

O₂P and BPA/P Periodic Survey IV Impact of the Peso's Appreciation on O&O Companies in the Philippines

Summary of Results July 2008

The Periodic Surveys

Outsource²Philippines (O₂P), in partnership with the Business Processing Association of the Philippines (BPA/P), conducted a survey to assess the impact of continued strengthening of the Philippine Peso against the US dollar on the offshoring and outsourcing industry (O&O).

Background:

The survey was conducted from February 4-20, 2008 and was sent to 276 members of BPA/P representing the following sectors: contact centers, BPO providers, software companies, transcription service firms, engineering services companies, and service providers to these sectors. Of the 276, 62 participated in the survey, providing a 22.5% response rate. Response rate was representative of the industry, with both very large and small firms participating.

Survey Results

Executive Summary

1. More than half of the respondents indicated that Peso appreciation against the US Dollar has had no impact or only modest impact on their businesses; however they are concerned about the implications of further strengthening of the Peso.
2. For those companies that have been more severely impacted by the Peso's appreciation, most have scaled back their expansion plans, or shelved them. A smaller number have moved their operations to lower-cost locations in the country or to other countries.
3. Relative to the competitive impact of exchange rate fluctuations, a minority of respondents indicated that their services will no longer be competitive in the range of P37-42/US\$. Almost half of the respondents stated that their competitive advantage will be severely impacted at an exchange rate below P37/US\$. A minority of respondents indicated that exchange rate was not a serious factor for them.
4. Most of the respondents include contractual provisions that protect them in case of severe exchange rate fluctuations, and of these, most have already exercised these provisions on a case-to-case basis.
5. Actions taken by companies to offset the Peso's appreciation are primarily focused on reducing overhead costs, increasing billing rates, and improving operational efficiency.
6. Currency appreciation in countries competing in the O&O space is not a significant ameliorating factor with respect to the impact of the Peso's appreciation.

Responses to Questions

Impact on company's expansion: Thirty-one percent of the respondents indicated that the appreciation of the Peso had no impact on BPO companies. Of the respondents who indicated that Peso appreciation had an impact to their company's expansion plans, 41%, said that it had only "some impact". Twelve said it had "moderate impact", suggesting that Peso appreciation had no "significant impact" on expansion plans for the majority of respondents.

1. Please indicate your response to the following statement: The appreciation of the peso has affected our company's plans for expansion in the Philippines.

No Impact		19	31%
Some Impact		18	29%
Moderate Impact		12	19%
Significant Impact		7	11%
Very Significant Impact		6	10%
Total		62	100%

Effect of Peso appreciation: Among respondents that said appreciation of the Peso has had an impact on their companies, 32% said currency appreciation has motivated them to somewhat scale back expansion plans and 21% indicated that they would temporarily shelve expansion plans. Only 18% chose to move to lower-cost locations in the Philippines and five percent decided to move operations to other countries.

2. If you responded to the previous statement indicating that the appreciation of the peso has affected your company's expansion plans, please indicate how it has done so.




Shelved expansion plans		3	8%
Temporarily shelved expansion plans		8	21%
Somewhat scaled back expansion plans		12	32%
Significantly scaled back expansion plans		2	5%
Moved or moving to lower-cost locations in the Philippines		7	18%
Moved or moving operations to other countries		2	5%
Other, please specify		7	18%



Exchange rate: Forty-two percent of respondents indicated that should the Peso appreciate to a rate of P37/US\$ or higher, they will be no longer be price competitive. Only two percent of respondents said their firms will no longer be competitive at an exchange rate between P41-42/US\$. Twenty-six percent of respondents provided other values, mostly higher Peso-Dollar exchange rates than P37/US\$, or indicated that the company would respond to increased appreciation of the Peso with measures to assure that competitiveness was sustained.

3. Our company's services will no longer be price competitive at an exchange rate of:








41-42		1	2%
39-40		11	18%
37-38		8	13%
<37		26	42%
Other, please specify		16	26%
Total		62	100%

Contractual provisions: In order to insulate themselves from the negative effects of exchange rate fluctuations, 58% of respondents have contractual provisions (16%) or have contract provisions in at least “some cases” (42%) that presumably allowing them to adjust pricing in the event of exchange rate fluctuation outside a specified band. Forty-two percent of respondents indicated that they don’t include contractual provisions—the same percentage as respondents who do in some cases. Among respondents who indicated that they include contractual provisions, 68% have enforced these provisions, while 32% have not.





4. Our company includes contractual provisions that protect us in the case of exchange rate fluctuations.			
Yes		10	16%
No		26	42%
In some cases		26	42%
Total		62	100%

5. If your responded "Yes" or "In some instances" to the previous statement, have these provisions been enforced?			
Yes		25	68%
No		12	32%
Total		37	100%

Steps in moderating the impact of the Peso appreciation: Respondents indicated they are taking a variety of steps to moderate the impact of the appreciation of the Peso. Sixty-one percent said they are reducing overhead costs; 38% have opted to increase billing rates and 33% are moderating employee salary and benefit increases.



6. Our company is taking steps to moderate the impact of the peso's appreciation in the following way(s).			
Reducing overhead costs		37	61%
Moderating salary and benefit increases		20	33%
Cutting back on employee benefits		5	8%
Increasing billing rates		23	38%
Reducing number of expatriate staff		6	10%
None of the above		10	16%
Other, please specify		13	21%

Currency appreciation in other O&O centers: Forty-one percent of respondents indicated that currency appreciation in other O&O centers is offsetting the impact of the appreciation of the Peso only “somewhat”, while 27% indicated a moderate offset effect. Seventeen percent indicated currency appreciation in other centers has had no offset effect while 15% indicated currency appreciation in other centers has had a significant offset effect. For most respondents currency appreciation in other O&O centers has had no or only moderate significance in offsetting the impact of the Peso’s appreciation.

7. Please indicate your response to the following statement: Currency appreciation in other offshore & outsourcing centers is offsetting appreciation of the Philippine peso.			
Not at All		10	17%
Somewhat		24	41%
Moderately		16	27%
Significantly		9	15%
Very Significantly		0	0%
Total		59	100%

Basic Information

Profile of companies: Respondents represented a variety of O&O sectors, with third-party (28%) and in-house (26%) BPOs predominant at 54%, followed by contact centers at 31%. Twenty-eight percent of respondents represented the software sector.

8. Please indicate the sectors in which your firm operates.			
Primarily Inbound Contact Center		7	11%
Primarily Outbound Contact Center		1	2%
Inbound and Outbound Contact Center		11	18%
Third Party BPO (primarily non-voice processing services)		17	28%
In-House BPO (shared services)		16	26%
Software (IP development, licensing & implementation)		6	10%
Software (outsourced services)		11	18%
Medical Outsourcing Services		4	7%
Legal Outsourcing Services		4	7%
Animation and Graphics		5	8%
Engineering Services		2	3%
Other, Please Specify		18	30%

Employee Base: Thirty-three percent of respondents work in firms employing one to 100 people; 26% employ 101-500, and 13% employ 501-1,000 employees. Fifteen percent employ between 1,000 and 5,000 employees. Companies employing more than 5,000 employees represented 13% of respondents.

9. Our company employs the following number of people:			
1-100		20	33%
101-500		16	26%
501-1,000		8	13%
1,001-2,500		6	10%
2,501-5,000		3	5%
5,001-10,000		1	2%
More than 10,000		7	11%
Total		61	100%