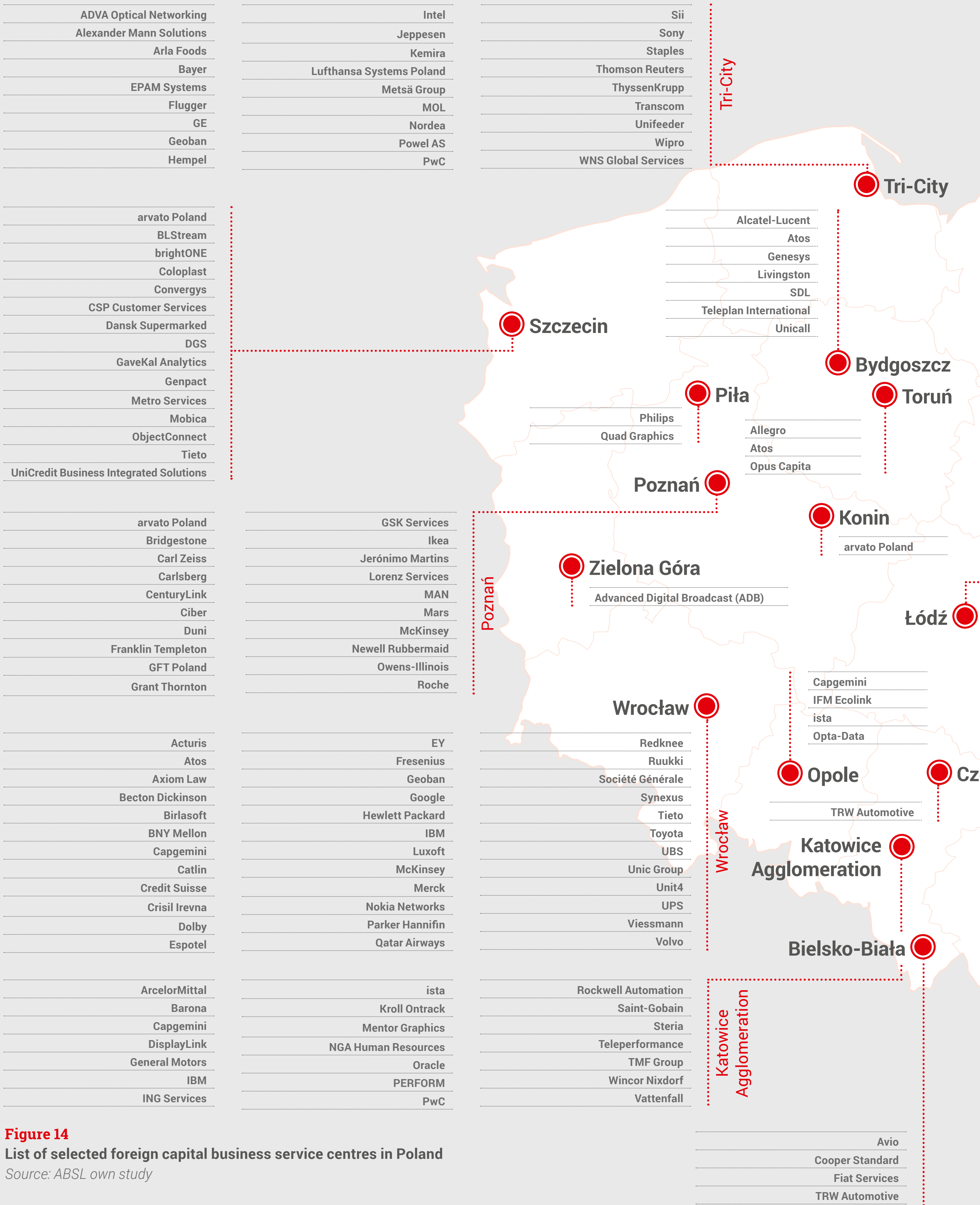


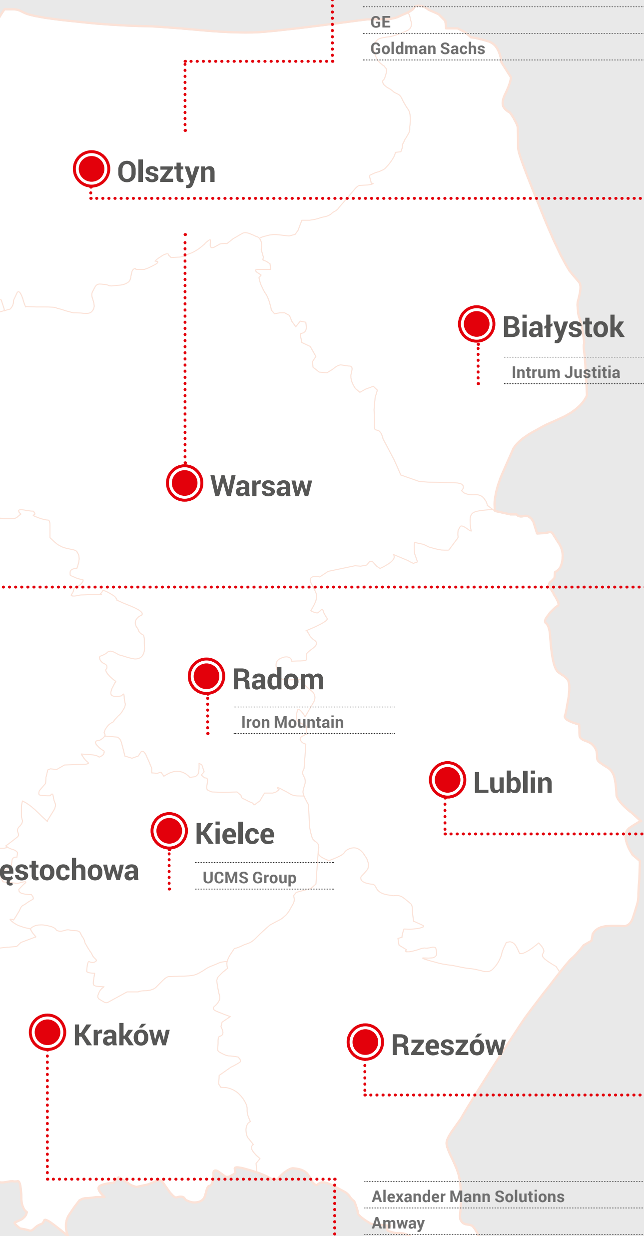
Figure 14

List of selected foreign capital business service centres in Poland

Source: ABSL own study

Warsaw

Accenture	HP (Applications Services Global Delivery)	Roche
AVON	Linklaters	Royal Bank of Scotland (RBS)
BioMérieux	Lionbridge	Samsung
BNP Paribas	Jones Lang LaSalle	Schneider Electric
CBRE	Mercer	Siemens
Citi Service Center	Mettler-Toledo	Sii
Coca Cola	MoneyGram	Technicolor
Colgate Palmolive	Orange	Teleperformance
Contract Administration	Oriflame	TMF Group
Danone	PANDORA	TNT Express
GE	Procter & Gamble	Wipro
Goldman Sachs	ProService AT	Xerox Business Services



Olsztyn

Citi Service Center
Transcom

Łódź

Accenture	McCormick
Atos	Mobica
BSH	Nordea
CERI International	Oberthur Technologies
Clariant	Philips
DHL Express	Sanitec
Fujitsu Technology Solutions	Takeda
GFT Poland	Tate & Lyle
HP	TomTom
Infosys	Veolia

Lublin

BLStream
Convergys
Genpact
Mobica
Orange
Sii
Trimetis AG

Rzeszów

BorgWarner
Hamilton Sundstrand
Mediq
Mobica
Nestlé
Pratt & Whitney
Unicall

Kraków

Alexander Mann Solutions	FedEx	Luxoft
Amway	GE Healthcare	MESP Central Europe
Aon Hewitt	Getinge Group	Motorola Solutions
Brown Brothers Harriman	HCL	Nokia Networks
Capgemini	Heineken	Philip Morris International
Capita	Herbalife	R.R. Donnelley
CH2M Hill	Hitachi Data Systems	Rolls-Royce
Cisco	HSBC	RWE
Delphi	IBM BTO	Sabre
Electrolux	International Paper	Shell
Euroclear	Lufthansa Global Business Services	State Street
Farnell element14	Lundbeck	UBS

Type and geographical range of services provided by business service centers

The structure of business services provided in the centers in Poland is quite diverse. Companies from the sector support a wide range of services to clients from around the world representing a variety of industries. The vast majority of entities provide services in the range of several categories of business processes.

Figure 15 presents the structure of employment in service centers, by categories of supported processes. A summary is based on the responses of companies employing a total of 89,149 people. The biggest share in the employment structure of the analyzed entities are characterized by IT services, which provides 1/3 of the employees. Finance and accounting generates 22% of employment, and the customer operations – 15%. A significant role in the employment structure play also – with 13% share – financial services (BIFS).

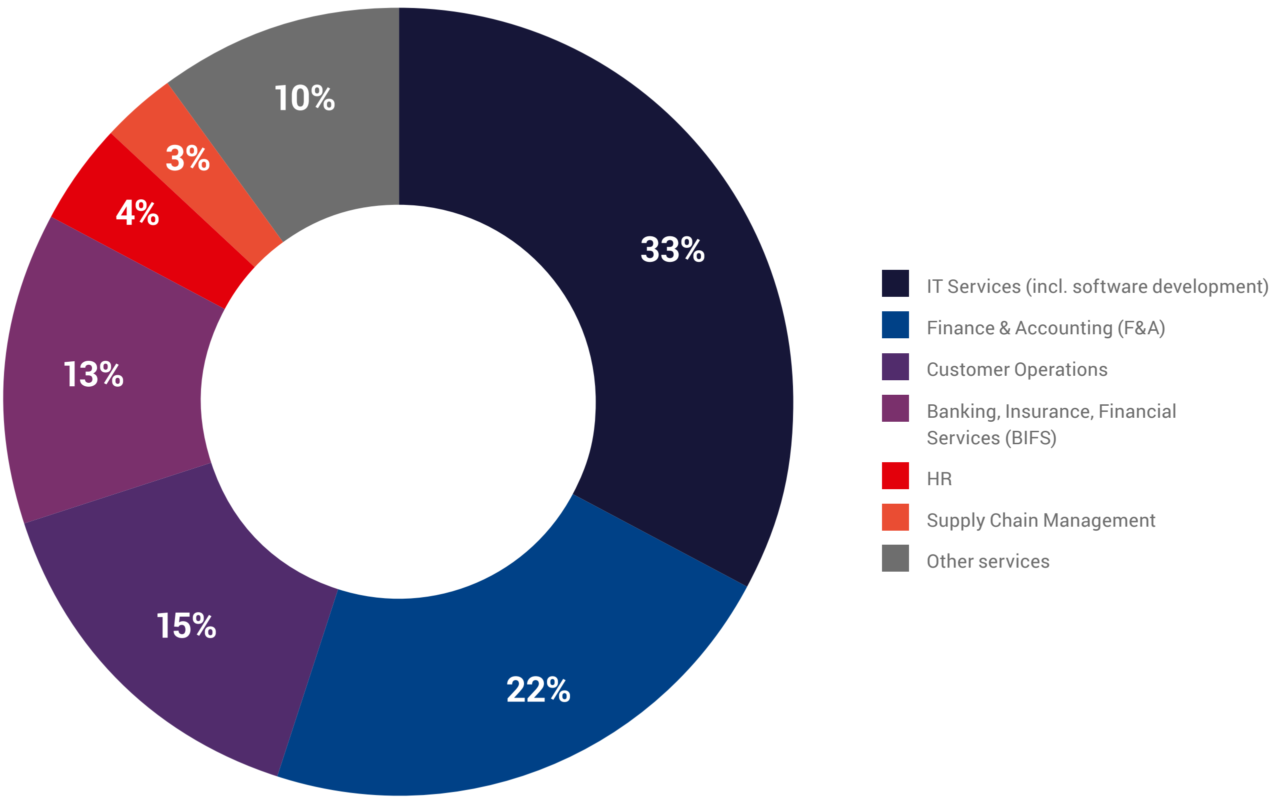


Figure 15
The structure of employment in business service centers by categories of supported processes
Source: ABSL own study based on survey addressed to service centers (N=135 companies employing 89,149 employees)

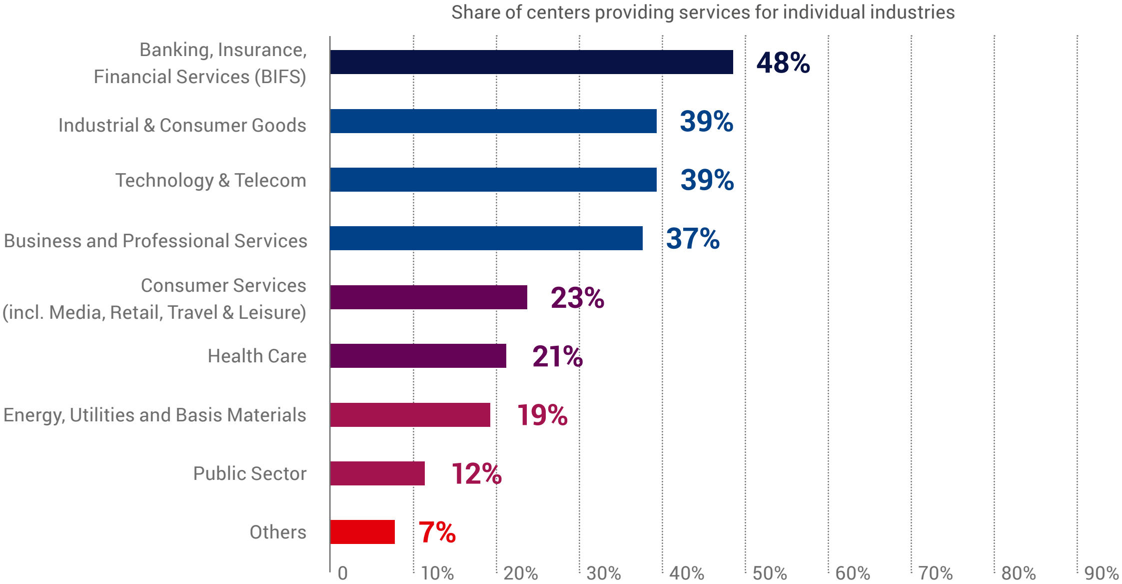


Figure 16
Industry structure of companies (external and internal clients) supported by business service centers in Poland
Source: ABSL own study based on survey addressed to service centers (N=145 companies)

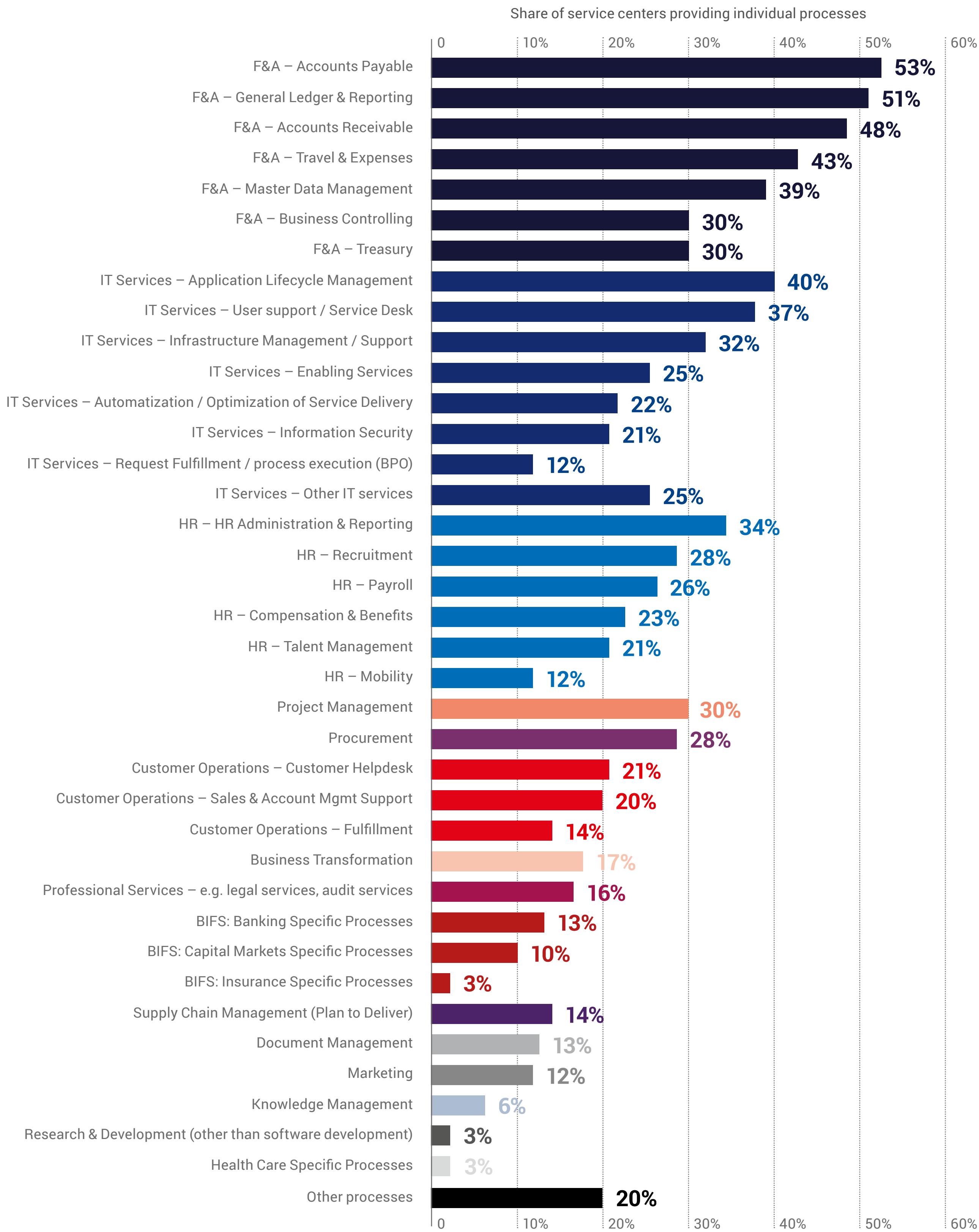


Figure 17

Categories of processes supported in business service centers in Poland

Source: ABSL own study based on survey addressed to service centers (N=145 companies)

39% of business service centers provide services globally, 54% to selected countries or regions in the world, and 7% to one country.

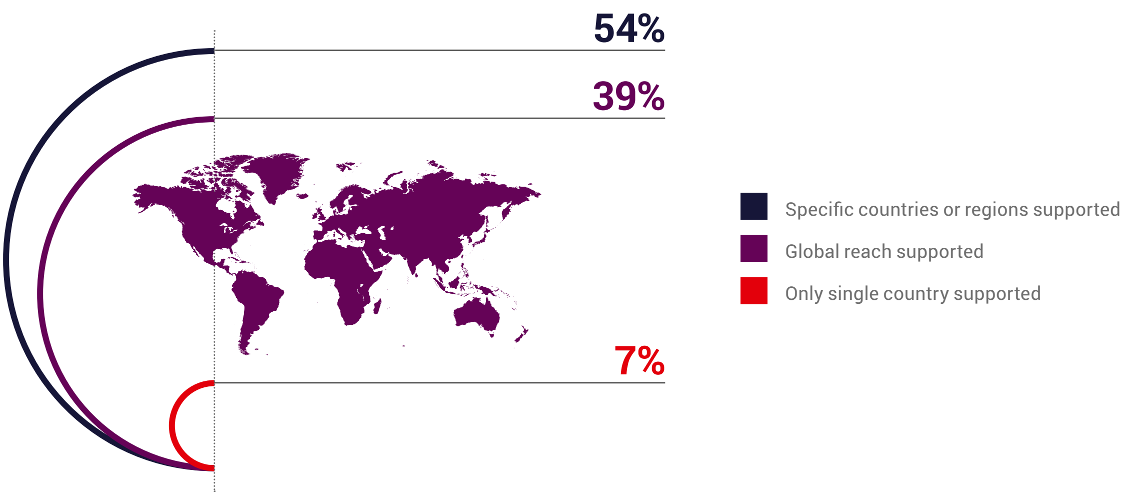


Figure 18
The geographical range of services provided by business service centers in Poland (1)
Source: ABSL own study based on survey addressed to service centers (N=145 companies)

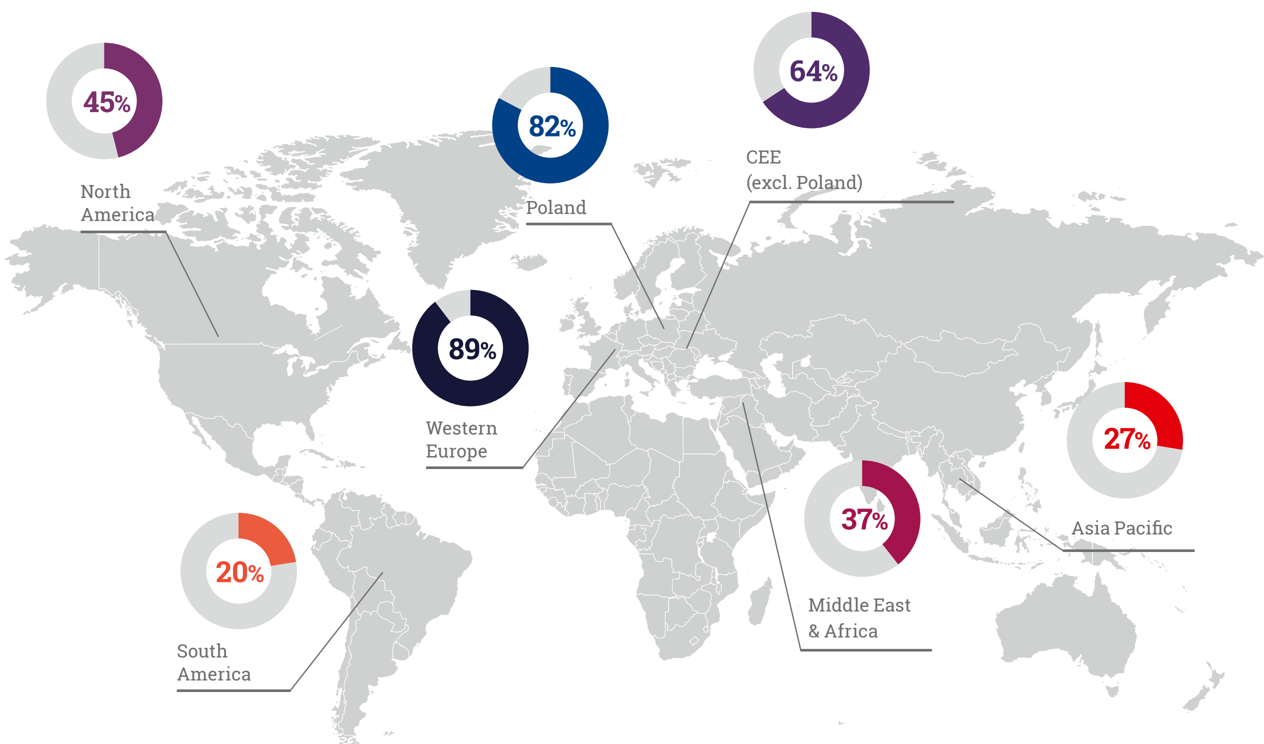


Figure 19
The geographical range of services provided by business service centers in Poland (2)
Source: ABSL own study based on survey addressed to service centers (N=145 companies)

Companies' plans relating to business activity

89%

of the surveyed companies in the past three years **have increased the range of provided processes** (80% of companies with fewer than 200 employees, 84% with 200-500 employees, and all companies that employ more than 500 employees).

89%

of the surveyed companies in the past three years **have increased the degree of sophistication of provided processes**: in 68% of companies, it has increased significantly, and in 21%, insignificantly. Advanced processes have increased in all companies employing more than 500 employees, in 84% of companies employing 200-500 employees, and in 79% of companies with the smallest number of employees (less than 200).

86%

of service centers **predict an increase in employment** through the end of 2016 on the average of 28%. The highest percentage of companies planning to increase employment occurs in centers employing more than 500 people (91%) and in entities operating in the hybrid model (95%).

Table 2
Forecast for employment by the end of 2016

	Percentage of companies that predict an increase in employment by the end of 2016	Averaged projected employment growth
Total	**86%**	**28%**
Company employs < 200 people	80%	32%
Company employs 200-500 people	86%	33%
Company employs > 500 people	91%	21%
Commercial provider / outsourcing center	86%	30%
Hybrid model (internal and external clients)	95%	22%
Entity operating for a parent company / shared service center	83%	30%

Source: ABSL own study based on survey addressed to service centers (N=112 companies)

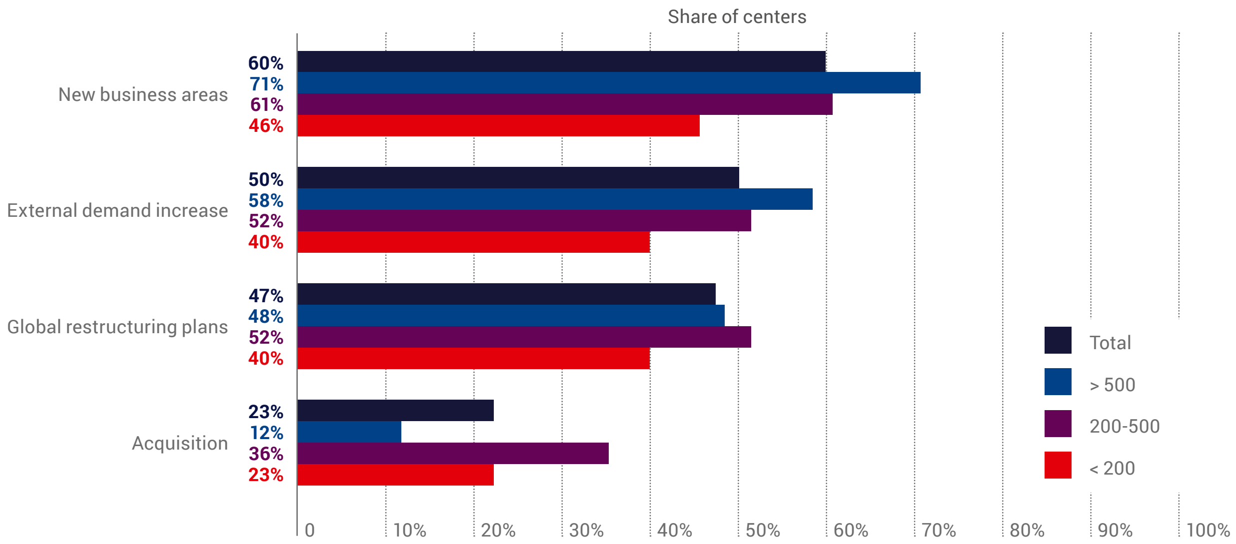


Figure 20

Key drivers for employment growth in companies by employment range

Source: ABSL own study based on survey addressed to service centers (N=142 companies)

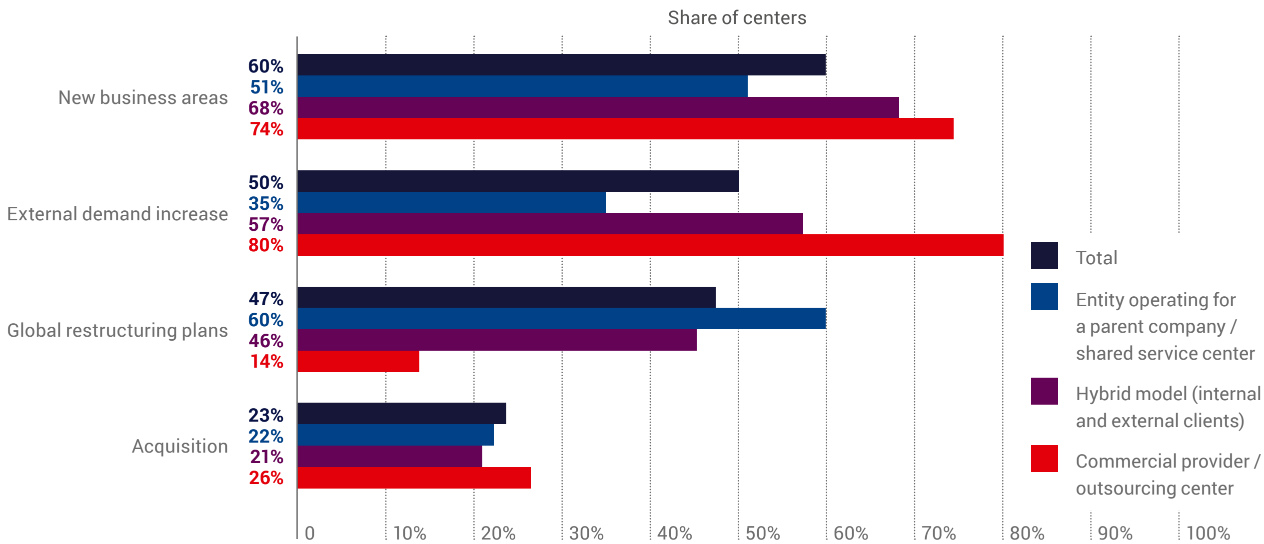


Figure 21

Key drivers for employment growth in companies, by organizational model

Source: ABSL own study based on survey addressed to service centers (N=142 companies)

82% of business service centers plan to expand their business activities over the next two years. The more people employed in a service center, the higher the likelihood the center plans to increase its activity: such plans have been voiced by 70% of companies with fewer than 200 employees, 83% of companies with 200-500 employees, and 92% of companies employing over 500 people. Business expansion has been planned (the largest percentage) by commercial providers / outsourcing centers (92%), followed by centers operating in the hybrid model (85%). The smallest percentage of companies planning expansion is among centers which are entities operating for a parent company / shared service center (77%).

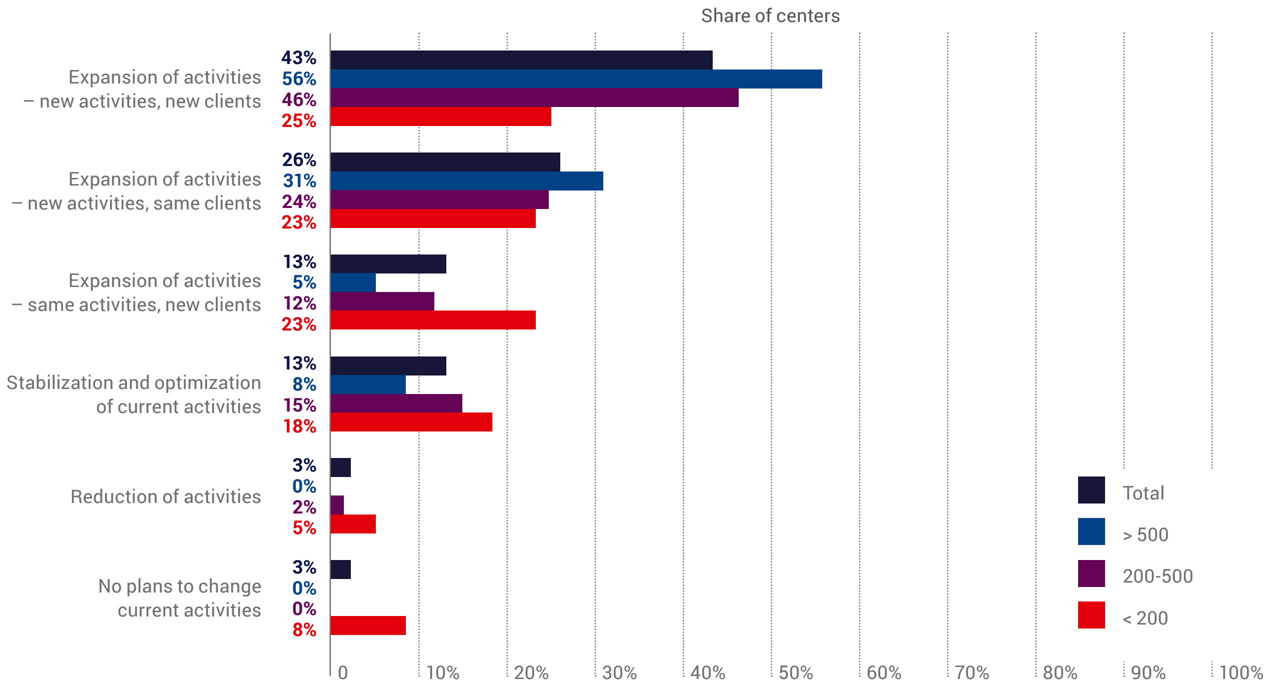


Figure 22

Plans for expansion of business activities by employment range*

Source: ABSL own study based on survey addressed to service centers (N=120 companies)

* during the next two years

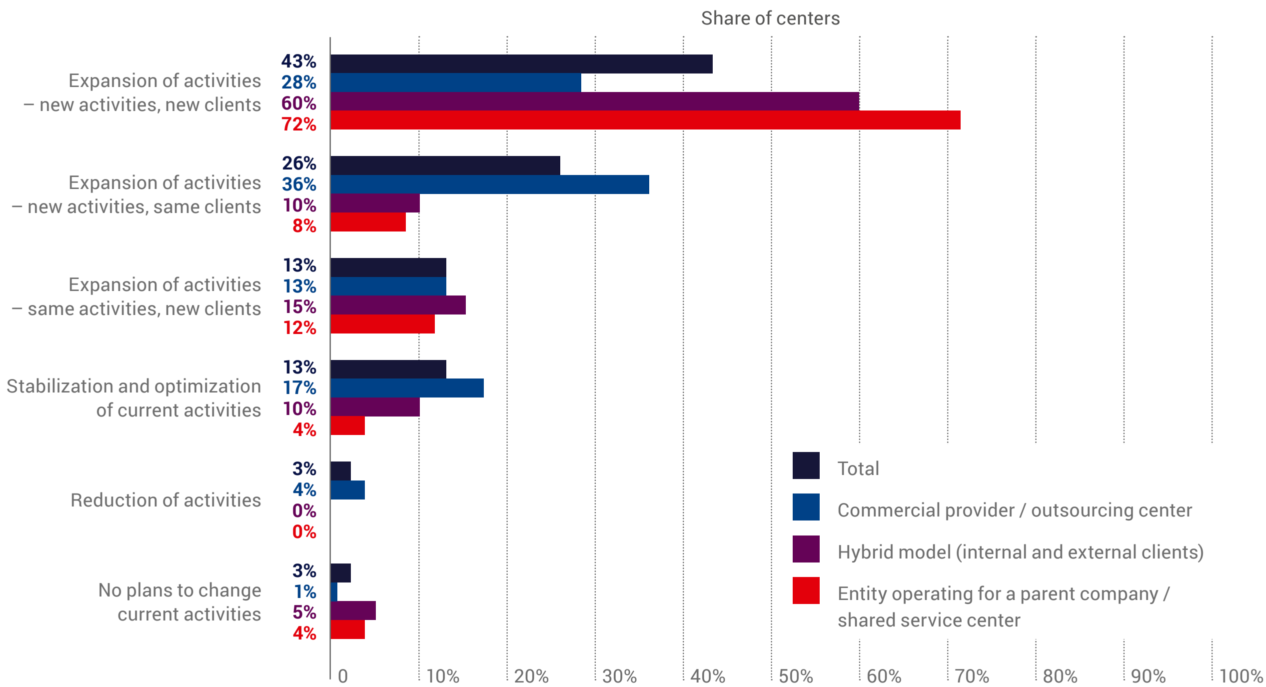


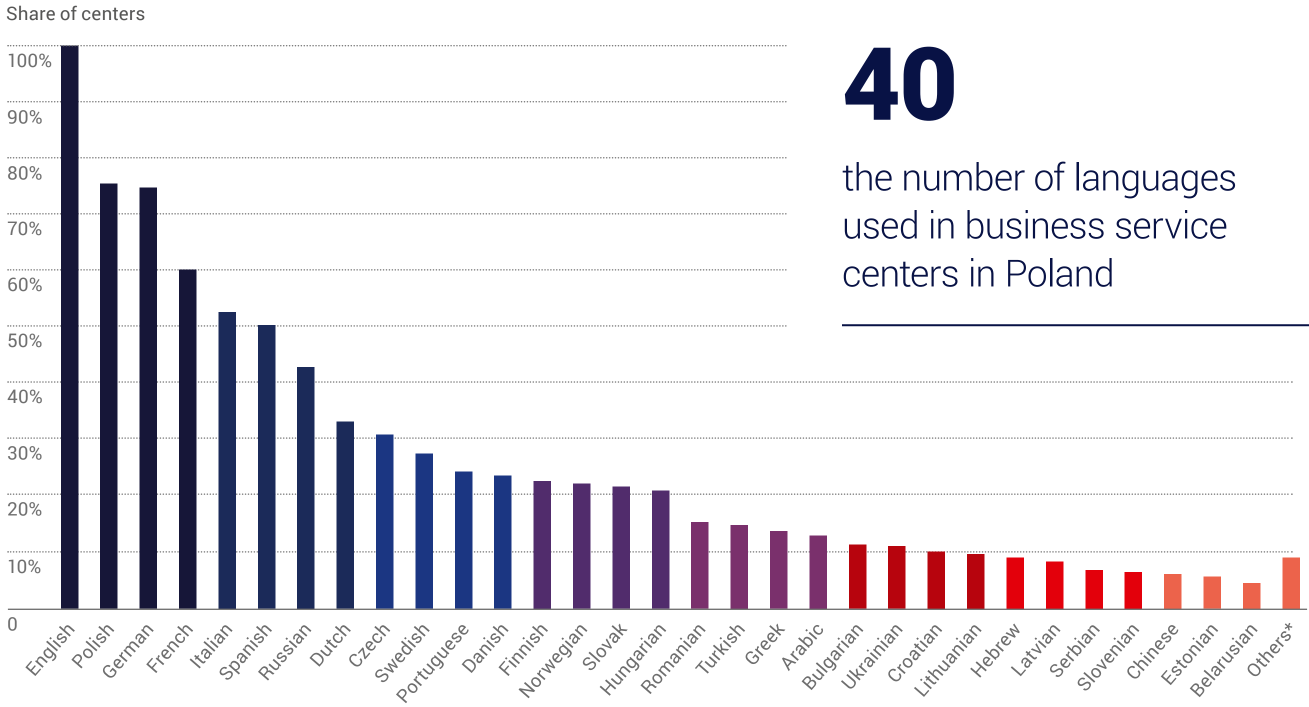
Figure 23

Plans for expansion of business activities by organizational model*

Source: ABSL own study based on survey addressed to service centers (N=120 companies)

* during the next two years

Other characteristics of the industry



40

the number of languages used in business service centers in Poland

Figure 24

Languages used in business service centers

Source: ABSL own study based on survey addressed to service centers (N=145 companies)

* Japanese, Korean, Hindi, Swahili, Urdu, Vietnamese, Armenian, and Flemish

31

the largest number of languages used in one service center

8

average number of languages used in service centers

37%

of service centers use at least **10 languages**

58%

of service centers use at least **5 languages**

81%

of business service centers employ foreigners

56%

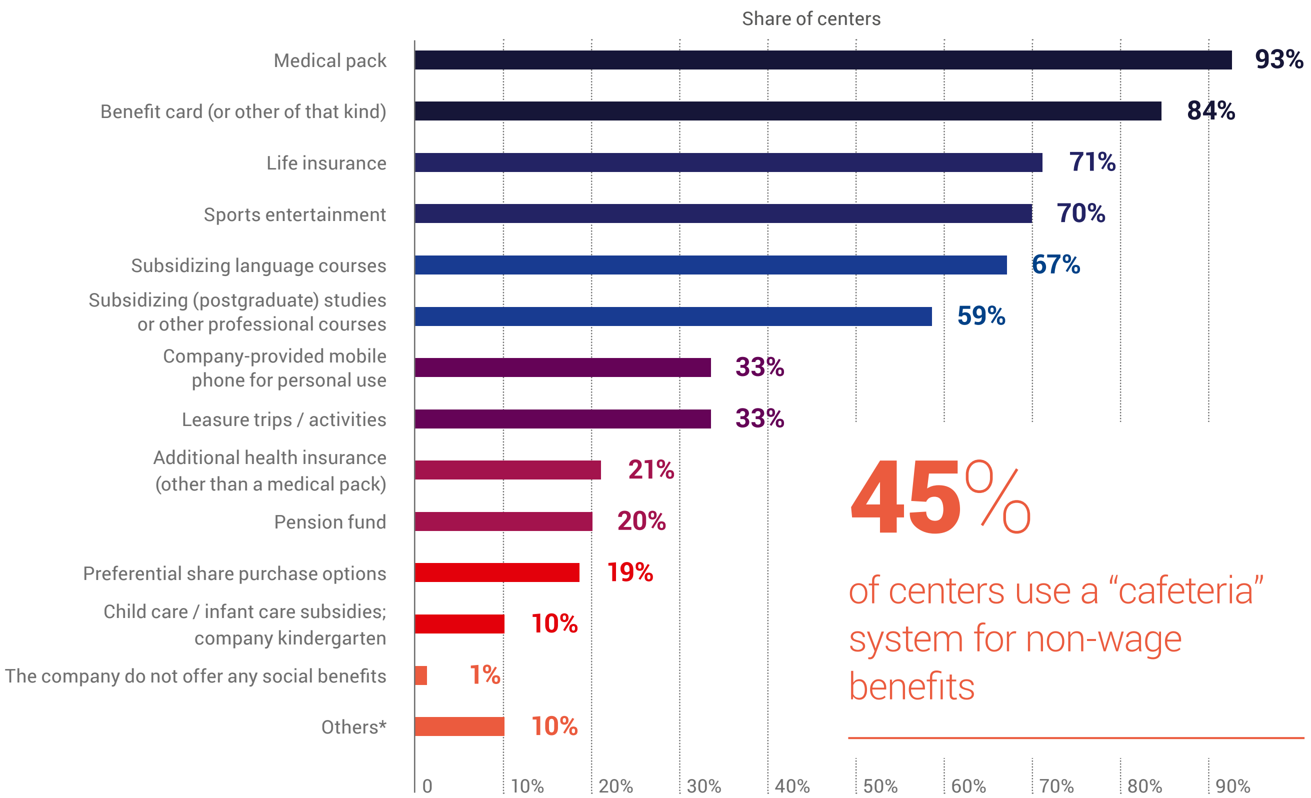
the maximum share of foreigners employed in one business service center

7%

average share of foreigners among all employees in business service centers

25%

of business service centers have at least 10% foreign employees



45%

of centers use a “cafeteria” system for non-wage benefits

Figure 25

Non-wage benefits offered by business service centers

Source: ABSL own study based on survey addressed to service centers (N=126 companies)

* the following benefits apply to benefits listed under the category “Others”: dinner subsidies, lunch vouchers, providing employees with fresh fruit and free drinks, subsidies for corrective glasses, internal e-shops, entertainment venues within the company (i.e., to engage in team games), jubilee awards, occasional gifts or integration meetings

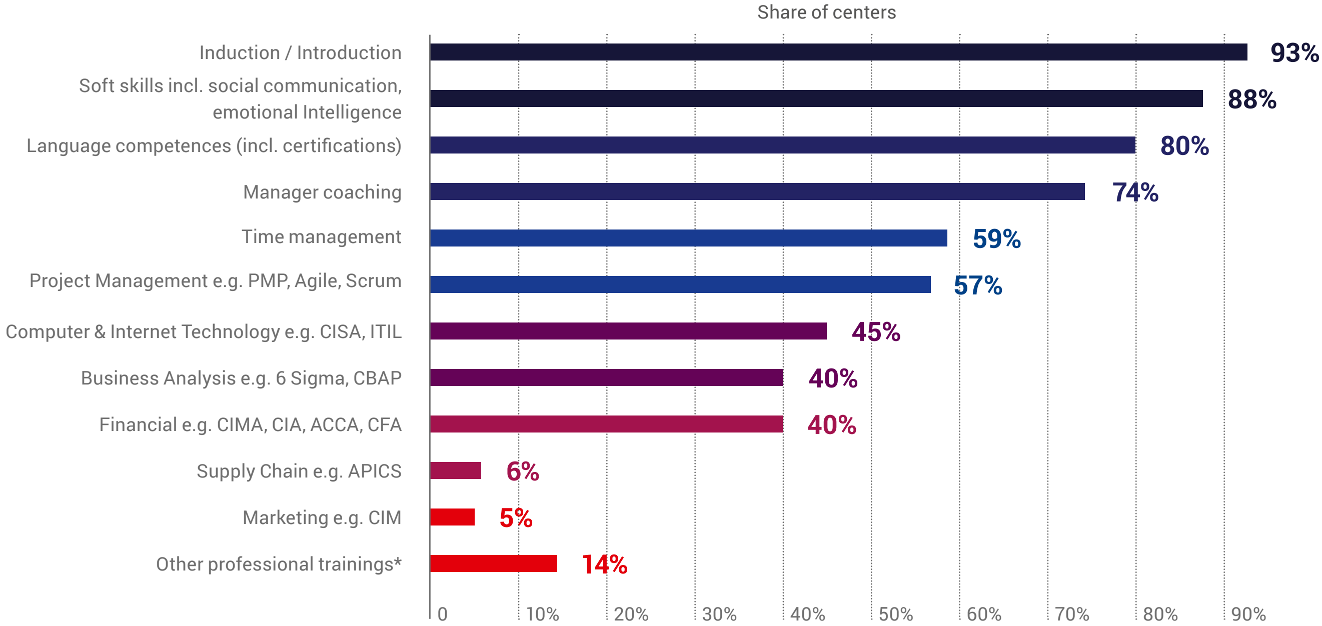


Figure 26

Training offered to employees by business service centers

Source: ABSL own study based on survey addressed to service centers (N=144 companies)

* training listed under category "Other": training in bookkeeping and tax accounting, payroll, labour law, customer service, leadership, human resources management, and other selective training (LEAN, SQL, Excel, VBA, Sharepoint, PowerPoint)

In the survey, representatives of business service centers were asked for an opinion on the characteristics of the local markets as a place for business. In the case of companies with centers in several cities, generally respondents referred to the markets in which they employ the most employees. The following aspects have been rated most positively: availability of modern office space and image of the city in the opinion of investors (average of 7.94 on a scale from 1 to 10), as well as city accessibility (average 7.84). Investors are satisfied with the conditions of functioning that individual locations offer them.

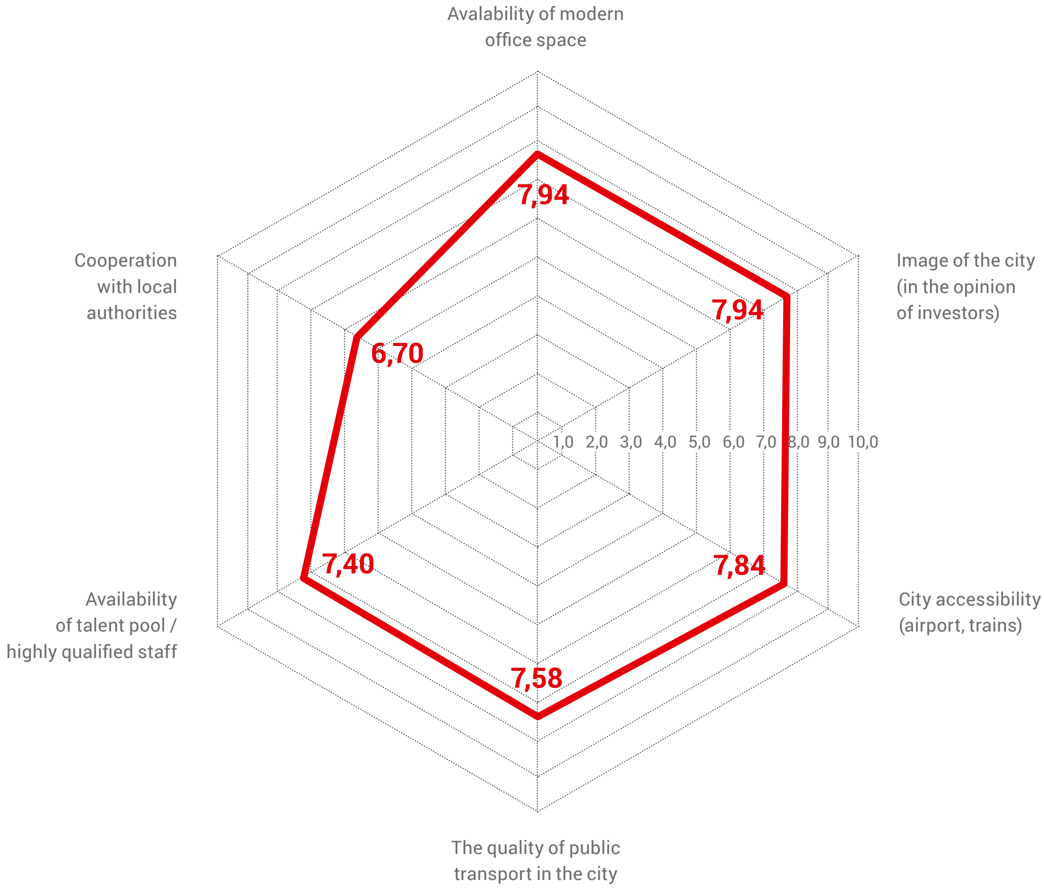


Figure 27
Average scores from business service center representatives pertaining to selected features of local markets in which the centers operate*
Source: ABSL own study based on survey addressed to service centers (N=123 companies)
* on a scale from 1 to 10

7,64

average rating of competition between business service centers in local markets (on a scale of 1 to 10)

Near half of service centers benefit or have benefited from public support in the past. The biggest percentage apply to companies receiving government grants and EU grants (for training and employment) as well as tax exemptions under the Special Economic Zones.

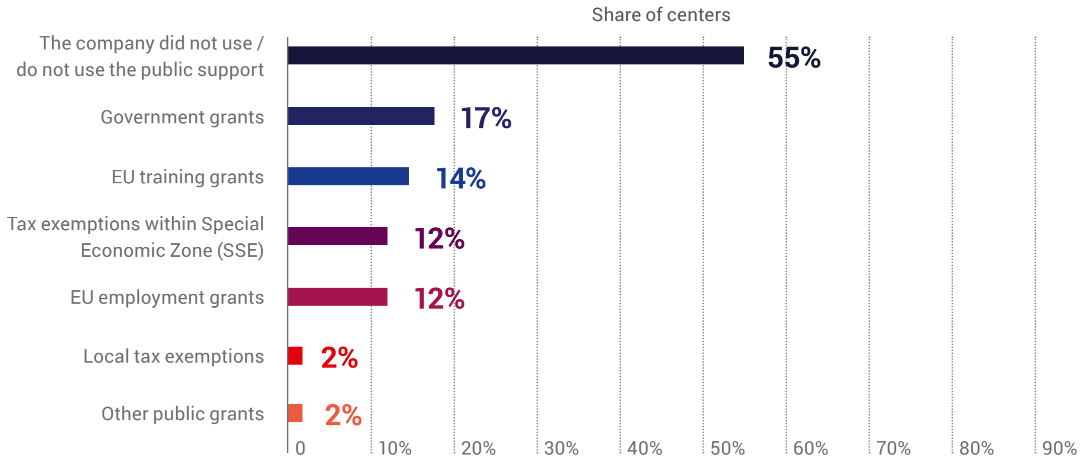


Figure 28
Public support used by business service centers
Source: ABSL own study based on survey addressed to service centers (N=139 companies)

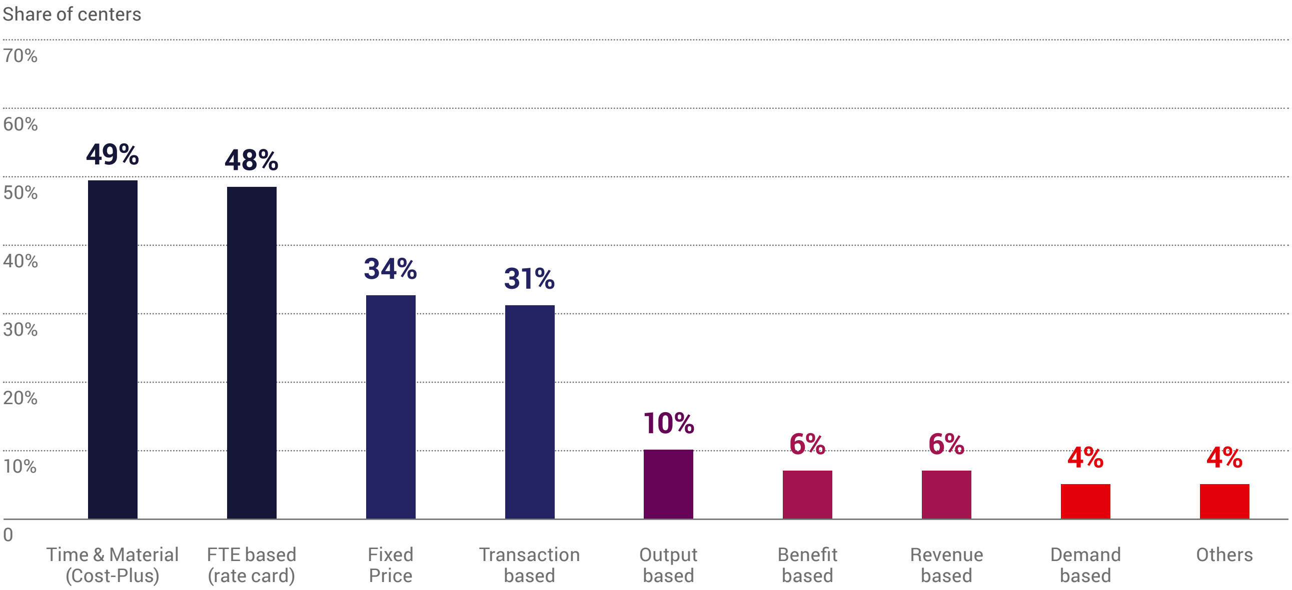


Figure 29
Pricing models used by business service centers in Poland
Source: ABSL own study based on survey addressed to service centers (N=136 companies)

Business service centers with Polish capital

Polish capital business service centers grow dynamically. Several dozen leading outsourcing companies (BPO, ITO), shared service centers (SSC) and research and development centers (R&D) employ more than 50,000 people. Among just small and medium-sized companies that provide IT outsourcing services as well as finance and accounting outsourcing services, additional tens of thousands of employees can be added to that number. Thanks to the presence of large capital groups, Polish companies are able to offer comprehensive and complementary solutions to the largest companies, not only in Poland but also abroad. The increased demand for outsourcing services in Poland gives business service centers with Polish capital a stable outlook for progress.

Table 3
Selected companies with Polish capital specializing in providing business services

Company	Selected Locations	Profile
BSS	Łódź	Services in accounting, finance, controlling, payroll, law, and taxes.
Connectis	Warsaw	Outsourcing of IT professionals, teams, projects, helpdesk.
Ericpol	Łódź, Kraków, Warsaw	IT outsourcing services, IT consulting and integrating services, providing dedicated solutions in different areas.
Future Processing	Gliwice, Opole	Design, implementation, testing and software integration.
Grupa Arteria	Warsaw (Headquarters), Ruda Śląska, Sosnowiec	Telemarketing services, technological and operational support, provision of specialized IT systems, operational consulting and design business processes, implementation of marketing campaigns, loyalty programs.
Grupa Casus Finanse (BPO Management)	Wrocław	Receivables management, human resources management, payroll management, mail-merge management, call-center services.
Grupa OEX	Dozens of branches throughout the country (e.g., Warsaw, Katowice, Chorzów, Tri-City)	Outsourcing of administration processes and back-office, sales and marketing support, call and contact center.
Impel Business Solutions	Wrocław and other branches in Poland	Accounting outsourcing, human resources and payroll outsourcing, tax advisory, proceeding advisory.
itWorks	Kraków, Warsaw	ITO services (including audit of the IT area).
Jcommerce	Katowice Agglomeration, Bielsko-Biała, Kraków, Poznań, Warsaw	Design, consulting, and implementation solutions in the field of Information Management; services related to outsourcing of IT professionals, projects "turnkey", and self-originated BI training.
PIKA	Gdańsk (HQ), operational centers: Gdańsk, Warsaw, Łódź, Katowice, Wrocław	Information and knowledge management based on documents.
PKP Informatyka	Warsaw (HQ), Łódź (helpdesk) and other branches in Poland	IT services dedicated to companies in transport and logistics.
REC Global	Wrocław (HQ), Koszalin, Zielona Góra	Research and development services in the field of software engineering for new products; solutions for software companies.
SMT Software	Wrocław (HQ), Warsaw, Poznań, Kraków, Białystok, Gliwice and Katowice	Outsourcing IT specialists, teams and projects (including dedicated solutions, mobile solutions, online solutions, GIS, tests and security audits).

Source: ABSL own study

Chapter content provider: **JLL**

2 | Office market

Companies from the business services sector have undeniably influenced the evolution of Polish office markets, specifically those outside Warsaw. In short, the sector has become an essential driver of office market growth.

If it wasn't for the business services sector, the Polish office markets outside Warsaw would be at an entirely different development stage. At the moment, Poland has a leading position in Central and Eastern Europe in terms of modern office stock, with more than 7.5 million m² on offer at the beginning of 2015, which is, to certain degree, due to this strategic sector. What makes Poland so unique among all the countries of the CEE region is undoubtedly the large number of urban hubs, such as Warsaw, Kraków, Wrocław, the Tri-City, Katowice, Poznań, Łódź, Szczecin and Lublin. Other cities offering well-developed infrastructure and trained workforce are also given a closer look by the business services sector. A diversified range of properties on offer is certainly a significant asset here.

The office market in Poland is not slowing down. Currently, there is approximately 1.4 million m² of new office space under construction, of which 50% is located in Warsaw. These record-breaking volumes have been seen for several quarters now, which proves that new offices are constantly being commissioned. Meanwhile, new office projects are being started.

It is worth mentioning that the robust volume of new office supply which is currently under construction in the capital will trigger a further slight increase in the vacancy rate. This means that at the moment tenants have a wider choice of office space to choose from, both in terms of location and technical standards. At the end of Q1 2015 in Warsaw, vacant office space amounted to approximately 580,000 m², which is almost as much as the total office stock in Wrocław. This is equated to a vacancy rate of approximately 13%.

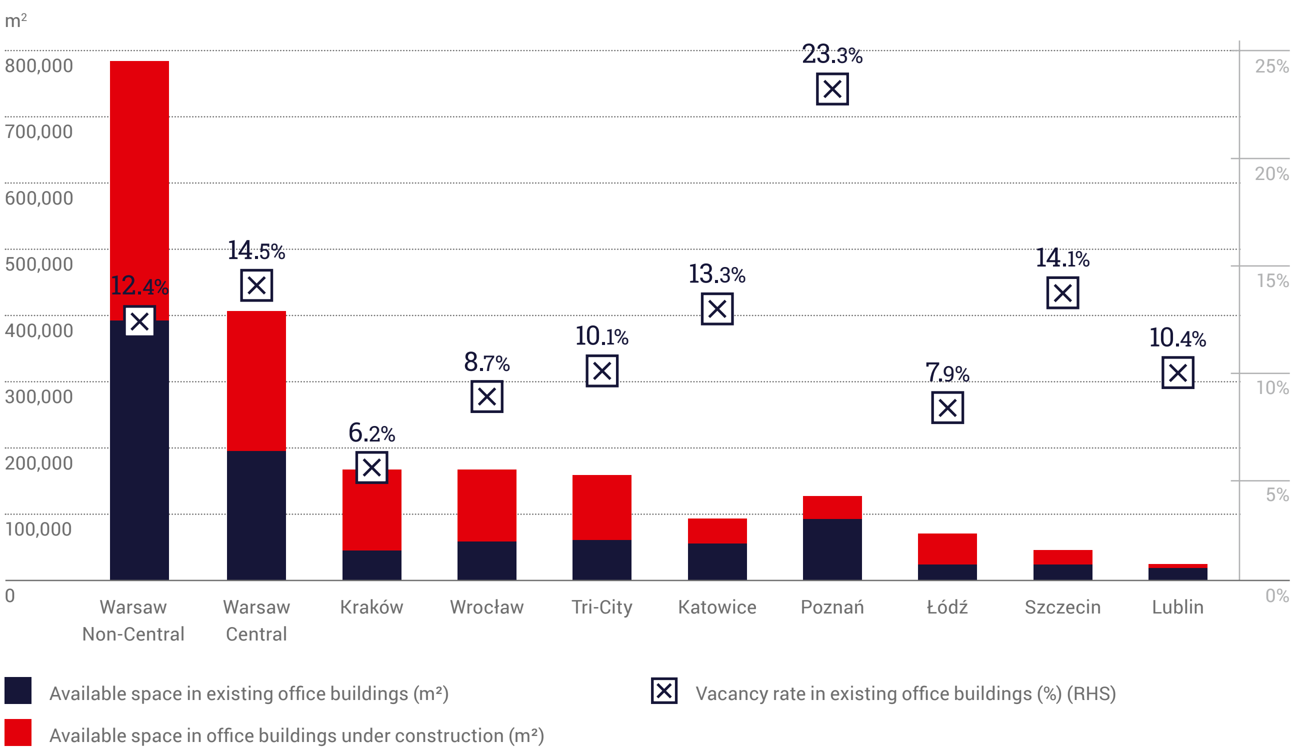


Figure 30
Vacancy rate and available space in existing and under construction office buildings (m²)
Źródło: JLL, PORF, Q1 2015

In terms of regional cities, the most dynamic markets are Wrocław, Kraków and the Tri-City, where 178,000 m², 157,000 m² and 140,000 m² of office space, respectively, is on the way. The large amount of construction activity translates into increased office space availability, which creates a favourable market conditions for tenants.

The situation varies in the largest office markets outside the capital and there is no common picture for them as far the vacancy rate is concerned. However, similarly to Warsaw, most of these markets have seen high levels of developer activity, which again is very favorable to tenants, since it guarantees them a wide spectrum of choice.

In Kraków, which is the largest office market outside Warsaw, the vacancy rate has remained low (around 3% to 6%) for the last three years. At the end of Q1 2015, it stood at 6.2%. This means that large tenants are forced to search for office space among developments that are still under construction. However, Kraków differs from Poznań, where the vacancy rate is the highest in Poland (approximately 23% of its office space remains unoccupied). It is worth noting that half of the vacant space there is found in a large office completion which entered the market in Q1 2015. On the other largest regional markets, the vacancy rates range between 7.9% (in Łódź) to 14.1% (in Szczecin).

It should also be noted that companies which look for office space for lease and consider a particular city must take into account not only the vacancy rate but also the number of rental options available, both in existing buildings as well as those which are under construction. The vacancy rate alone quite often does not reflect the situation on the market, especially if a tenant is looking for a large office space in a single building.

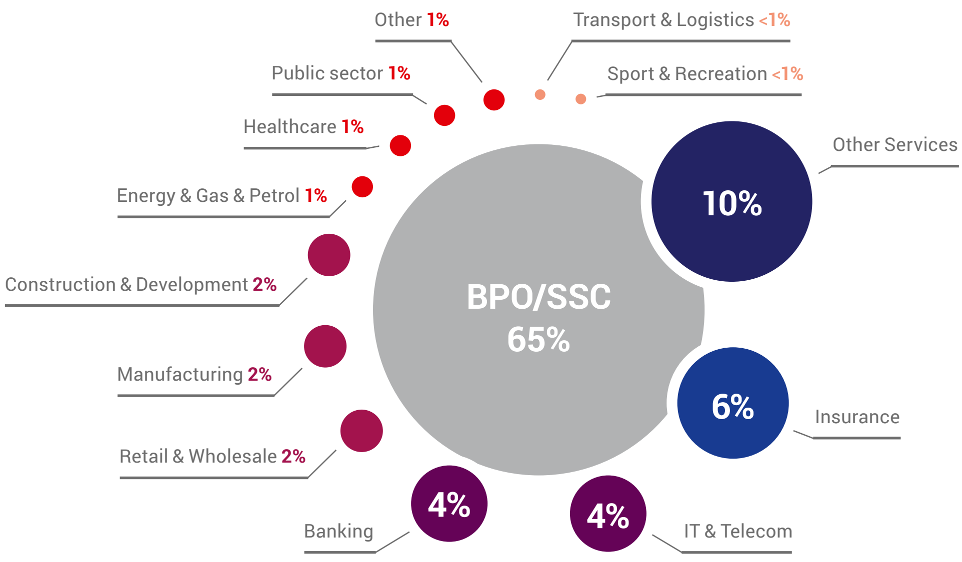


Figure 31
Take-up structure in regional cities in 2014 (excluding confidential agreements)
Source: JLL, 2015

POLISH OFFICE MARKET IN NUMBERS

7,500,000

(m^2) total modern office stock in Poland

9%

year-on-year increase in office stock in Poland

65%

of take-up was generated by companies from BPO/SSC sector outside Warsaw in 2014

11-15€

prime headline rents per m^2 per month in major office markets in Poland

1,150

number of lease transactions concluded in 2014

1,057,000

(m^2) office space leased in 2014

9

key office markets

1,400,000

m^2 of office space under construction

800,000

m^2 will enter the market in 2015

268,000

(m^2) office space leased outside Warsaw by companies from the business services sector in 2014

894,000

m^2 of existing office space currently available for tenants

81%

of registered take-up in Wrocław was generated by companies from the business services sector in 2014

Figure 32
Modern office space market in numbers
Source: JLL, Q1 2015

Demand

The importance of the business services sector for the office market in Poland is confirmed by its share in the demand volumes: over the whole of 2014 it accounted for 65% of demand in the markets outside Warsaw. 81% of all registered take-up in Wrocław came from BPO/SSC companies, along with 69% of take-up in Kraków. In 2014 in Poznań, only 13% of take-up was from this sector, which, as a consequence, translated into a bottoming out of the level of take-up. In total, foreign-capital business services sector companies leased over 268,000 m^2 of office space in 2014 on the markets outside of the capital.

Throughout 2014, we have seen large lease agreements concluded. One should mention the Infosys deal for approximately 21,000 m^2 in Łódź (renewal and expansion), the HP GBC pre-let transaction for more than 16,000 m^2 and the Nokia Networks deal for 14,000 m^2 in Wrocław.

In 2014, the total gross take-up in Poland was more than 1 million m^2, which was an all-time record for the Polish office market. The upswing of take-up in the main office markets outside Warsaw can be attributed mainly to the inflow of new business services companies and the expansion of the existing ones. Moreover, Q1 2015 also saw a very good result as far as registered demand for office space in Poland was concerned.

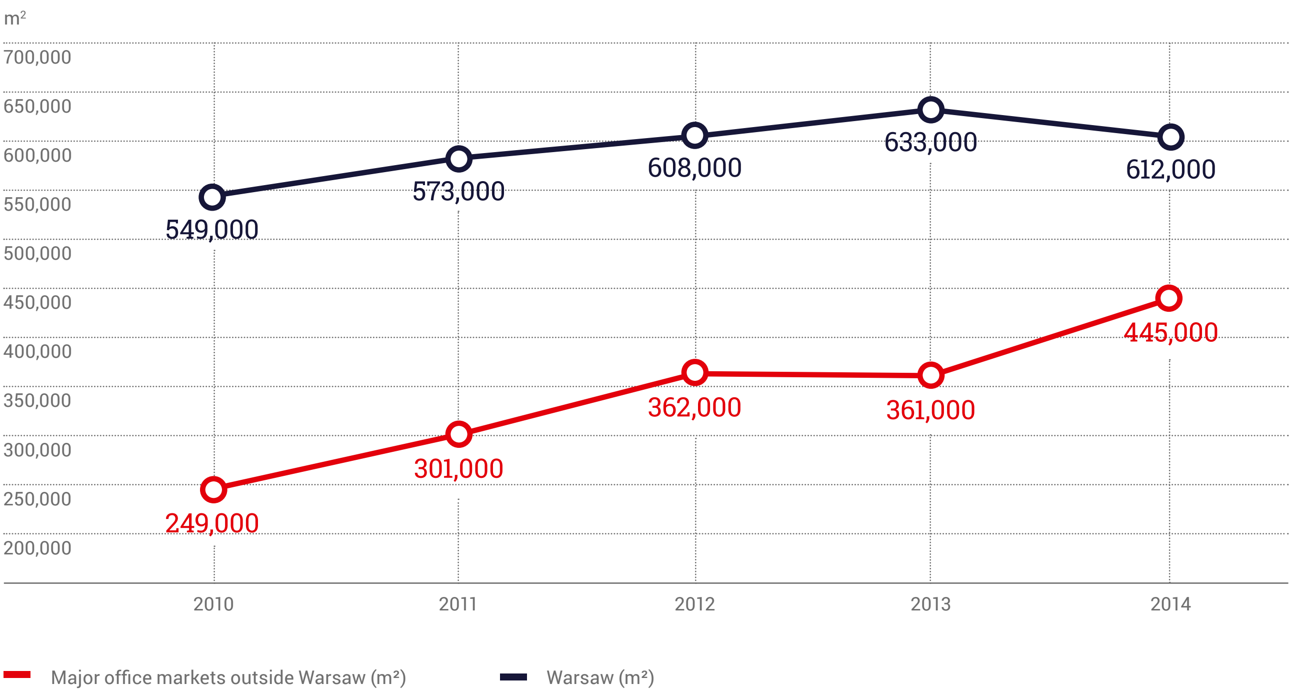


Figure 33
Change in gross take-up (m^2) – Warsaw and the largest office markets outside the capital
Source: JLL, PORF, Q4 2014

The volume of transactions concluded in Q1 2015 was promising, as it amounted to 300,000 m^2, of which 132,000 m^2 was in to the largest markets outside Warsaw. Kraków, Katowice and Wrocław saw the highest amounts of hustle on the leasing market during the first three months of 2015.

Rents

Potential tenants looking for office space in Poland have a wide range of choice in terms of both technical standards and rents. Rental prices for the best office spaces in Poland, meeting the requirements of the business services sector and located in the largest cities, are between €11 and €15 / m² /month. Rents are lower on the rising markets (€8 – €12 / m^2 / month). However, we observe slight downward pressures on rents in the majority of office markets in Poland, in particular on the effective ones. The reason behind those downward pressures is the growing competition between existing office buildings and those which are currently under construction. Our forecast is that even on markets that now have a low vacancy rate and high absorption (such as, for example, Kraków) due to the large volume of office space entering the market a slight increase in the vacancy rate will occur in the second half of the year and that will limit the further increase of rents in those cities.

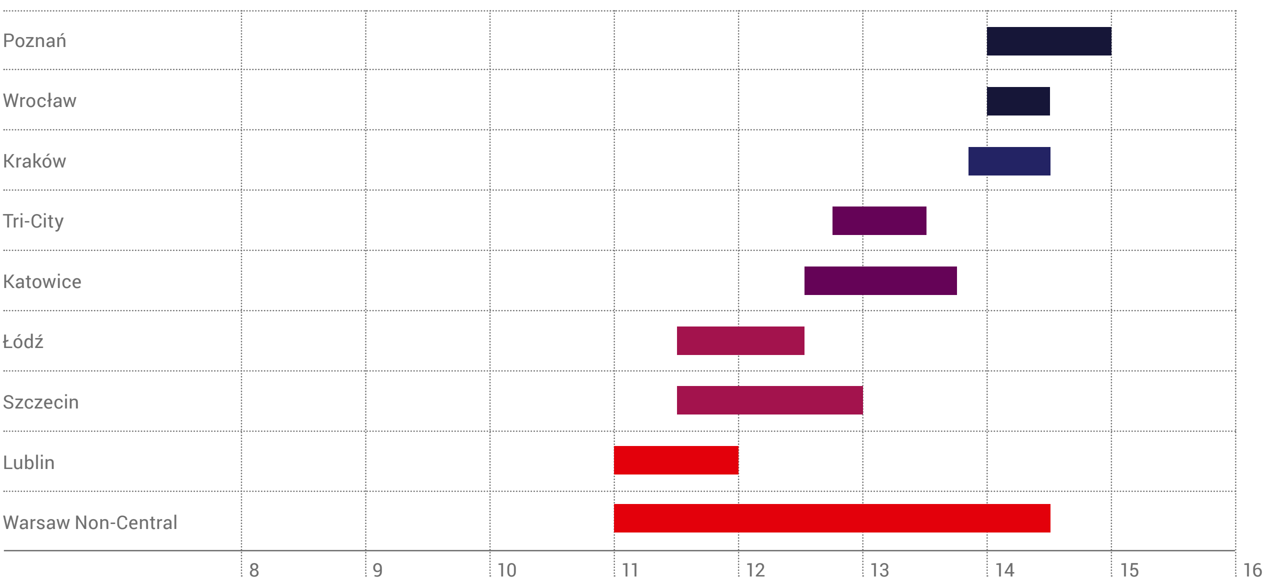


Figure 34
Prime headline rents (€ / m² / month)
Source: JLL, Q1 2015

Chapter content provider: **ABSL**

3 | Labor market

There are almost 1.5 million university students in Poland. About 400,000 higher education graduates enter the labor market each year. Many of them study fields which provide them with skills useful in the area of modern business services. These include, for example, engineering, technical, economic, administration, IT or philology studies. Of the above, the most popular in Poland is economic and administration studies; in the academic year 2013/14, there were over 312,000 people studying them. Young people graduating from universities, with knowledge of many fields and speaking foreign languages, become potential employees in the sector.

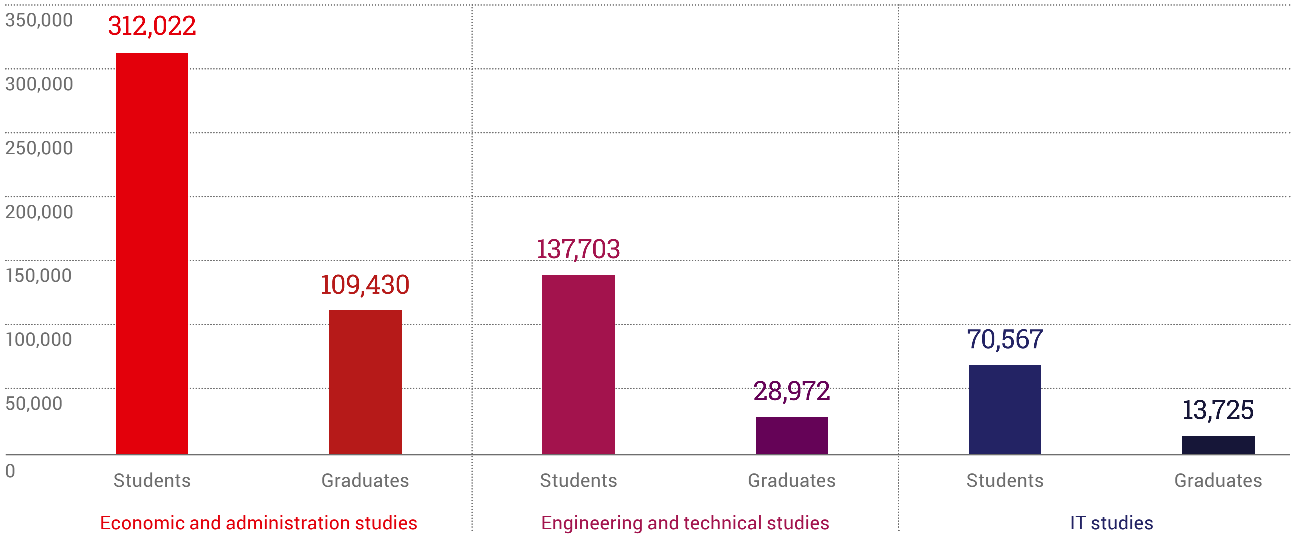


Figure 35
The number of students and graduates of IT, economic-administration and engineering-technical studies in Poland (academic year 2013/14)
Source: ABSL own study based on data of Central Statistical Office of Poland

	Students	Graduates
Białystok	1,252	462
Bydgoszcz & Toruń	2,672	766
Katowice Agglomeration	4,484	1,328
Kielce	964	169
Kraków	6,577	1,650
Lublin	2,897	1,011
Łódź	3,733	1,211
Olsztyn	579	116
Opole	1,226	379
Poznań	7,965	1,765
Rzeszów	1,473	389
Szczecin	1,568	279
Tri-City	3,455	886
Warsaw	5,598	1,959
Wrocław	5,420	1,333
Zielona Góra	1,020	243

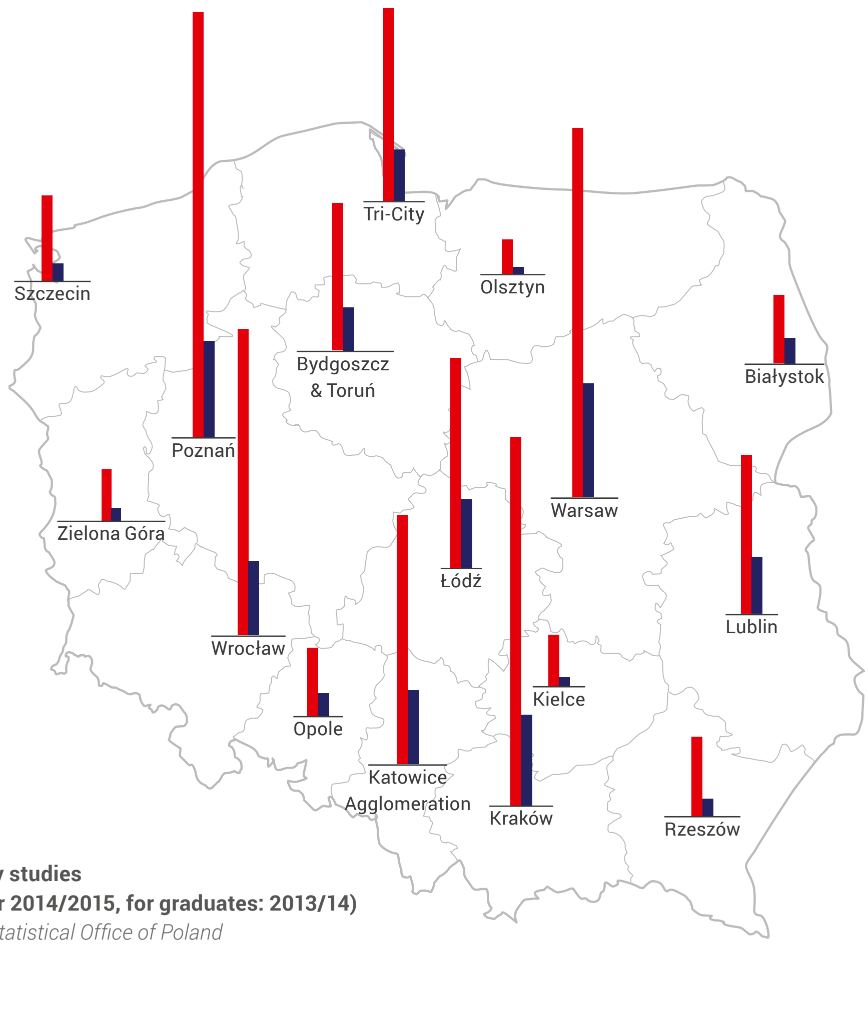


Figure 36
Number of students and graduates of philology studies in particular cities (for students: academic year 2014/2015, for graduates: 2013/14)
Source: ABSL own study based on data of Central Statistical Office of Poland

LABOR MARKET IN NUMBERS

1,469 K
number of students
in the academic year 2014/15

424,5 K
number of graduates
in the academic year 2013/14

312 K
number of economic and administration studies students in the academic year 2013/14

70,6 K
number of IT students
in the academic year 2013/14

137,7 K
number of engineering and technical students
in the academic year 2013/14

Poland is **6th**
in the world in respect to English language command (Education First: English Proficiency Index 2014)

FOREIGN LANGUAGES COMMAND

91%
English

33%
German

19%
French

16%
Spanish

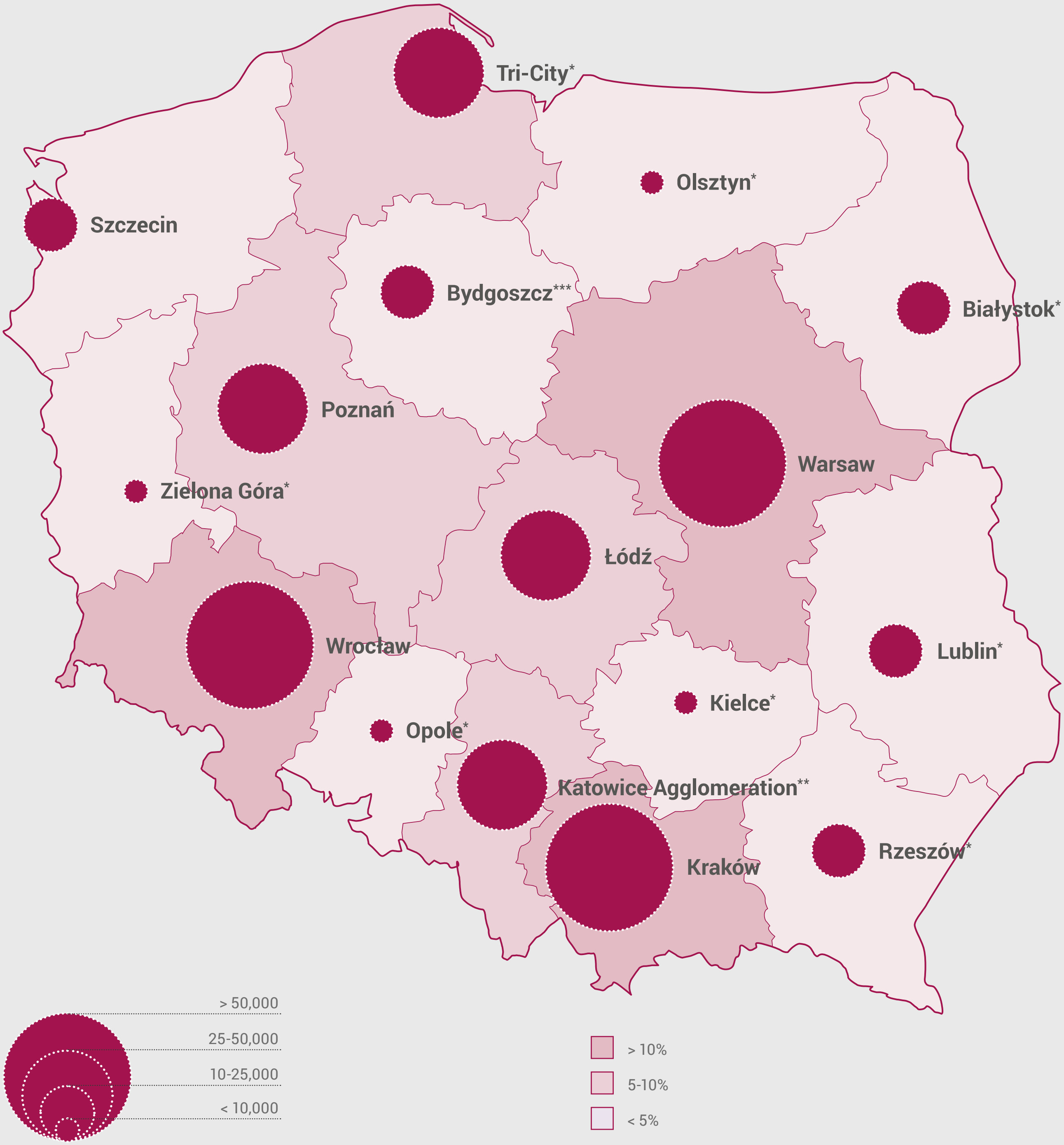
15%
Russian

11%
Ukrainian

10%
Italian

The list concerns candidates who declare some command of foreign languages. This data is taken from a candidates database of ANTAL International (N=26,057).

Figure 37
Labor market in numbers
Source: ABSL own study based on data of Central Statistical Office of Poland, Antal International, www.ef.pl/epi



Number of economic-administration, IT and engineering-technical students

% of economic-administration, IT and engineering-technical students in Poland

Figure 38

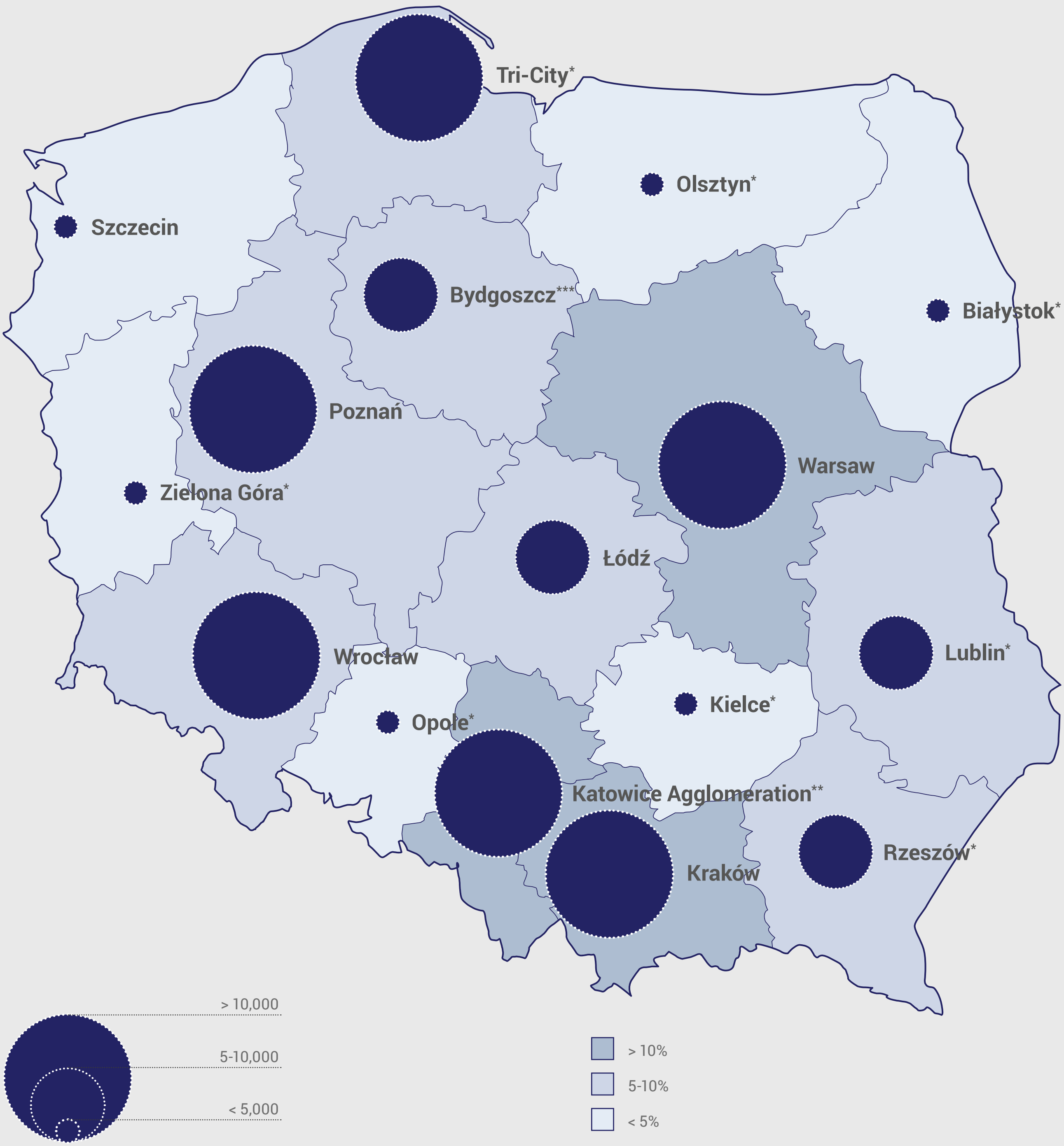
Students of economic-administration, IT and engineering-technical studies in Poland (academic year 2013/14)

Source: ABSL own study based on data of Central Statistical Office of Poland

* subregions,

** Katowice, Bytom, Gliwice, Sosnowiec, Tychy subregion

*** Bydgoszcz & Toruń subregion



Number of economic-administration, IT and engineering-technical graduates

% of economic-administration, IT and engineering-technical graduates in Poland

Figure 39

Graduates of economic-administration, IT and engineering-technical studies in Poland (academic year 2013/14)

Source: ABSL own study based on data of Central Statistical Office of Poland

* subregions,

** Katowice, Bytom, Gliwice, Sosnowiec, Tychy subregion

*** Bydgoszcz & Toruń subregion

Cooperation between business services sector and universities

The overwhelming majority of companies of the business services sector cooperate with universities (85%). Almost all companies employing more than 500 people have this type of cooperation (96%), in the case of medium-sized companies (employing 200-500 people) the percentage is also very high (90%). Smaller companies, employing less than 200 people, decide for such cooperation less frequently – two-thirds of the companies of this size surveyed undertake such cooperation. The largest companies are the most active in cooperation with universities in various forms. Almost 90% of them recruit future employees at universities (three quarters of all companies surveyed act this way). More than a half of the largest companies prepare training and courses, educational projects or conferences in cooperation with universities (about one third of all companies surveyed implement such projects). Less popular forms of cooperation are common study courses (15% of all companies surveyed and 24% of the largest ones), as well as research projects (14% of companies surveyed).

The decision to cooperate with universities is usually taken by commercial suppliers / outsourcing centers (94%), as well as hybrid ones (for internal and external clients, 96%). The lowest percentage of centers cooperating with universities is among those entities operating for a parent company / common services centers (77%).

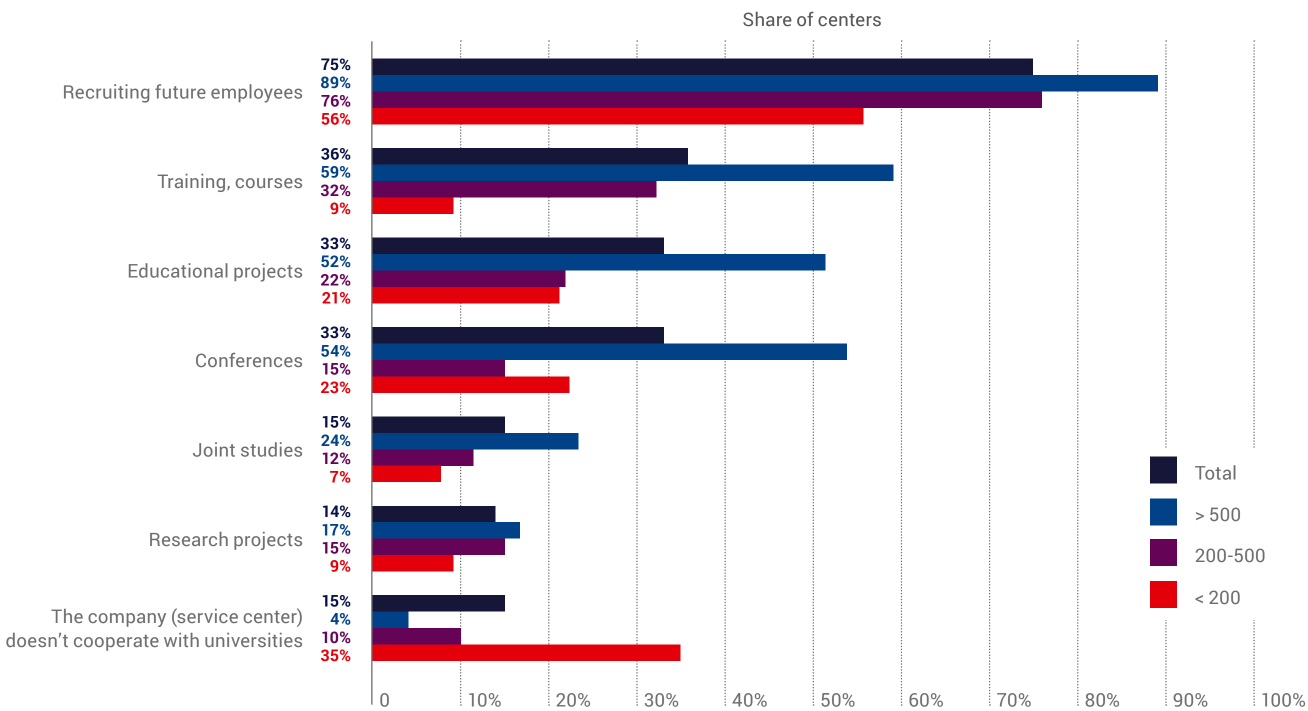


Figure 40

Forms of cooperation between service centers and universities by employment range

Source: ABSL own study based on a survey addressed to service centers (N=138 companies)

Table 4
Examples of cooperation between service centers and universities

Company	Universities	Example activities in companies' cooperation with universities
Alexander Mann Solutions	Universities from the whole of Poland	» "Akademia profesjonalistów" ("Professionals academy") – workshops preparing students to participate in recruitment programs, held by AMS employees. » AMS Ambassadors – a program for students who, acting as the company's ambassadors, promote AMS at universities by familiarizing other students with the employer's profile. » Participation in career fairs, e.g. in the Bilingual People International Language Recruitment Fair in Kraków. » Workshops "Rozmowa kwalifikacyjna i wywiad kompetencyjny" (Job interview and competence interview) for AGH University of Science and Technology students.
Atos	» University of Technology and Life Sciences in Bydgoszcz, » Kazimierz Wielki University in Bydgoszcz, » Nicolaus Copernicus University in Toruń, » WSB School of Banking in Toruń and Bydgoszcz	» Cooperation with universities of Kujawsko-Pomorskie Voivodeship: Atos' partner universities are University of Technology and Life Sciences in Bydgoszcz, Kazimierz Wielki University in Bydgoszcz and WSB School of Banking in Toruń and Bydgoszcz. Atos is a strategic partner of the postgraduate courses: "Zaawansowane zarządzanie projektami i programami" (Project and Program Management) offered by WSB School of Banking. A postgraduate course "Zarządzanie infrastrukturą IT w przedsiębiorstwie" (IT infrastructure management in a company), offered by University of Technology and Life Sciences in Bydgoszcz, was created in cooperation with Atos. » The company also cooperates with Nicolaus Copernicus University in Toruń, e.g. it acts as a consultant for the postgraduate course "IT w językach obcych" (IT in foreign languages).
Capgemini	Universities from the whole of Poland	» An ambassador program addressed to 2nd, 3rd, and 4th year students, giving an opportunity to have a paid placement at Capgemini and participate in training. A company ambassador participates in a 2-3-month long paid placement and then cooperates with Capgemini for the next 10 months. » Capgemini Business Academy – a training program for students. » Organization of training, lectures and branch events, e.g. Career Meetings with Capgemini Software Solutions Center for IT or related students, interested in working in IT.
Ericpol	» Łódź University of Technology, » Jagiellonian University, » University of Łódź, » AGH University of Science and Technology	» Cooperation with academic centers: Łódź University of Technology, Jagiellonian University in Kraków, University of Łódź and AGH University of Science and Technology in Kraków. Organizing lectures and seminaries, the company participates in the process of educating applied mathematics and IT students. » Ericpol is a scientific partner of Łódź University of Technology. » Enricpol summer placements program – in 2015, the company will accept 150 students from Kraków and Łódź. » Ericpol Science Ecosystem – a platform for cooperation with universities and science environment, designed by Enricpol, aiming at combining scientific theories with manufacturing practice and software development
GFT	Universities from the whole of Poland	» A 3-month placement program for students, covering two stages: 60 subject trainings and project work. » Holding technical training and courses during studies.

Company	Universities	Example activities in companies' cooperation with universities
HP Global Business Center	» **Universities located in Wrocław,** » **University of Łódź**	» HP Academy – annual series of training and workshops for students of Wrocław universities, held by employees » A training project dedicated to the best students of Wrocław University of Economics, as a part of the program "Najlepsi z Najlepszych" ("Best of the best"). » Co-organizer of the course "Lingwistyka dla Biznesu" (Linguistics for business) at University of Łódź. » Collaborating on creation of post-graduate courses "Kuźnia kadr" ("Breeding Ground for HR") at the Wrocław University of Economics. » Cooperation with the Wrocław University of Economics in the project "Kuźnia kadr" ("Breeding Ground for HR"), organizing placements and traineeships for the university students. » A traineeships program for the University of Wrocław students.
IBM BTO	» **Jagiellonian University,** » **Cracow University of Economics,** » **Pedagogical University of Cracow,** » **Tischner European University,** » **Cracow University of Technology**	» Cooperation with philology and economics faculties. » Founding the "Modern business Communications" specialist course at Pedagogical University of Cracow » Lectures for various universities on human resources management, cooperation with international clients, ethics in business, CSR strategy, cultural diversity, financial and accounting processes, project management, etc. » IBM Academy – in cooperation with Jagiellonian University – 2 semesters of training for students after which they can have traineeships at IBM BTO. » A placement program for students (1-3 months of placement, 20 hours a week), with an opportunity of later employment.
Phillip Morris International	**Universities from the whole of Poland**	» Traineeships program for university students and graduates: gaining experience through dealing with real business related issues and participation in projects implemented by different company branches, as well as an opportunity to use coaching and mentoring offered to the company employees. » Participation in career fairs, e.g. in the Bilingual People International Language Recruitment Fair in Kraków.
PwC	**Universities from the whole of Poland**	» Educational activities (workshops, presentations, meetings with students) » Offers of placements and traineeships for students and graduates » A one-year ambassador program for students » Organization of the "Grasz o staż" competition – an all-Poland contest in which students, by solving practical tasks, try to win paid placements. » WEX placement program for first year students, at the main office or local offices of the company. Students are able to gain their first professional experience, participate in training, get familiar with practical issues in various fields, and the best of them can participate in a shortened recruitment process to the company. » The "Experience PwC" competition for students and graduates. The competition consists of several stages (online tests, case studies) and lets the students stand up to real problems which might be encountered by PwC employees.
Sii	**Universities from the whole of Poland**	» "Letnia Akademia Talentów" (Summer Talent Academy) – a program of summer placements in Gdańsk and Warsaw for IT or related students and graduates interested in work in IT. » Intensive IT placement – an IT placement program in the process of software development in Java and .Net technologies; recruitment for the program is conducted all year long. As a part of the placement, students are able to participate in trainings and workshops held by Sii.

Source: ABSL own study based on websites of particular companies and Universities

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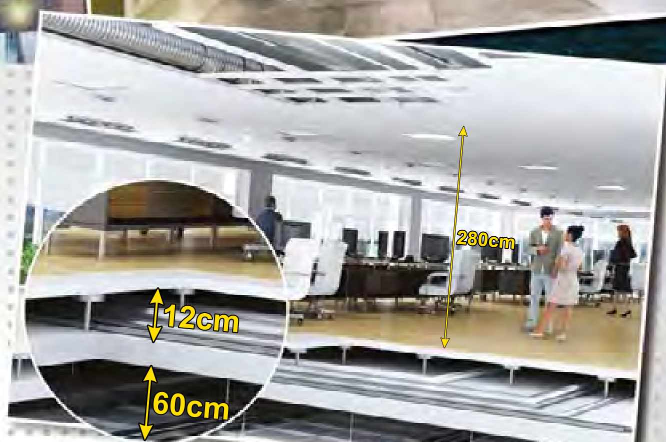

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4 | Salaries in business services

Due to the socio-economic conditions, Poland has become an attractive place to create business service centers. This sector is based on knowledge, and that is why salaries mainly depend on language proficiency and also on technical and professional experience of the candidate.

Table 5
Average gross monthly salary [EUR] in business service centers
The table presents information obtained during the recruitment process conducted by Antal in SSC / BPO centers in the period from October 2014 to May 2015

Position	Salaries (candidates with English) EUR gross		
F&A	min	opt	max
Transition Manager	3,000	4,500	6,000
Business Improvement Manager	2,750	3,500	4,000
Process Improvement Specilist	1,500	2,250	2,750
Financial Controller	2,000	2,750	3,500
AP/AR Junior Accountant (0-1 year experience)	625	875	1,000
AP/AR Accountant (1-3 years experience)	925	1,250	1,500
AP/AR Senior Accountant (3-5 years experience)	1,250	1,500	1,750
AP/AR Team Leader (5-15 people)	1,500	2,000	3,000
AP/AR Process Manager (50 people)	3,000	3,500	4,500
Junior GL Accountant (0-1 year experience)	875	1,000	1,125
GL Accountant (1-3 years experience)	1,125	1,375	1,625
GL Senior Accountant (3-5 years experience)	1,375	1,625	1,875
GL Team Leader (5-15 people)	1,750	2,250	3,250
GL Process Manager (50+ people)	3,750	5,000	6,000
Banking	min	opt	max
KYC/AML Junior Analyst (0-1 year of experience)	875	1,000	1,125
KYC/AML Analyst (1-3 years of experience)	1,125	1,300	1,500
KYC/AML Senior Analyst (3-5 years of experience)	1,500	1,625	2,000
Junior Fund Accountant (0-1 year of experience)	750	850	1,000
Fund Accountant (1-3 years of experience)	1,000	1,125	1,250
Senior Fund Accountant (3-5 years of experience)	1,250	1,500	1,625
Team Supervisor (3-5 people)	1,750	1,875	2,000
Team Leader (10-15 people)	2,250	2,375	2,500
Manager (30-50 people)	2,500	3,000	3,250
Senior Manager (100+ people)	4,250	4,750	5,500
Customer Service / Help Desk / Technical Support	min	opt	max
Operation Manager (50+ people)	3,500	4,000	5,000
Customer Service Manager	2,500	3,000	3,250
Customer Service Team Leader	1,625	2,000	2,250
Customer Service Specialist (0,5-2 years of experience)	875	950	1,050
Customer Service Junior Specialist (0-0,5 year of experience)	625	825	925
Help Desk Specialist 1st line support	700	875	1,000
Help Desk Specialist 2st line support	1,125	1,375	1,500

Position	Salaries (candidates with English) EUR gross		
HR Processes	min	opt	max
Talent Manager	2,250	2,625	3,000
HR Advisor (0-2 years of experience)	750	950	1,125
HR Administrator (0-2 years of experience)	700	875	1,100
Compensation & Benefits Specialist	1,350	1,875	2,375
Payroll Manager	2,250	2,625	3,000
Junior Payroll Specialist (0,5-1,5 years of experience)	750	925	1,050
Payroll Specialist (1,5-3 years of experience)	875	1,050	1,250
Senior Payroll Specialist (over 3 years of experience)	1,050	1,250	1,625
Learning and Development Specialist	2,000	2,375	2,500
Logistics / Supply Chain / Procurement	min	opt	max
Junior Specialist (0-1 year of experience)	750	950	1,125
Specialist (1-3 years of experience)	1,200	1,375	1,625
Senior Specialist (3-5 years of experience)	1,500	1,750	2,125
Team Leader (5-15 people)	2,000	2,375	2,750
Process Manager (50 people)	2,500	2,750	3,750
Research and Analysis	min	opt	max
Research Analyst	815	875	1,075
Research Associate	975	1,000	1,125
Senior Research Associate	1,075	1,125	1,200
Process Specialist	750	875	1,000
Knowledge Manager (over 5 years experience)	3,000	3,500	5,000
Channel Manager	3,000	3,500	5,000
Junior Project Manager	1,500	1,750	2,000
Project Manager	2,000	2,250	2,500
Senior Project Manager	2,500	3,000	3,750

Source: data of ANTAL International
The number of recruitment processes carried out in this period: 812.

Table 6
Languages bonuses [EUR] gross

Language	Level B2*	Level C1*	Level C2*
English	-	-	-
Spanish / Portuguese / Russian / Italian	125	150	175
German / French	200	250	250
Scandinavian and Nordic languages	300	375	375

Source: data of ANTAL International
* Levels according to CEFR (Common European Framework of Reference for Languages)

WHY ANTAL SSC/BPO?

ANTAL SSC/BPO approaches the needs of employers with great flexibility to deliver the best candidates on the employee market

TEAM OF CONSULTANTS exclusively dedicated to recruitment processes for Shared Services and Outsourcing Centers

EACH CONSULTANT SPECIALIZES in maximum two narrow disciplines - HR, F&A, Banking, Tax and Reporting, Research & Analytics, Procurement/Supply Chain, Customer Service, ITO

DO YOU KNOW?

01 **The most popular recruitment processes in Poland:**

- AP/AR/GL Accountant
- Reporting Specialist
- KYC/AML Analyst
- Business Analyst
- Customer Service Agent with languages

02 **New trend** shown in 2015 is transition of logistics and risk management processes

03 **Average salary** on Junior Accountant with French position is 3000-4500 PLN

04 **4 job offers a month** – average number of offers received by Junior Specialist with German (in various sectors)

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ANTAL INTERNATIONAL
SSC/BPO

Chapter content provider: **Baker & McKenzie**

5 | Investment incentives

Polish investment incentives policy gives special preferences to the business services sector as one of the priority industries. Next to the traditional instruments of supporting investments, the importance of instruments for funding research and development activities (R&D) has grown recently.

Investment incentives for the Business Services Sector:

- » tax allowances in Special Economic Zones (CIT exemption)
- » direct budgetary subsidies for a new investment / employment (from PLN 3.200 to PLN 15.600 for 1 job)
- » support of R&D activities (e.g. Applied Research Program) – grants up to:
  - » 50 to 65% of the eligible costs for industrial research
  - » 25 to 40% of the eligible costs for experimental development

This sector is one of the **priority sectors** of the economic policy.

Special Economic Zones

Special Economic Zones (SEZ) are designated areas on the Polish territory within which the investors enjoy exemption from the corporate income tax.

The exemption is available for the investors who have obtained permit to operate in the SEZ. The permit specifies the minimum level of investment and employment, as well as the maximum level of state aid and the scope of activities that can be performed. Usually, the exemption is available from the moment the first expenses are incurred and covers only the activity in line with the scope of activity specified in the permit (the activity not mentioned in the permit may be performed, it does not however benefit from the exemption).

Not all areas of activity can be covered by the exemption in the SEZ (see tax section for details) – exclusions include, among other things, the activities requiring a licence or financial services. When considering benefitting from CIT exemptions on business activities in SEZ, one needs therefore to pay attention to the classification of the services/processes to be rendered.

The exemption limit is calculated on the basis of investment expenditures or 2-year labor costs, provided that the value of the limit depends on a region. Since July 1st, 2014, the aid intensity been significantly reduced. In most of the country it is 35% of the expenditure – regions: kujawsko-pomorskie, lubuskie, łódzkie, małopolskie, opolskie, pomorskie, świętokrzyskie, zachodniopomorskie, and areas of subregions: ciechanowsko-płocki, ostrołęcko-siedlecki, radomski i warszawsko-wschodni. The highest aid intensity of 50% is in the Easternmost regions: lubelskie, podkarpackie, podlaskie, warmińsko-mazurskie. Aid intensity of 25% is in regions: dolnośląskie, wielkopolskie, śląskie. Aid intensity of 20% is in areas of subregion warszawsko-zachodni, except that for Warsaw aid intensity is 15% of the expenditure (and beginning of January 1st, 2018 only 10% for Warsaw). The investor is totally exempt from the CIT in respect of the activity listed in the permit until the limit is used up or the operations of the SEZ end (now – December 31st, 2026).

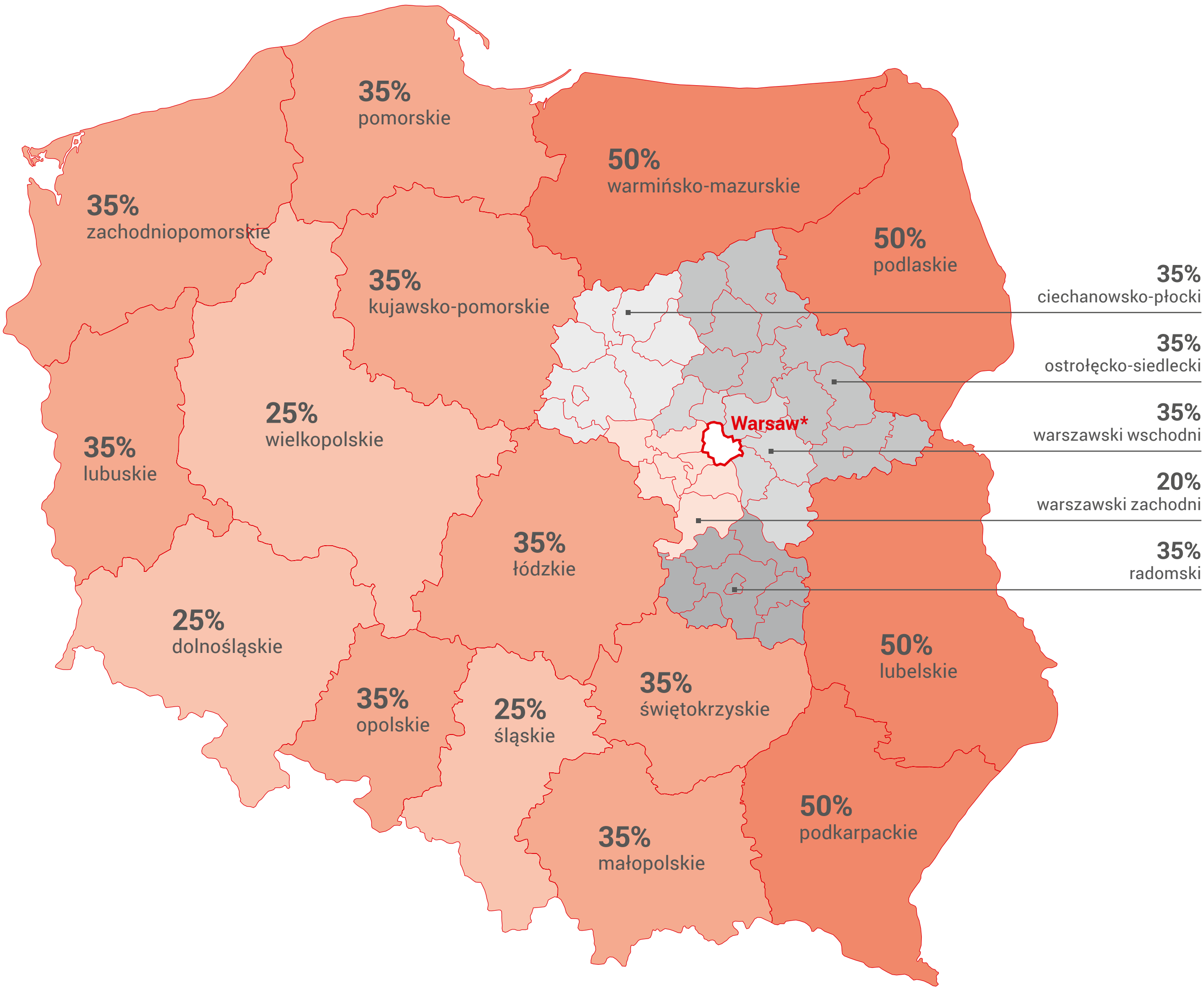

Figure 41

Limits of public support

Source: European Commission, available at [http://europa.eu/rapid/press-release_IP-14-180_pl.htm]

* Warsaw: to 31.12.2017 – 15%, from 1.01.2018. – 10%

Governmental grants

The System of Supporting Investments of Major Importance for the Economy offers grants for investment and/or creation of new jobs.

Conditions for the receipt of grants:

» Advanced Business Services Centres:
creation of a minimum of 250 new jobs, investment outlays of at least USD 1,5 million,

» Research and Development Centres (R&D):
a minimum of 35 new jobs for employees with a university degree and a minimum of PLN 1 million of capital costs (excluding lease).

The amount of support per job ranges between PLN 3,200 and PLN 15,600 and depends on the assessment of the following factors:

» number of jobs created.
» quality of jobs created, i.e., the number of jobs for employees with a university degree.
» type and degree of sophistication of the accomplished processes.
» investment location.
» involvement in the development of local environment, i.e., cooperation with universities, the investor's brand, uniqueness of the processes, etc.

Support of the programme may not, in principle, be combined with other forms of support, including, in particular, with support from EU funds and exemptions available in the SEZ, with certain exceptions for an investment which:

» the amount of aid under the programme does not exceed PLN 3 million
» is an investment in a priority production sector, provided that eligible costs amounts to at least PLN 350 million
» is significant
» is an investment in BPO/SCC, provided that an investor creates at least 500 new jobs
» is an investment in R&D sector

Grants are provided by the Minister of Economy, while the applications are submitted to the Polish Information and Foreign Investment Agency.

Example:

Entrepreneur plans to open the SCC and hire 300 employees (86% of them with higher university degree). The profile of the SCC includes consulting and development of advanced business processes analysis and market forecasts. Capital expenditure of the SCC amounts to PLN 2 million. The location of the SCC is in lubelskie region. In addition, the SCC is about to cooperate with a local university by way of offering internships to students.

Level of aid is calculated based on the amount of points (maximum of 100 pts) gathered in four categories: (I) processes undergo by the company, (II) location of the investment, (III) human capital, and (IV) other factors (such as cooperation with universities, company's goodwill, uniqueness of undergo processes).

In the example above, Entrepreneur would receive high score in categories (I) and (II), respectively 45 pts and 30 pts. In category (III) – human capital – Entrepreneur would receive 10 pts. In addition, the cooperation with a local university would add additional 2 pts. In sum, Entrepreneur would receive 87/100 pts – high total score. By using a specific scoring table, with a total score of 87 pts and employment rate of 300 headcount, the amount of aid for creation of one job would amount to PLN 10,640. Multiplying this amount by headcount of 300 employees might result in a total aid for Entrepreneur in the amount of PLN 3,192,000.

Financial support for the R+D activity

Financial support for the R+D activity is playing an increasingly important role in Poland's economic policy, and its share in the mix of investment incentives, both domestic and those financed from EU funds, is growing, too.

According to the current status of the new financial perspective of EU structural funds, the R&D area is to be practically the only one, where large enterprises (including advanced business services) may count on financing from EU funds.

Moreover, a large offer of support for R&D activities from domestic funds (i.e., not co-funded from EU) is also realized by the National Centre for Research and Development (NCBiR).

R+D activity can focus on various processes; the key element, however, is that it must achieve an innovative effect with a character of novelty that helps markedly improve the services. Factors that can help classify a given activity as research and development are: engagement of personnel having PhD or higher academic degree, co-operation with scientific institutions in the area of research and development, or incurring certain types of expenses.

Examples of activities that can obtain financial support as R+D activities in the area of services designed for financial institutions:

» mathematical research into risk analysis,
» development of new risk models, study of new types or features of insurance risks,
» R+D work on new services or new ways of supplying services electronically,
» R+D work on new or significantly improved financial services,
» development of new consumer survey techniques in order to create new types of financial services, research into social phenomena that impact financial services.

Examples of activities that can obtain financial support as R+D activities in the area of IT services:

» development of internet technologies
» development of new methods of software design, development and deployment
» development of new algorithms, research aiming at development on the level of operating systems, data management, etc.

As R&D will NOT be considered e.g.: application software and information system development using known methods and existing software tools, adaptation and maintenance of existing software, debugging, adding functionality to application programmes (including customisation).

Examples of activities that can obtain financial support as R+D activities in the other business service areas:

» Analysis of the impact of economic environment on consumer behaviour,
» Development of new methods for consumer research,
» Development of new survey methods and tools.

Source: B&M, Based on OECD Frascati Manual, 2002.

Chapter content provider: **Everest Group**

6 | Global services market trends and forecast

The global services market witnessed steady growth and maturation over the past 4-5 years. It saw a growth of 8-10% annually from 2010 onwards until 2013, when it witnessed a slowdown. This was followed by a revival of activity in 2014. This chapter explores the trends and changes in the global services market and provides insights about the varied delivery locations landscape. This section also covers opportunities and challenges for buyers and providers from emerging technologies and delivery models, along with likely impact on the future of the industry.

The global services market has continued to evolve and mature over the past few years. There was steady growth in the global services revenue from 2010 to 2014 (see figure below), although there was a dip in percentage growth in the year 2012-2013 (as compared to 2011-2012) owing to a weak macroeconomic outlook in North America and Europe. In 2013-2014, the market recovered and grew at a faster rate, not only due to improvements in the overall macroeconomic sentiment, but also due to demand growth in emerging markets such as Asia, Latin America & the Caribbean, and Central and Eastern Europe.

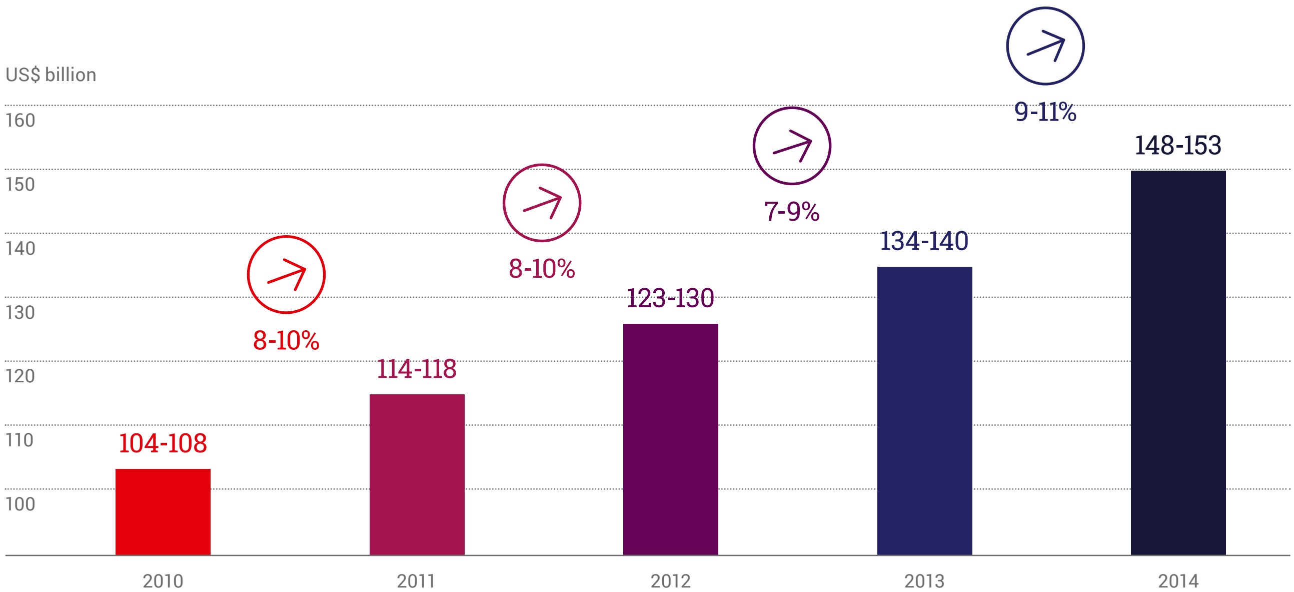

Figure 42
Global services revenue and growth
Note: Includes global services exports; excludes domestic market
Source: Everest Group Global Locations Annual Report (2014): Expanding Frontiers and Maturation

Global Services Market: Delivery locations landscape by revenue and headcount

The size of the global services market, i.e., the IT and Business Process Services (BPS) market, at the end of 2013 was ~US$134-140 billion. The Asia Pacific (APAC) region constituted more than 60% of the market, followed by Nearshore Europe (NE) and Latin America & the Caribbean (LAC). India and the Philippines together accounted for more than 70% of the APAC share, where India led the non-voice BPS and IT services sectors, and the Philippines led the contact center market. China held the third largest share in this region.

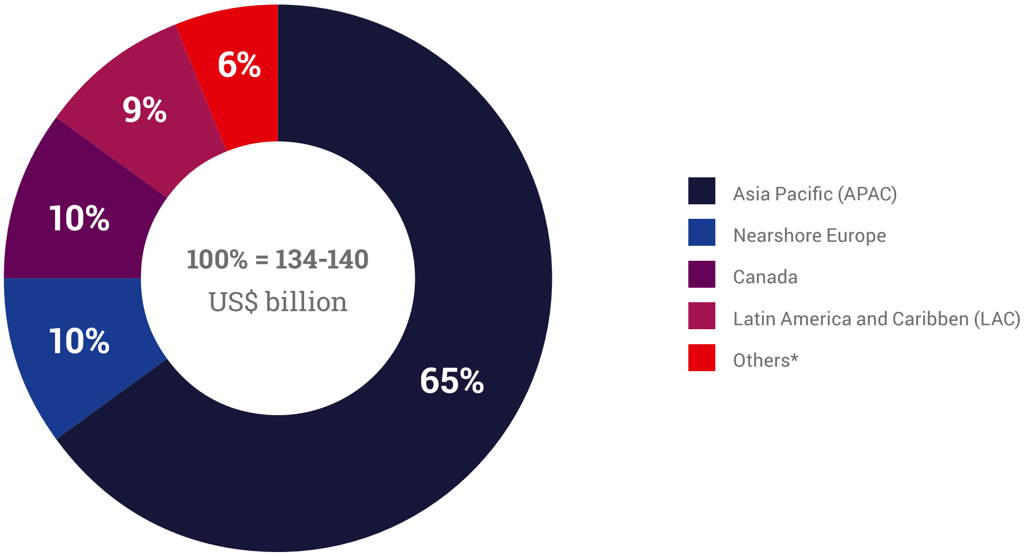

Figure 43
Global services market / Share of delivery regions by revenue
Note: Includes global services exports; excludes domestic market
Source: Everest Group Global Locations Annual Report (2014): Expanding Frontiers and Maturation
* “Others” include Middle East & Africa.

Within NE, Poland, Ireland, and Czech Republic constituted the top delivery locations. BPS forms a major component of services for Poland and Czech Republic (especially for multi-lingual non-voice business processes), whereas IT services is the more prominent segment in Ireland.

Within LAC, Mexico, Argentina, and Costa Rica constituted the top three delivery locations. Most LAC locations are leveraged to support BPS (prominently bi-lingual voice services – English/ Spanish) in order to provide nearshore support to North America and Latin America, although there are many instances of IT services delivery as well.

Within Middle East & Africa, Egypt, Morocco, and South Africa are the leading destinations. Players also leverage Israel for high-end IT work and R&D services, and United Arab Emirates for regional support, especially in Arabic.

In terms of headcount, the story is similar to that of revenue. APAC has the lion’s share with 80% of the total global services market headcount, followed by NE and LAC. When the pie is broken up into individual locations, India is seen to have the largest share followed by the Philippines, China and Poland.

SPOTLIGHT ON

KATOWICE

HUMAN CAPITAL

Katowice is at the heart of one of the largest urban agglomerations in Europe with 2 million people. The favorable investment climate is created by unique huge human potential with 107,000 students in the agglomeration attending 26 universities.

LOCATION & COMMUNICATION

Katowice offers an access to 3 international airports in the close proximity, excellent road network and urban transportation system. International communication routes intersect here, providing convenient connections with the European Union.

WIDE RANGE OF INCENTIVES

Investors in Katowice can take advantage of the following incentives: employment support, training facilities, marketing support, public transportation adjustment, help from the District Labour Office, real estate tax exemptions, access to Poland's largest special economic zone providing substantial CIT relief.

SUPPORT FOR INVESTORS

The Strategic Investors Assistance Department, a dedicated structure within Katowice City Hall, aims to support the investment. The Department's employee may act as an account manager of a given investor, serving as the first line of contact throughout the investment process.

GOOD REFERENCES FROM INVESTORS

Katowice is considered a perfect destination for new investment projects and has been appreciated by many companies from the modern business services sector. In the city are located such worldwide known companies as: IBM, Capgemini, Kroll Ontrack, Steria, Ericsson, Rockwell Automation, Mentor Graphics or PwC.

CONTACT

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Strategic Investors Assistance Department
Phone: + 48 32 259 38 23
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www.invest.katowice.eu

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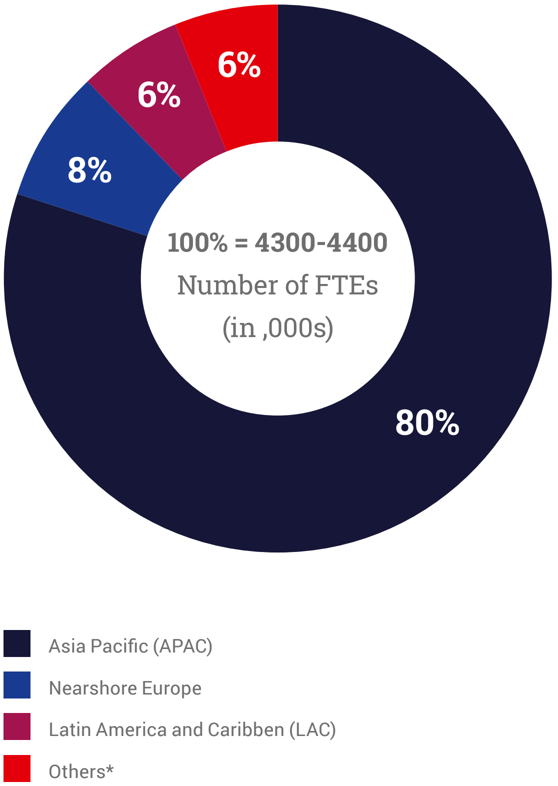

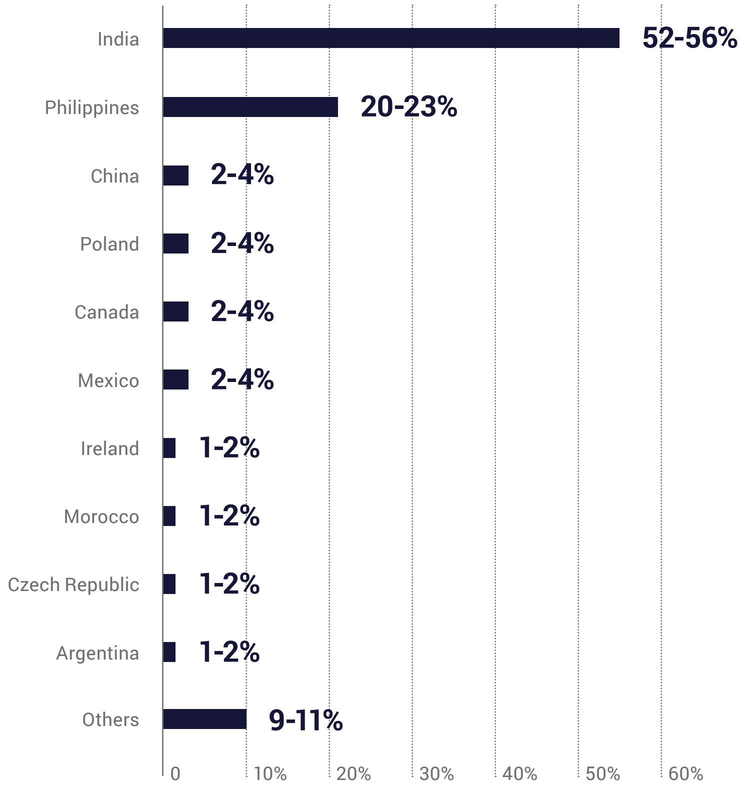

Figure 44
Global services market / Share of delivery regions by headcount**
Note: FTE = Full Time Equivalent
Source: Everest Group Global Locations Annual Report (2014): Expanding Frontiers and Maturation
* "Others" include Canada, Africa region, and Middle East region.
** includes global services exports for 25 leading locations. Excludes domestic market.

Global Services Market: Share of functions in revenue and headcount

The charts depict the split of the global services market into IT and BPS functions on the basis of revenue and headcount. In terms of revenue, IT services has a greater share, although in terms of headcount, both IT and BPS have a nearly even split.

India leads both the IT services and the BPS markets in terms of headcount, followed by the Philippines. However, in the BPS market, the distribution of FTEs is more even between India and the Philippines, unlike the IT services market. Poland witnessed rapid growth in the last three years and overtook Canada as the third largest location in the BPS market, with 4% share of the headcount.
In the IT services market, Poland is amongst the top 10 locations.

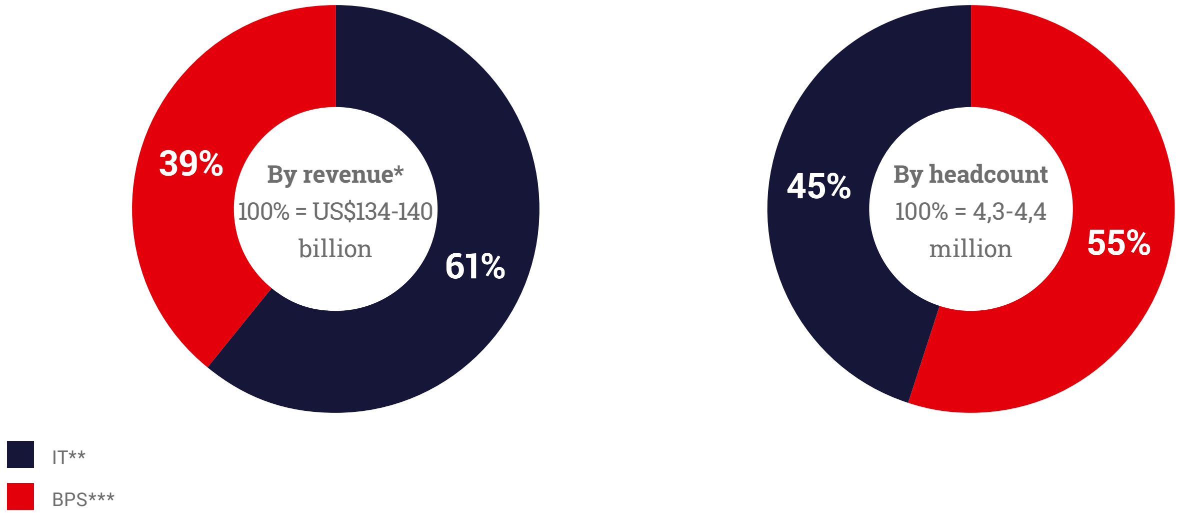

Figure 45
Global services market / Breakup by functions
Note: Indicates the offshore/exports IT-BPS industry size across each location. Excludes domestic operations
Source: Everest Group Global Locations Annual Report (2014): Expanding Frontiers and Maturation
* includes global services exports for 25 leading locations. Excludes domestic market.
** includes IT-ADM, infrastructure, testing, helpdesk, and other services related to information technology. Excludes engineering and R&D services.
*** Business Process Services which includes voice BPS, non-voice BPS, industry-specific BPS, and knowledge-based processes.

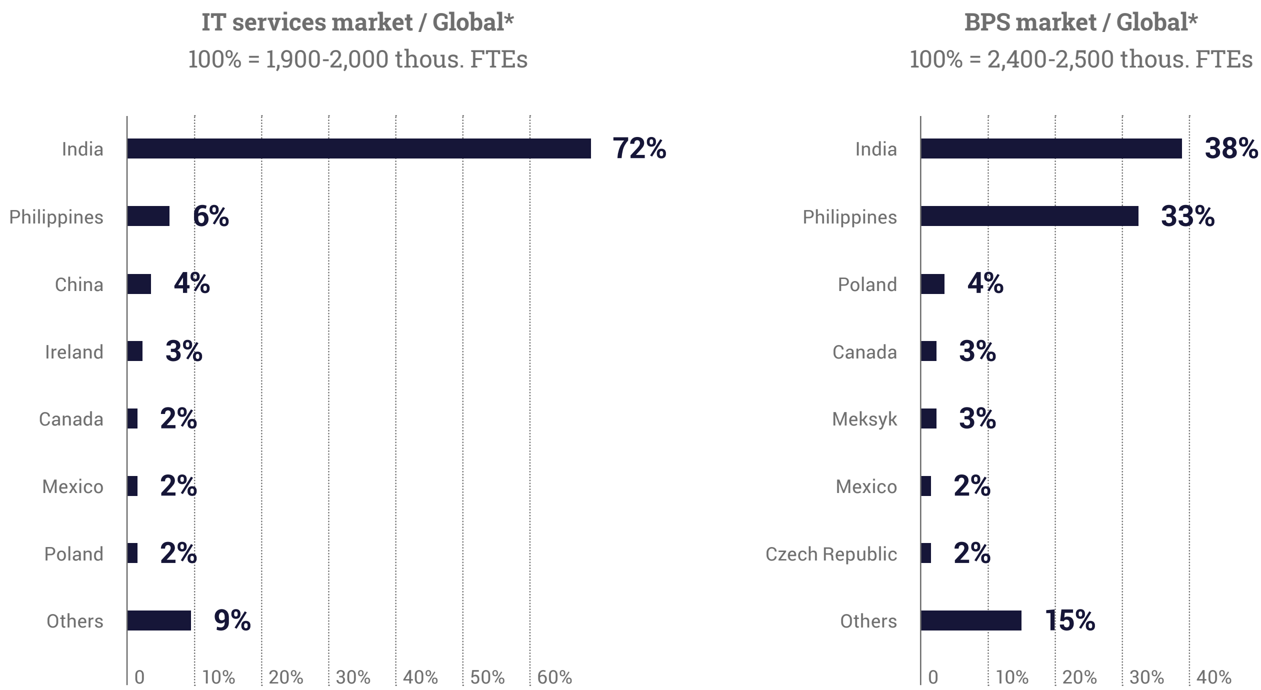

Figure 46
Global Services Market / Delivery locations landscape by function
Note: FTE = Full Time Equivalent
Source: Everest Group Global Locations Annual Report (2014): Expanding Frontiers and Maturation
* includes global services exports for 25 leading locations. Excludes domestic market.

Global services market: New center set-up activity by region and country

New center set-up activity witnessed a revival in 2014 after a slump in 2013. This slump was mainly due to macroeconomic pressures in traditionally dominant source markets (North America and Western Europe), especially in the first half of 2013. The decline was seen mostly in service provider activity. The revival in 2014 was a result of broad-based increase across both Global in-house centers (GIC)/captives and service providers, although the number of GIC set-ups was higher than that of service providers. Service providers diversified their location footprint by setting up centers beyond Asia, whereas GICs mainly leveraged Asia for service delivery. Within GICs, there was also a shift in the functional mix towards voice and back-office BPS in new set-ups, compared to technology and engineering services / R&D.

There was a decline in the share of APAC in terms of new set-up activity, although India and the Philippines retain their leadership status in the global services market with the highest new center activity levels among all countries. China, Poland, Ireland, Mexico, and Costa Rica were the other leaders in terms of new center set-up activity. This is reflected by increasing shares of NE and LAC in 2013-2014.

Global services market: Opportunities and forecast for the future

The past few years have seen steady evolution and maturation of the global services market, as a result of changing macroeconomic realities, increasing demand for sophistication in global delivery networks, and expansion in location frontiers, as companies evolve their service delivery and strive towards increasing efficiencies in operations. Highlighted below are some of the upcoming trends that are likely to impact the global services market and their implications on market participants.

Table 7
Global services market / Opportunities and forecast for the future

Themes	Global services market insights	Implications for market participants
LOCATIONS	**Increased leverage of tier-2 and/or tier-3 cities due to increasing competition and congestion in tier-1 cities**	Although tier-2/3 locations may offer significant arbitrage, companies will also need to evaluate aspects such as functions that can be supported, scale targets, employability, and scalability/sustainability of talent Carefully consider the role of such cities in the overall delivery portfolio – e.g., hubs, spokes, centers of excellence for niche skills or BCP (business continuity planning)/risk diversification options
	Steady increase in interest and investments in onshore locations, especially from traditionally offshore-centric service providers	Opportunity for service providers to expand/explore new operating models, support more complex work or work that involves confidential data or intensive customer interaction Onshore location selection decisions involve an entirely different set of considerations compared to offshore/nearshore locations
	Value propositions based on labor arbitrage have diminished in effectiveness	Increased focus on skill levels and knowledge that employees should possess – providers (both in-house and third-party) will need to specialize in these aspects rather than just offering cost savings Recruitment and training engines will need to be aligned to changing needs of the global services sector
OPERATING MODELS	**Movement towards consumption-based models/as-a-service models**	End-to-end consumption models involve developing customized platforms for customers based on their needs. This helps eliminate stranded costs (due to inefficient delivery models), and reduces friction between provider and customer interests
	Adoption of "hub-and-spoke" delivery model	Increased leverage of hub-and-spoke delivery model where "hubs" will support multiple functions or one or two functions on a large scale, and "spokes" will complement hubs through risk diversification, client proximity, and by delivering language-specific functions Increased rebalancing of work with improved talent management and opportunities for global movement of workforce within centers
INFORMATION TECHNOLOGY / AUTOMATION	**Adoption of cloud-based solutions**	"Rearchitecting" or migrating existing legacy applications into the cloud space will need to be an intentional exercise to avoid the risk of cost over-runs, discontinuity, and potential misalignment with objectives Offerings for replatforming haven't been developed yet, so providers/GICs could adopt a more measured/incremental approach towards reworking legacy, developing new applications for the cloud environment, etc.
	Increased use of automation / artificial intelligence for standardized processes	Automation can play a big role in optimization, strengthening, and bringing together complex business processes by using virtual agents, non-traditional application development methods (e.g., visual configuration-based methods rather than code-based methods) However, new tools for management and organizational structures would have to be developed, significant amounts of retraining of labor would have to be undertaken

Source: Everest Group

List of figures

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