

BUSINESS  
SERVICES SECTOR  
IN  
CZECH REPUBLIC  
**2013**



**ASSOCIATION OF  
BUSINESS SERVICE LEADERS  
IN CZECH REPUBLIC**



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This report was produced for **ABSL** (Association of Business Service Leaders in Czech Republic) by Infosys BPO.

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# INTRODUCTION

ABSL is proud to announce its first report about Process Outsourcing and Modern Business Services industry in the Czech Republic for the year 2013. This snapshot aims to present a brief and yet complete analysis of the Czech market: based on sector data and business owners feedback, ABSL aims to help current and future investors make the right decisions in a region characterized by a remarkable potential.

# ABOUT ABSL

Business Services is one of the largest employers in the country and is growing every year as new companies come to appreciate the benefits of setting up their operations in this country. The Czech Republic is the second largest country for Business Services in CEE - and there is strong competition from other countries in this region. The Association of Business Service Leaders in the Czech Republic (ABSL) has formed to give the business services industry a common voice to help shape its environment and destiny.

## MISSION

ABSL is a platform for enhanced dialogue and collaboration within the Business Service Community. We advocate Business Services to create a better business environment for our members and ensure the sustainable and long term development of the industry.

## VISION

Our vision is to promote Business Services to become one of the key local industries and help the Czech Republic to be one of the most attractive locations for Business Services in Europe.

## GOALS

ABSL is a source of branch knowledge, expertise and best practices. ABSL initiates a number of activities aimed at stimulating growth of the Business Services sector as well as increasing the investment attractiveness of the Czech Republic internationally.

ABSL Members include companies which conduct business in the area of Shared Services Centre (SSC), Business Process Outsourcing (BPO), Information Technology Outsourcing (ITO), Research and Development (R&D) and companies contributing to the sector's growth.

The Association is aligned with the success of ABSL in Poland and Romania, which have been at the vanguard of the growth in Business Services over the last 5 years and is one of the most significant member associations in the region.

ABSL was founded by 15 founding members in 2013.

## CURRENT ABSL MEMBERS

ACCA

DHL Express (Czech Republic) s.r.o.

Gardner Denver CZ+SK, s.r.o.

Infosys BPO s.r.o.

MANN+HUMMEL Service s.r.o.

Motorola Solutions CZ s.r.o.

Plzeňský Prazdroj, a.s.

Process Solutions s.r.o.

Siemens, s.r.o.

Accenture Services, s.r.o.

Global Tele Sales Brno s.r.o.

JNJ Global Business Services s.r.o.

Monster Worldwide CZ s.r.o.

PPG Industries Czech Republic, s.r.o.

PricewaterhouseCoopers Česká Republika, s.r.o.

SAP BSCE, s.r.o.





## **ABSL IN CZECH REPUBLIC**

*an executive summary*

Centralization of the supporting processes became a necessity in the conditions of globalized competition. Not only the biggest corporations but also companies operating on regional or even national level look for cost saving, process optimization and transparency which can be achieved in centers of shared services.

While many corporations are advanced in their services centralization programs, there is still a huge number of those who will start investing in it. These will look for the best location to open their captive Shared Service Centre or to establish partnership with one of the Business Process Outsourcing providers.

Leaders who started their 'outsourcing journey' more than 10 years ago often have the majority of their supporting functions moved into a centralized environment. But even for them the process is far from completed. They keep looking into opportunities to transform the processes, which a few years before seemed to be impossible to be moved to an outsourced environment. The overall concept is constantly developing. Shared Service Centers become Centre of Excellence and BPO is replaced by the industry buzz word: Business Process Management.

**“Unlike many other industries, the BPO/SSC sector does not have to worry about the limitation of its market”.**

The others are following this path starting with areas which are already well tested like transactional Finance & Accounting, IT support or Customer Service.

Successful centralization projects in one area give companies arguments to replicate the same approach for more complex or different set of supporting processes.

The recent global downturn made it evident for the companies that they need to invest in solutions which ensure flexibility and optimum usage of resources in any market conditions. The outsourcing industry was one of the few which noticed growth while others were struggling to survive.

The direct result of the above statements are: unlike in many other industries - BPO/SSC sector, does not have to worry about a limitation of its market size or being a ‘temporary fashion’. We are still a long way from running out of ideas for centralizing and optimizing supporting processes.

Czech Republic is playing a very important role in this global trend and is one of its key beneficiaries. We are now the second biggest exporter of modern business services in CEE, employing over 50.000 specialist in over 200 centers.

It is important to monitor trends in this market and to assure our competitive position stays strong. Development of modern business services not only means transfer of world class knowledge but very often, that this knowledge is being developed just around the corner.

Rafał Drygała  
Vice President ABSL | Regional Center Head Infosys BPO

Seventy-seven percent of the respondents to the ABSL survey are General Managers or Senior Directors of some of the most important BPOs and SSCs in Czech Republic

## ABOUT THE REPORT

This ABSL report wants to depict the Czech Business Service sector in a comprehensive fashion giving not only picture of the current state of the industry but also the key elements of Czech market environment influencing the decisions of potential future investors.

Within the globalized economy, the CEE region has its particular competitive advantages: that is why in the first part of this report, we will be giving you a broad picture of its positioning on the global scale.

The second part is the result of the survey that ABSL crafted, which targeted a large number of BPO's/SSC's located in Czech Republic, many already members of the Association. We aimed at giving the most precise picture of the current state of the sector, its development over the last few years and predictions for the future. We also asked the respondents for their opinions about some elements of the Czech business environment, in order to understand what needs to be done to take full advantage of the global development of the industry.

The survey has been responded by close to 30 companies, representing 8000 professionals. 77% of them were captive SSC's, while the rest were Centers of commercial BPO companies.

The most important asset of SSC's/BPO's are the professionals themselves with their expertise and creativeness. Talent availability is the key factor in investors' decision-making process: that's why we decided for the second part of this report to be focused entirely on the work-

force. We will be presenting the picture of the currently available talents, their costs and ways how to motivate them. In the last (but not least) part of our report, our focus will shift on the market of modern office space. BPO/SSC premises require high standards in order to meet all the requirements coming from the necessity to motivate the best specialist and to ensure availability of the latest communication technologies.

We thank all the company representatives and all the ABSL members and partners for their valuable contributions, and for devoting their time to the preparation of this report.



A close-up photograph of three business professionals in a meeting. A man in a dark suit and patterned tie is pointing with a pen towards a laptop screen. A woman in a dark suit is looking at the screen, holding a pen to her chin. Another man is partially visible in the background, also looking at the screen. The scene is brightly lit, suggesting an office environment.

2

# CZECH REPUBLIC IN A REGIONAL CONTEXT



## CZECH REPUBLIC IN A REGIONAL CONTEXT

As per The Hackett Group there are 4.900 service centers operating globally, with 52% of them located in Europe. ABSL estimates that 1000 of them are located in CEE region and employ 270-300 thousand individuals on a 20% yearly growth.

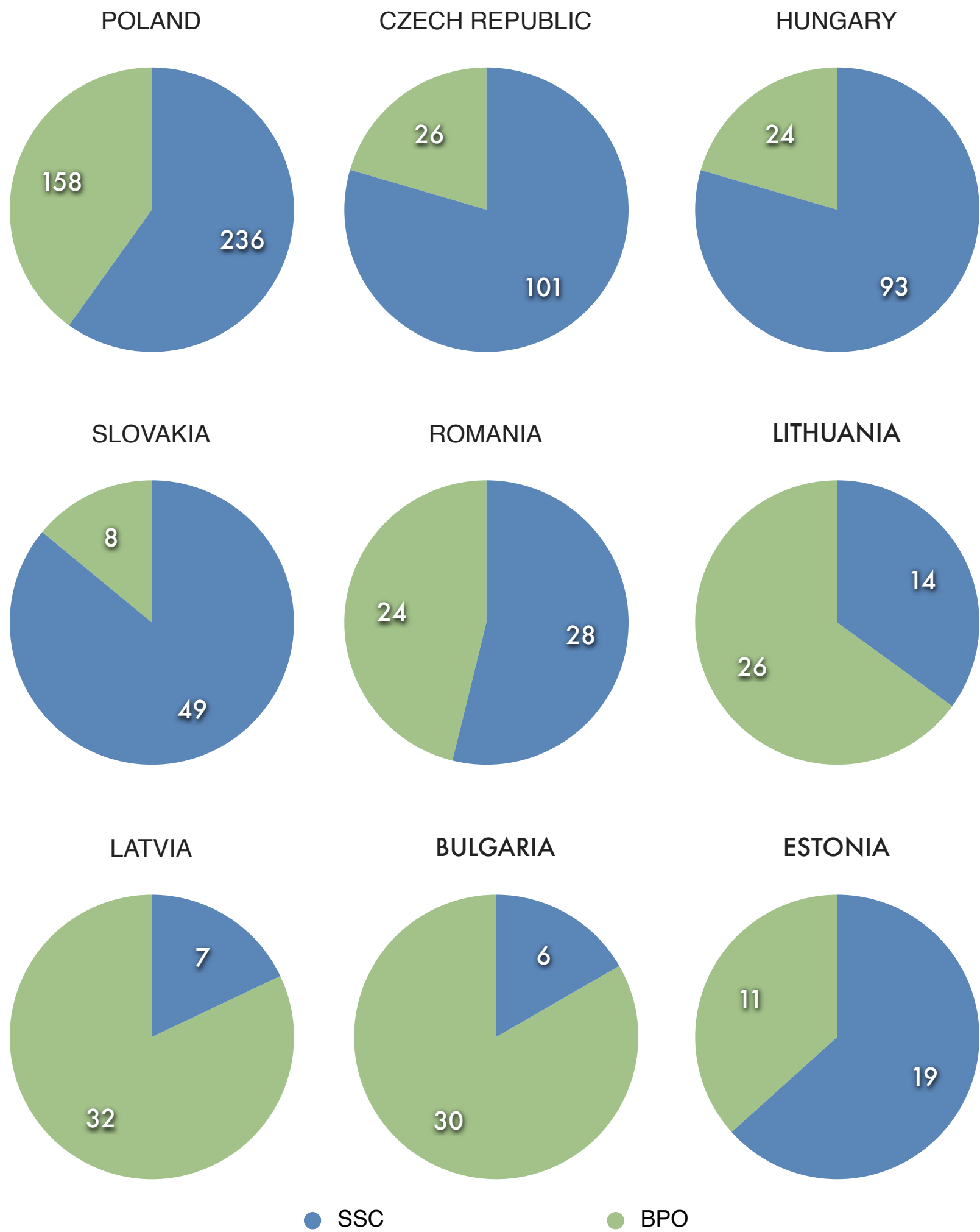
The CEE region has a very particular positioning in global outsourcing programs. The key competitive advantages are:

- **Well educated workforce** at competitive prices. This refers to good education systems but also to the fact that the BPO/SSC industry is well developed and it is easy to find experts with the required experience.
- **Physical proximity** and the same time-zone allowing short response times and giving companies comfort that employees can travel on short notice and low cost between centralized services location and European offices of the company.
- **Language and cultural fit.** While language neutralization is often part of successful outsourcing programs, companies often prefer to use local languages in contact with European offices. Processes like money collection, customer facing services, some parts of sourcing and procurement services and other, will however never be language neutralized and moreover they often are more effective when delivered by individuals coming from the same culture.

# SSC/BPO DISTRIBUTION IN CEE

The Czech Republic has now a strong position on the CEE Outsourcing market. It is in second place after Poland, which has a population three times greater.

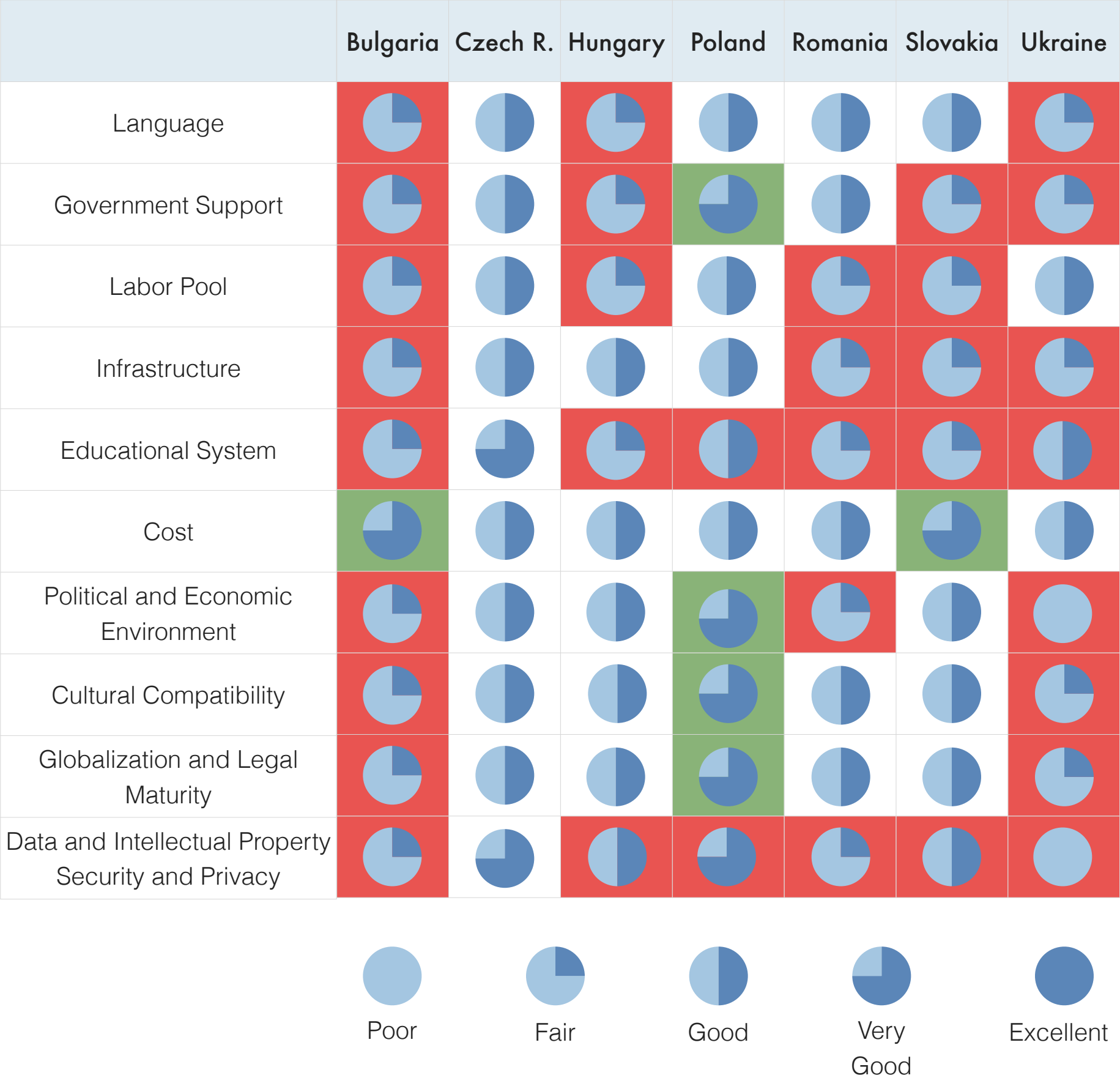
As per the Gartner studies, Czech Republic has the most attractive education system, data and intellectual property security and privacy, among all the CEE Countries.



Source: The Hackett Group

One of the most balanced Countries in EMEA for the critical BPO/SSC outsourcing criteria, according to Gartner.

The Czech Republic also scored equal to competitors or higher, in all the areas checked by Gartner. There were only two types of exceptions: Poland scored better in some of the areas where Czech Republic got good marks. Also, in terms of cost, Bulgaria and Slovakia were offering lower prices, but at the expense of lower rates in other areas.



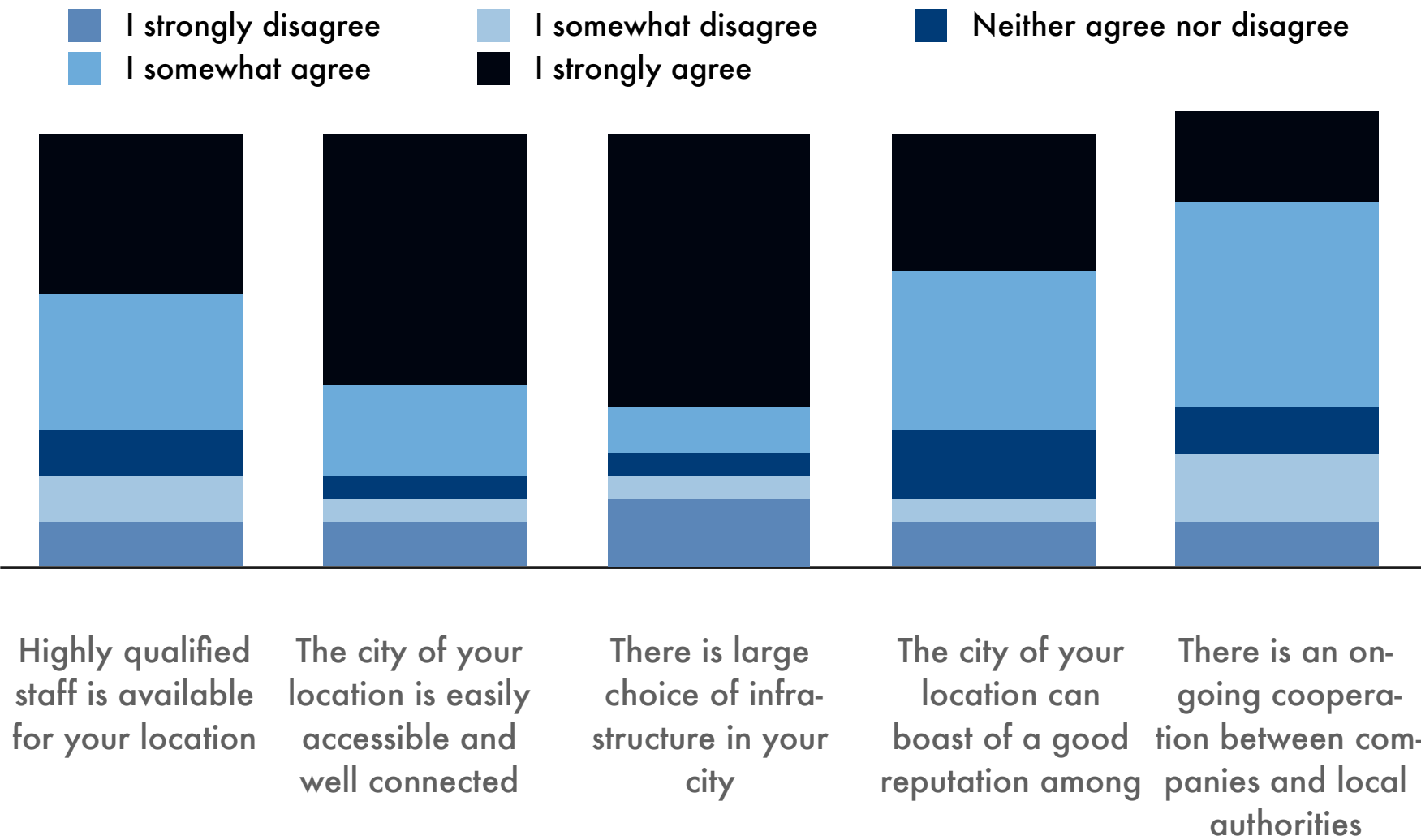
Gartner is not the only one to notice the value of the Czech Republic as a great location for modern business services. The 2013 Tholons Top 100 Outsourcing Destinations Ranking puts Prague and Brno on very high positions. Within the CEE region, Prague is in second place and Brno is in 4th place, outranked only by much larger capitals.

POSITION	CITY
10th	Cracow
<b>17th</b>	<b>Prague</b>
28th	Budapest
<b>30th</b>	<b>Brno</b>
32nd	St. Petersburg
36th	Warsaw
44th	Bucharest
47th	Bratislava
50th	Sofia
51st	Tallin

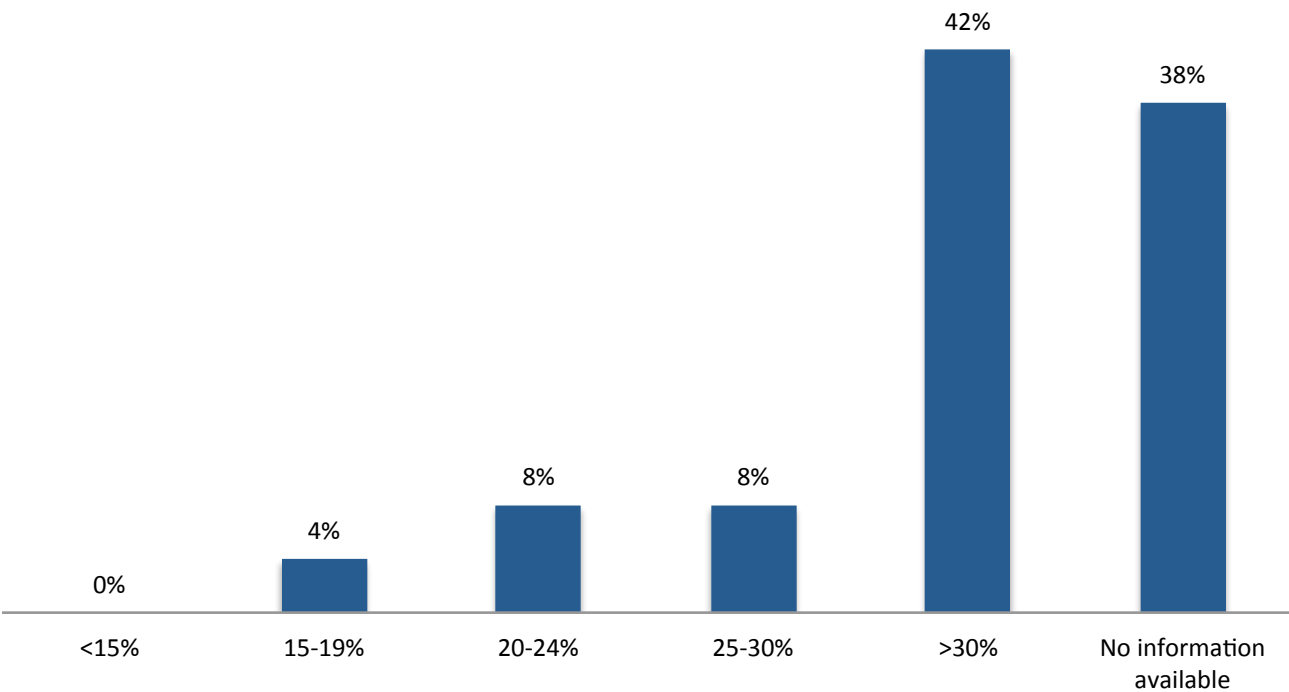
Source: Tholons Top  
100 Outsourcing  
Destination - 2013



ABSL asked in its survey to assess a few key aspects of the Czech Business environment. The grand majority of responding managers agreed that the Czech Republic offers great conditions to run successful BPO/SSC operations.



The optimism among the managers of Czech SSC/ BPO Centers is also related to the fact that all qualitative advantages of the location are supported by realized monetary savings. According to the “Shared Service Centers report” executed by PwC in 2012, almost half of the SSC participants claimed to achieve operational cost savings **of more than 30%.**



Source: Shared Service Centers 2012 report by PwC

It is important to note that the high level of investment into the BPO/SSC sector in Czech Republic is linked to the fact that in general, Czech Republic continues to be a CEE leader in terms of Foreign Direct Investments (FDI).

The responsible government attitude, stable financial and political environment but also historic relationships between Czech Republic and some Western European Countries encourage many western companies to place their CEE presence in this Country.

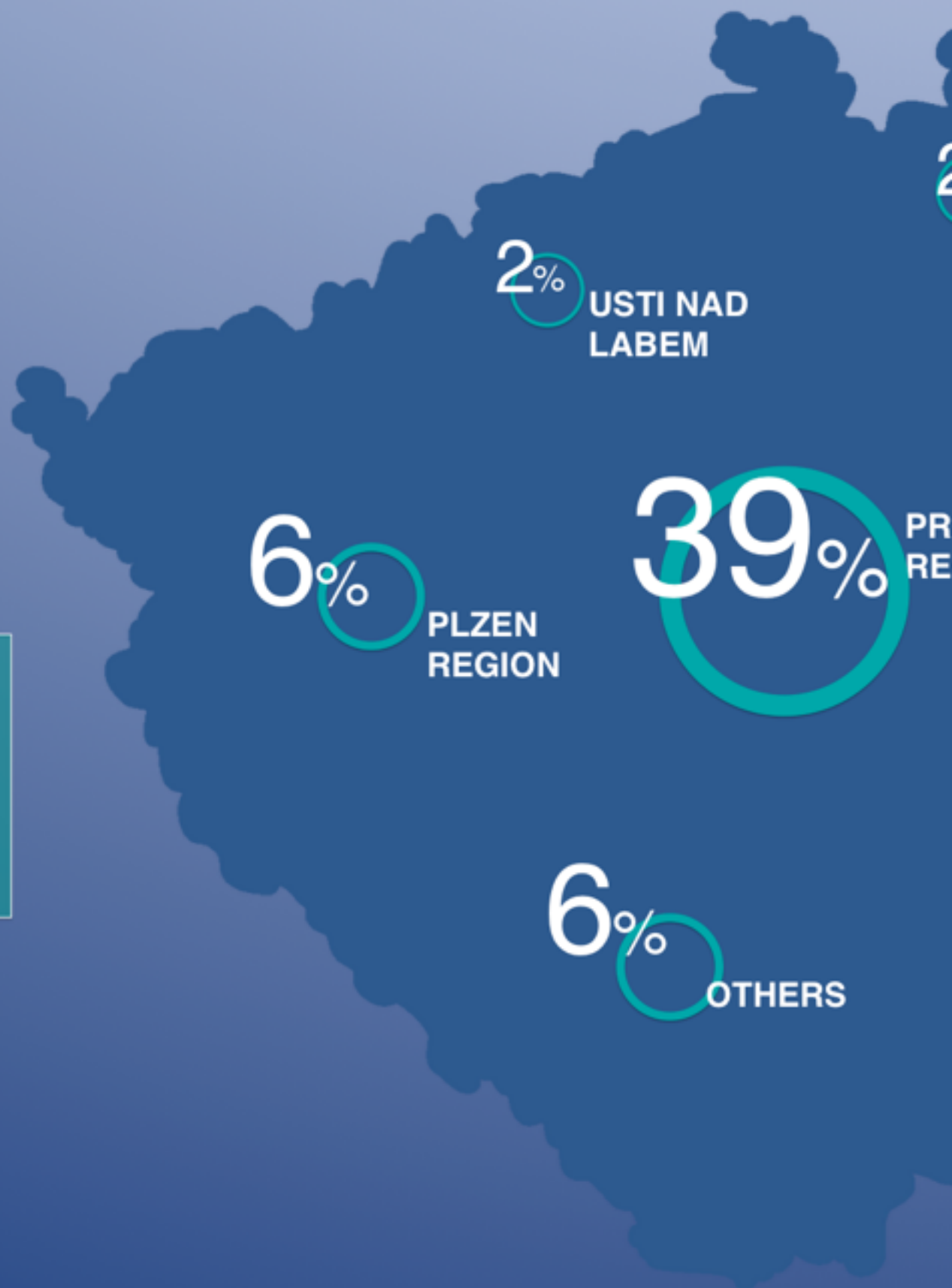
With the continuous process of 'building comfort' regarding successes achieved in other CEE countries and increasing competition in terms of governmental incentives or infrastructure, Czech Republic must continue to work at staying on the CEE podium.

# The numbers of Czech Republic

A quick look at the latest stats

Majority of the industry is concentrated in the 3 biggest cities of Czech Republic: Prague, Brno and Ostrava. However it is important to say that the industry is also present in many smaller cities. Out of 30 companies who replied to ABSL survey, 6 had their centers in other locations.

APPROX.  
**50,000**  
EMPLOYEES



# olic

37%

63%



BPO



SSC

Source: The ABSL 2013 Survey. Please note the calculation has been made upon a representative sample of the population. The percentage refers to the headcount and not to the number of centers

2%  
LIBEREC

2%  
HRADEC  
KRALOVE

AGUE  
GION

4%  
PARDUBICE  
REGION

12%  
OSTRAVA

2%  
OLOMOUC

25%  
BRNO

A close-up, profile view of two female call center workers. The woman in the foreground is wearing glasses and a headset with a microphone, looking down. The woman in the background is also wearing a headset and looking down. The image is slightly blurred, focusing on the foreground worker.

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# DESCRIPTION OF BPO/SSC SECTOR IN CZECH REPUBLIC



## DEFINITION OF BUSINESS SERVICES CENTERS AND SCOPE OF THEIR SERVICES

What we understand as a Business (Shared) Service Center is an organizational unit responsible for the execution of specific tasks supporting the core activity of the company e.g. Finance & Accounting, IT support, Sourcing & Procurement, Human Resources and others.

Such centers can exist as captive centers being separate legal entities or just organizational units of the mother company. In terms of centers run by BPO providers their Delivery Centers render various type of centralized services for multiple 3rd party clients.

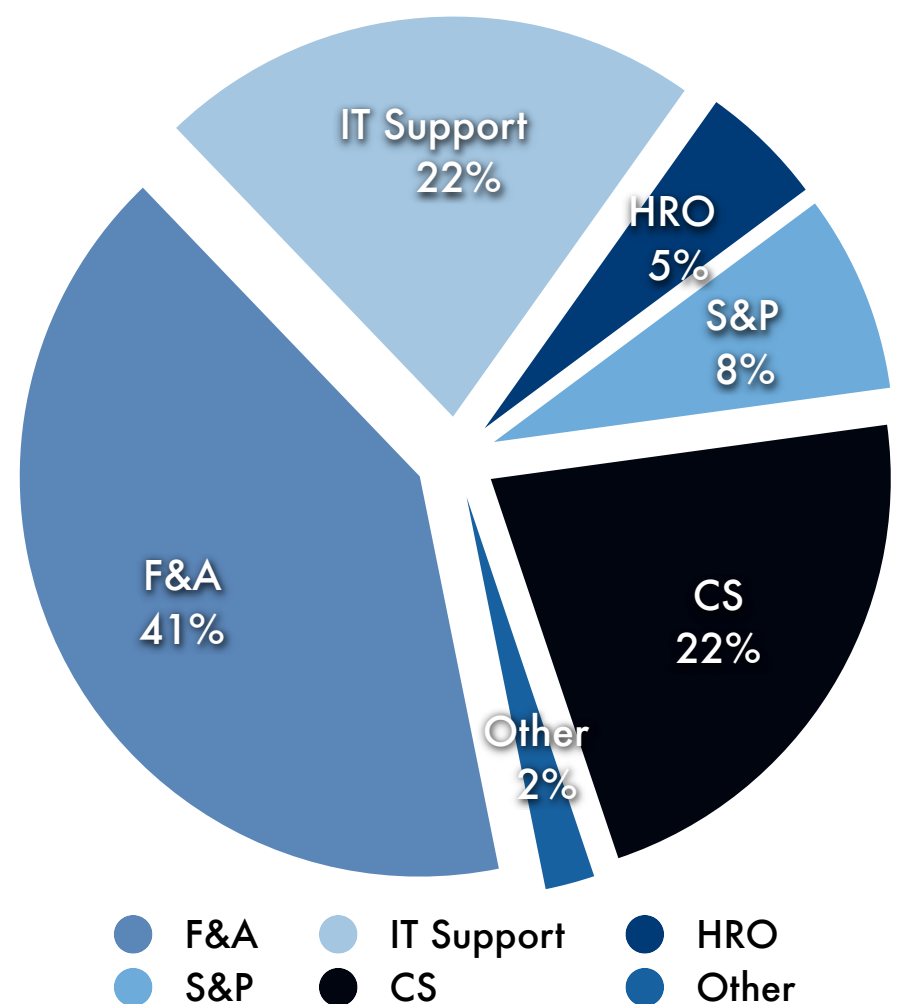
In Czech Republic approximately 75% to 80% of the whole industry are captive Shared Services Centers and the rest is ran by 3rd party outsourcing providers.

In both cases services are often delivered as a part of a Global Delivery Model, where centers in various geographies simultaneously operate to deliver optimum results in terms of geographical fit and cost arbitrage.

Business Service Centers have a precisely described scope of activities, measurable outputs and financial targets.

The BPO/SSC industry offers support to almost any imaginable support process that companies may have. The general list includes:

- Financial Services and Accounting
- IT services
- Customer Services
- Sales and fulfillment
- Sourcing and Procurement
- Human Resources
- ...and other specific industry solutions



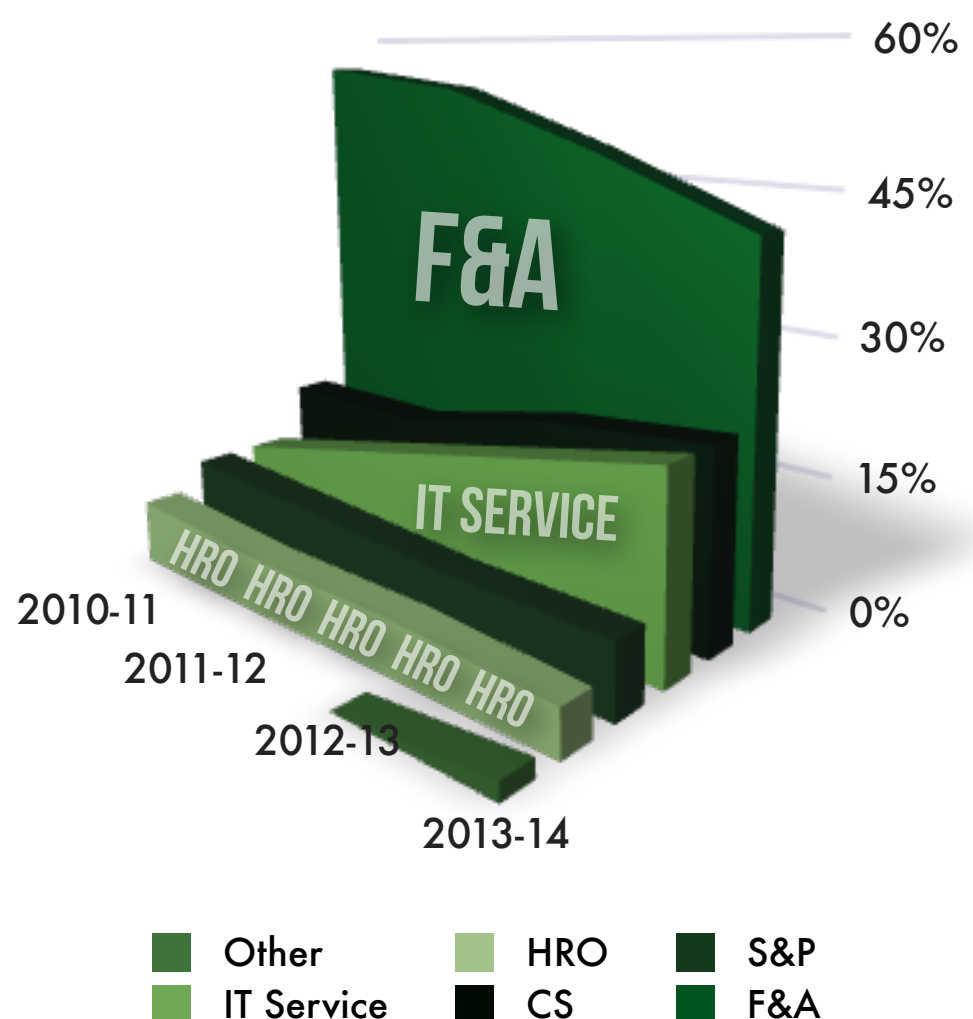
From that perspective Czech Republic landscape seems to be conservative. The center of gravity is on side of traditional outsourcing areas, mainly Finance & Accounting, IT Service and Customer Service.

The trend over previous years shows that Finance and Accounting services has stayed strong. Over the last 3 years the headcount in this area has grown by 24% and in terms of absolute numbers F&A is by far strongest field of expertise.

At the same time IT Service and Customer Services grew respectively 3.7 and 2.2 times. This shows that the center of gravity is steadily moving towards processes requiring engineering knowledge and high fluency of European languages.

The share of other processes is relatively stable. In general growth in those areas follows the general growth of the centers.

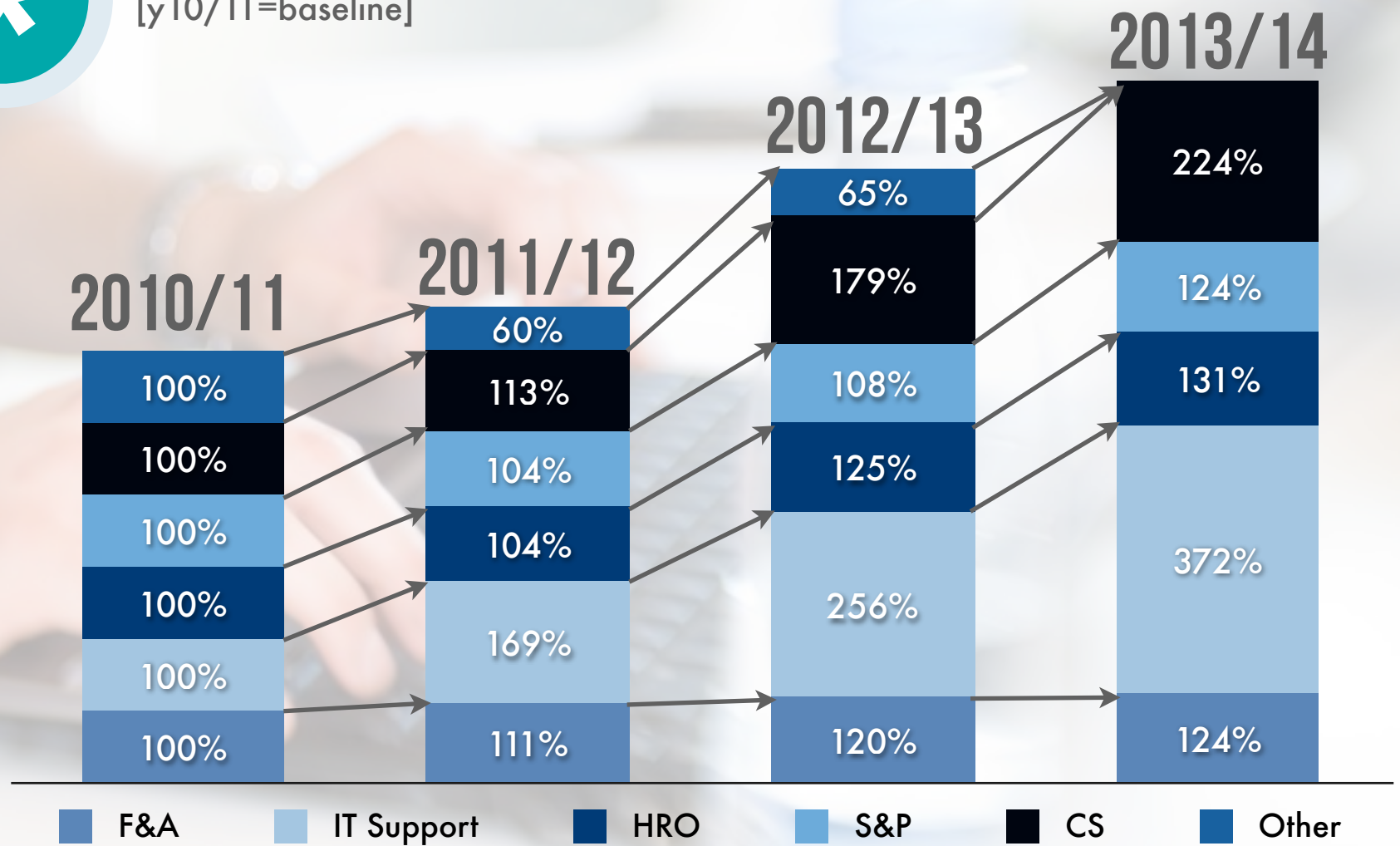
Percentage structure of types of services rendered by Czech SSC/BPO Centers



Source: ABSL Survey 2013



Headcount growth per type of service rendered by Czech SSC/BPO Centers  
[y10/11=baseline]



We can also observe the big qualitative change with regards to the processes which were moved to the centers in previous years. Such processes get more mature, which means common strategy of process development, unified targets and high level of process harmonization, optimization and automation.

There are a few other interesting observations of the SSC/BPO market. More and more often growth in areas like Finance and Accounting or IT is not only related to the mere addition of volumes of the same work, but is the result of the transition of processes which are more complex and where expert knowledge is required.

Financial Reporting and Analysis, Consolidation of Financial Statements, SOX services, Business Transformation consulting, 2nd and 3rd line tech-

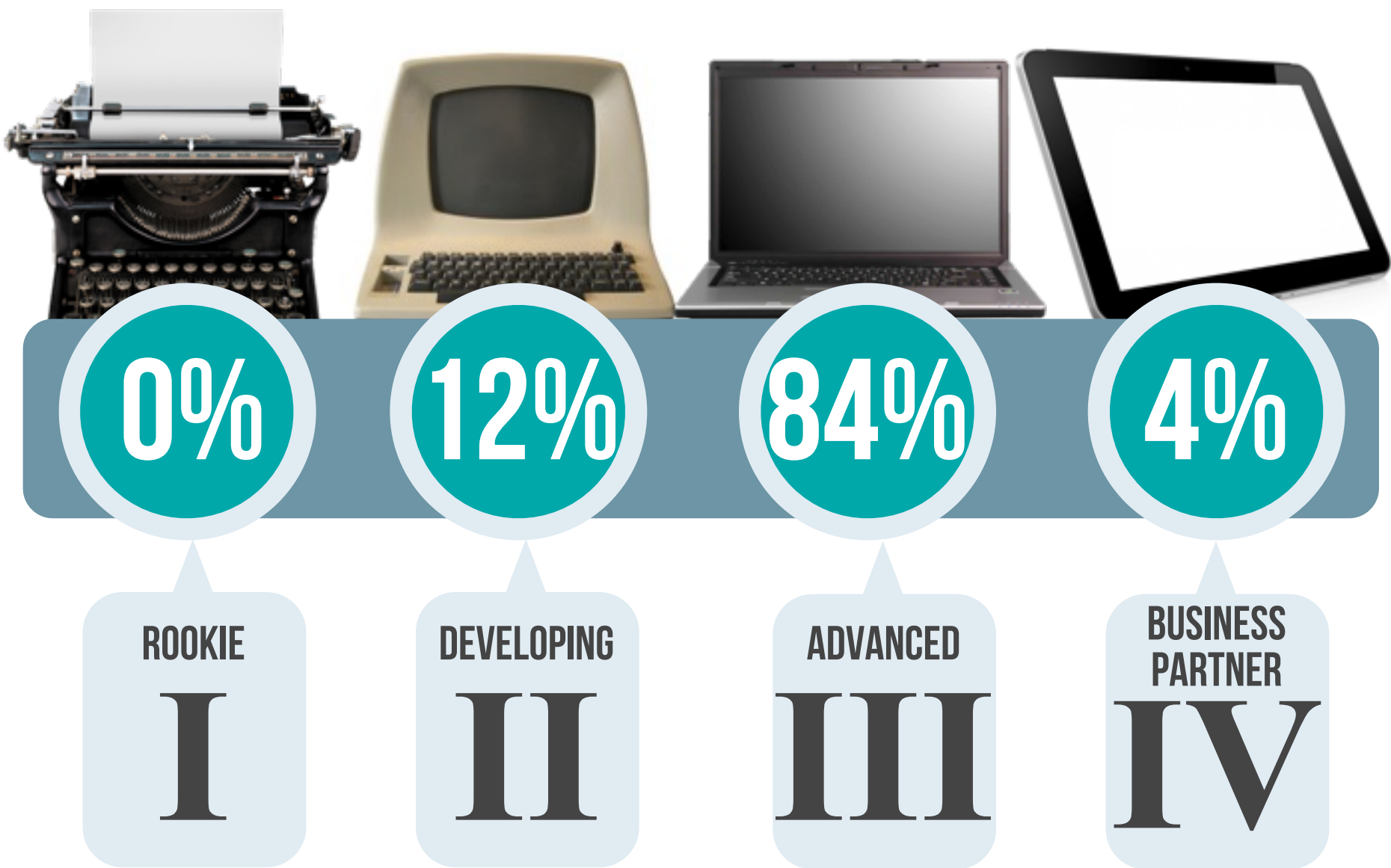
nical support or Software Maintenance & Development are some of the examples of increasing complexity within traditional areas.

The other observation is that we see instances where Czech SSC/BPO centers take over complex processes which are outside of the traditional scope of industry activities.

Among the examples are marketing activities, underwriting support or the preparation of legal documents.

The members of the industry learn from each other. Successful implementation of complex process in near-shore locations within Czech Republic is an argument for other Centers to go beyond initially agreed scope of activities.

# NUMBER OF SSC PER MATURITY STAGE



Local Departments	SSC		Optimized SSC	
Phase 0. SSC Design	Phase I. Rookie	Phase II. Developing	Phase III. Advanced	Phase IV Business Partners
No SSC in place, Design of SSC, Implementation plan	“only moving together” of local activities, Simple not standardized processes	Key Principles, some SSC Specific targets, strategies, measures set, main business process standardized	SSC specific targets, measures set, optimization and automation of business processes	Optimization across organizations, Establishment of service culture, Quality improvements through Six Sigma



## GROWTH OF THE SECTOR

The growth of the Centers within the CEE region can happen in a number of ways:

- Establishing new centers by companies which are starting their outsourcing programs
- Development of existing outsourcing programs. This often means centralizing more work in existing centers. In the case of companies which are advanced on their journey this often means the outflow of industrialized transactional processes to cheap off-shore locations (i.e. India) combined with transitions of more decision and expertise-based complex processes to near-shore centers.
- Optimization of current outsourcing structures within Europe itself. Out of the nine European countries with the largest number of centralized service centers seven are in Western Europe. Choosing an expensive but local solution was often the result of a low level of comfort with CEE near-shoring. This has changed with examples of numerous successful programs located within the CEE region.

The research done by ABSL shows that on the Czech market there is a minimum of 200 SSC/BPO Centers which employ around 50.000 individuals.

The growth rate of the industry has accelerated during last 3 years and based on ABSL survey we can expect another year with over 20% growth

FOR THE YEAR  
2014 IS  
CURRENTLY  
FORECASTED A  
GROWTH OF

**+21%**

2013/14  
**+23%**

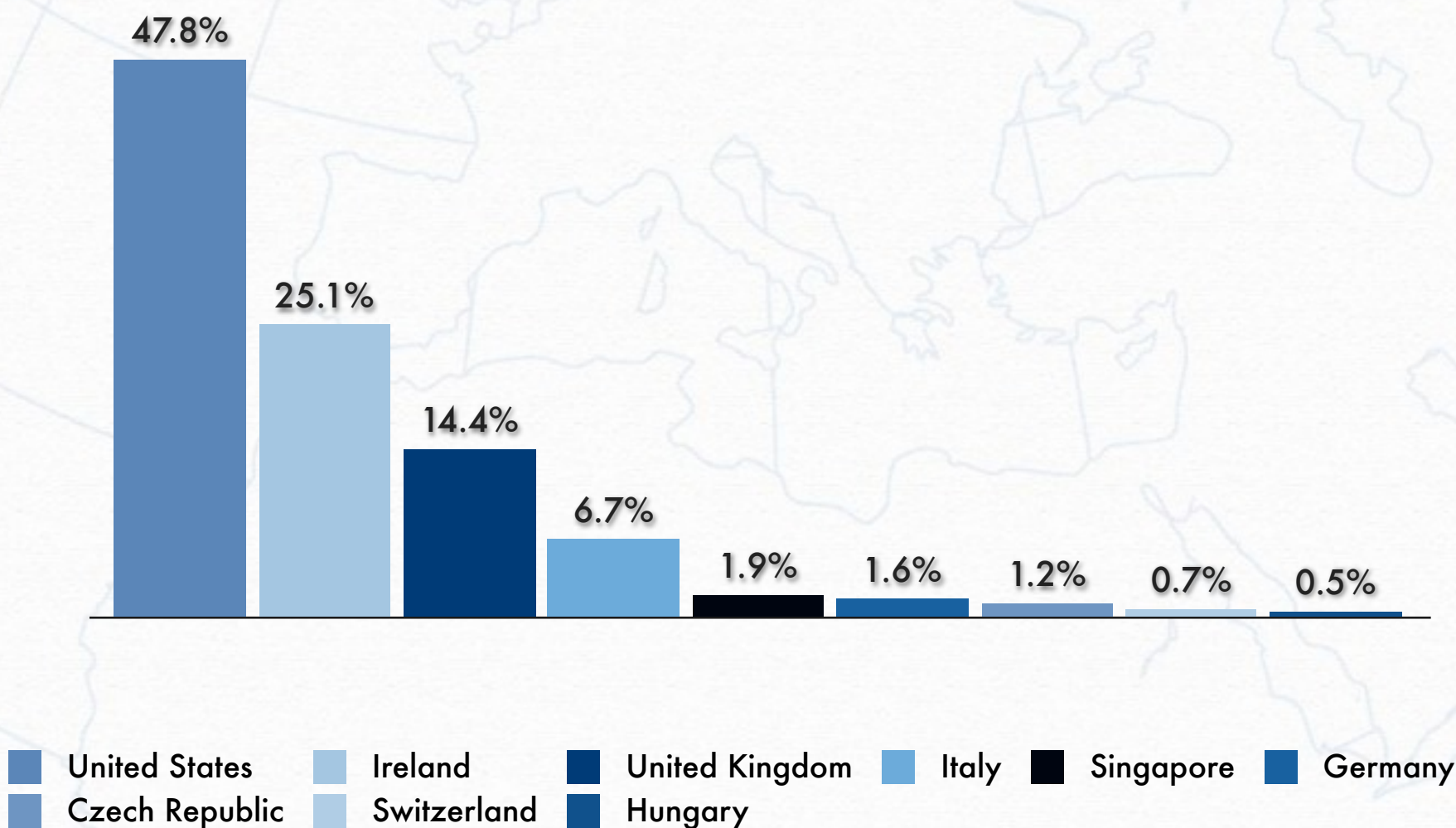
2012/13  
**+16%**

2011/12  
**+12%**

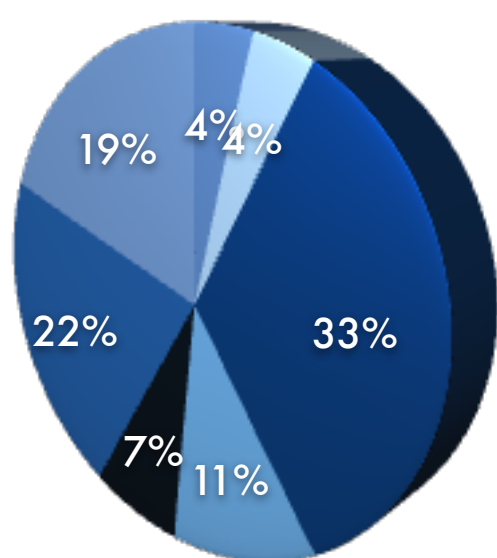
ACCORDING TO THE  
**ABSL SURVEY**, THE  
SECTOR EXPERIENCED  
GROWTH IN THE LAST  
THREE YEARS  
(2011-2013)

**+39%**

COMPARED TO THE BASELINE  
[2009/10]



## SOURCES OF INVESTMENT



- Retail
- Banking
- Manufacturing
- Software Development
- High tech & electronics
- Services
- BPO

The source of investment into the SSC/BPO sector is not a surprise. It generally reflects the size and level of 'outsourcing maturity' of particular economies. American and British investments arrive mainly from global corporations where Czech Republic is seen as one of the many location in the bigger outsourcing program. High number of German investments can be linked to the strength of the German economy as well as having a good business cooperation between the two countries.

The majority of the companies placing their centers in Czech Republic are manufacturing companies. Heavy industries are well represented among this group.

The second place goes to service providers.

High tech hardware and software producers are also strongly represented on the market. In their case big part of outsourced processes are in fact high end engineering operations.

Also number of BPO companies decided to open their delivery centers in Czech Republic. For them choosing the right delivery location is essential to succeed on highly competitive commercial outsourcing market. Having them investing in Czech Republic is definitely a good signal for the industry.



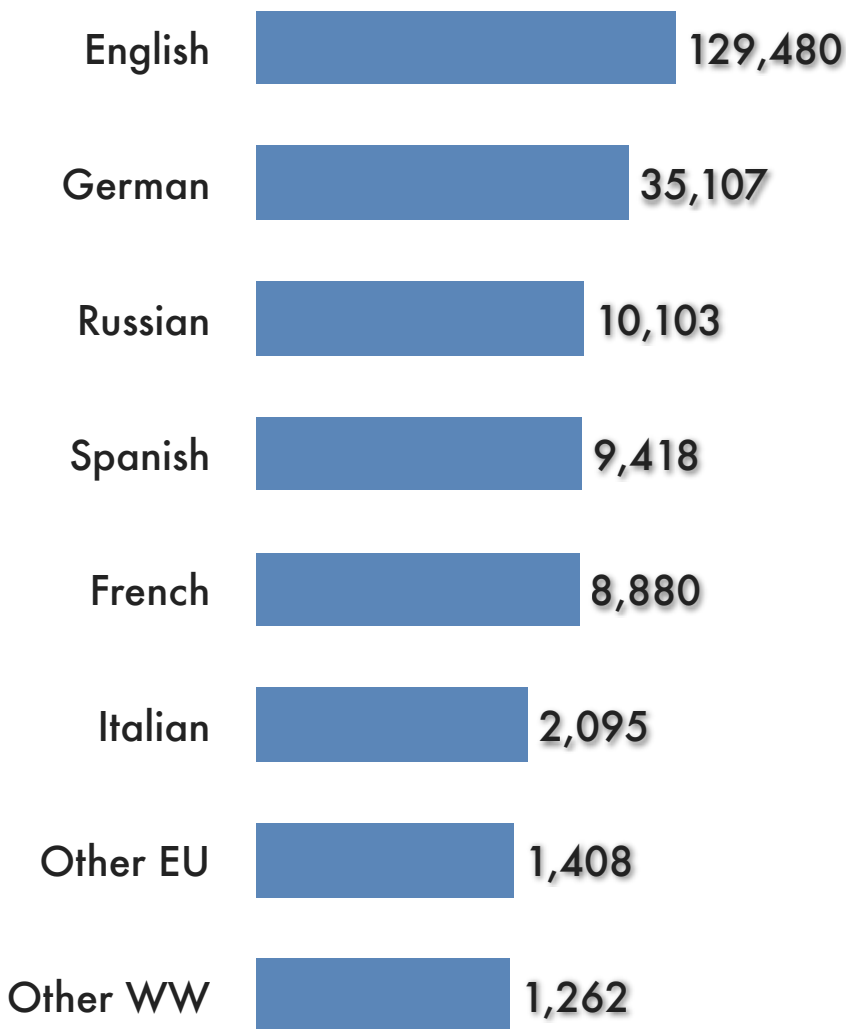
4

PEOPLE

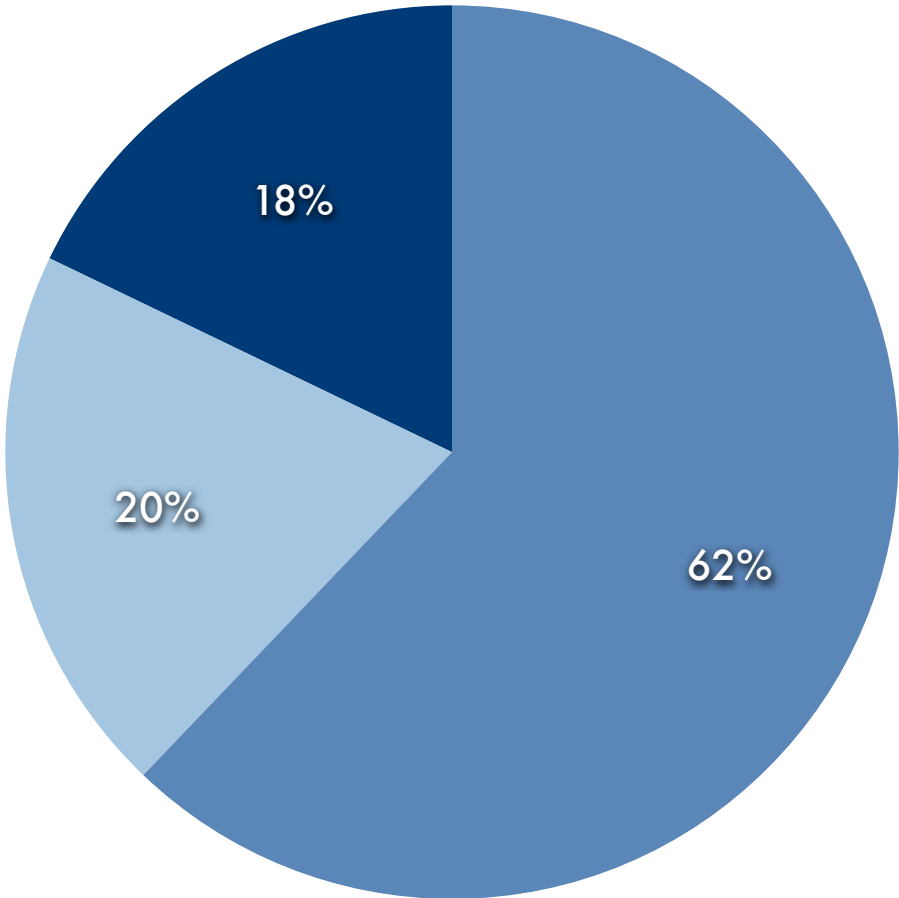
# LANGUAGES

One of the main requirements to run successful SSC/BPO center is the availability of employees able to serve European clients in their native languages.

Thanks to the good education system within Czech Republic there is a significant pool of Czech citizens who meet this requirement. On top of that general attractiveness of Czech Republic as a relocation destination (especially in the case of Prague which is well known for its beauty) allows to attract many foreign specialist.



**NUMBER OF STUDENTS LEARNING LANGUAGES**  
Source: Ministry of Education, Youth and Sport 2012

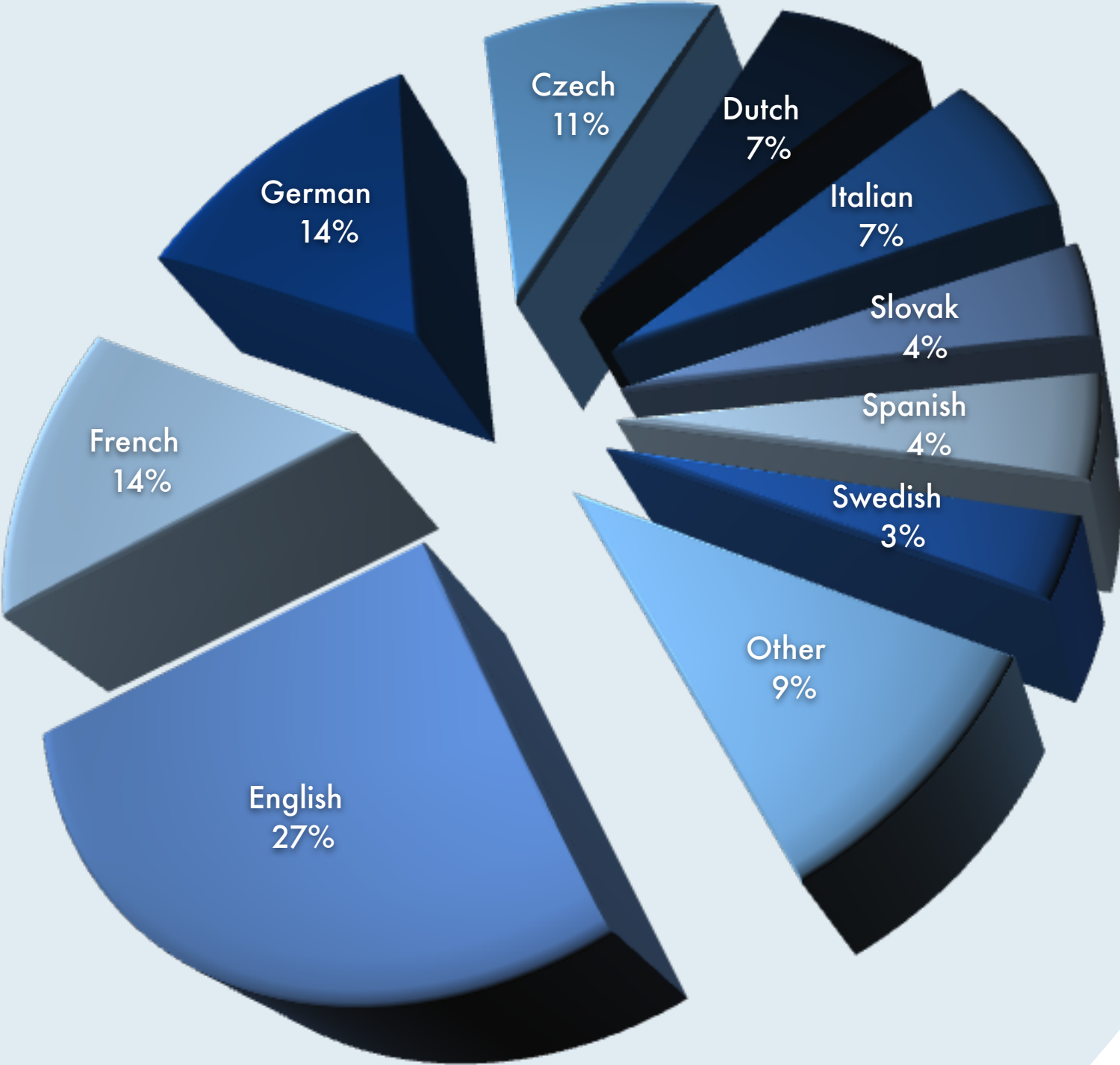


● 1 Language    ● 2 Languages    ● 3 Languages

Based on the ABSL survey the majority of the services being delivered by the industry happens in English. This is followed by languages representing two following biggest European economies: Germany and France.

The following foreign languages are Dutch and Italian. Italy still is one of the biggest economies in Europe. In case of the Netherlands; popularity of the language is the result of the strength of the Dutch economy and the fact that in general, near- and off-shoring programs in this country are advanced.

**LANGUAGES SUPPORTED IN CZECH SSC/BPO CENTERS** Source: ABSL Survey 2013





## EDUCATION

Another key aspect of the Czech market attractiveness for building SSC's/BPO Centers is the level of education of the available workforce.

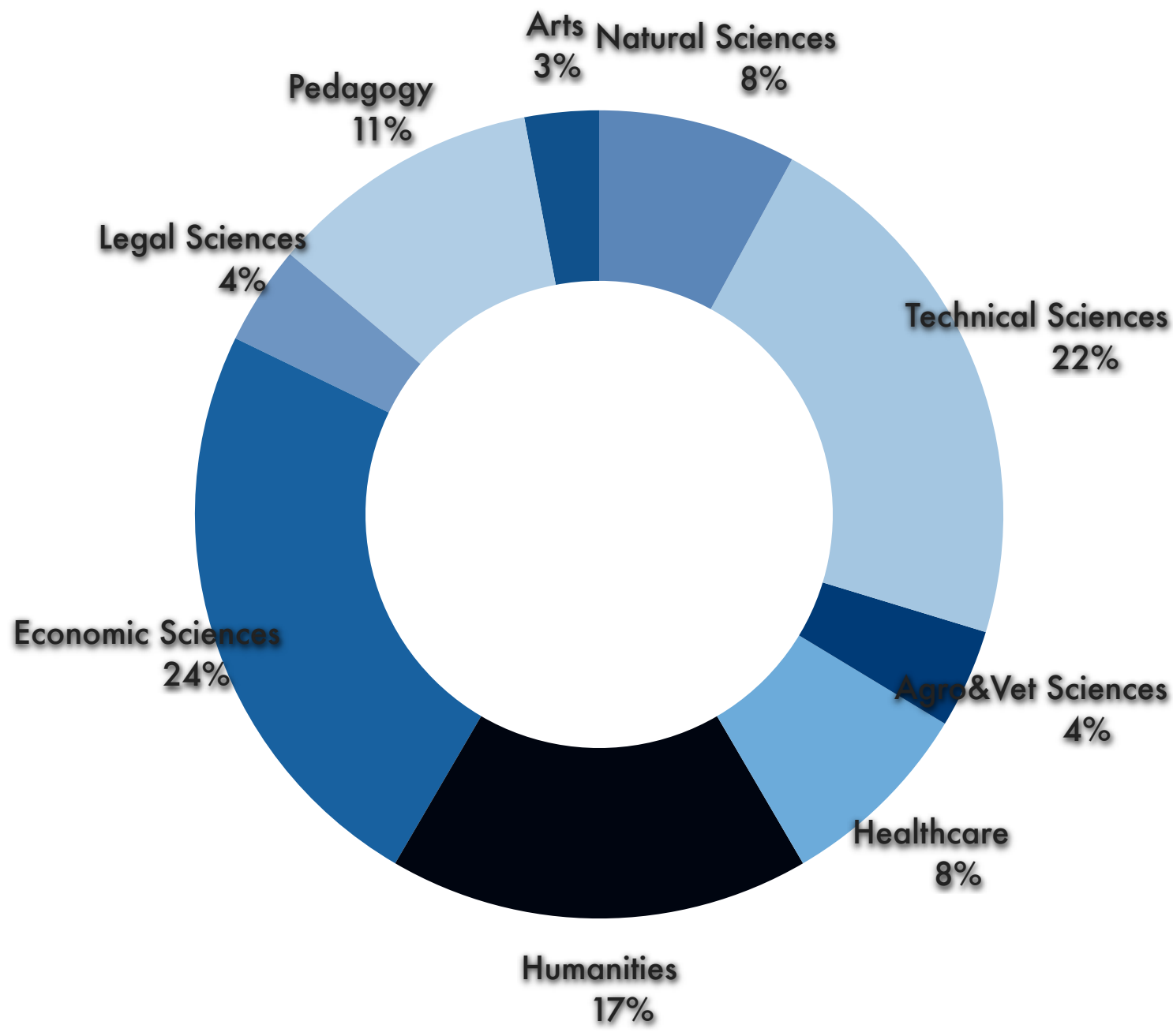
Taking into consideration the current shape of the market and trends of its development, we can expect the biggest demand for graduates of economic faculties and IT engineers.

Czech Republic's education system is assessed as very good. Gartner studies cited already in this report position it as the best in the CEE region.

However we can observe the decreasing trend of number of university graduates during the previous two years. The main reason behind this is that more potential students decide to start their ca-

reer earlier due to economic reasons.

The structure of specialization remained almost the same during the previous five years. Three most common faculties are Economy, Technical Sciences and Humanities and social sciences.

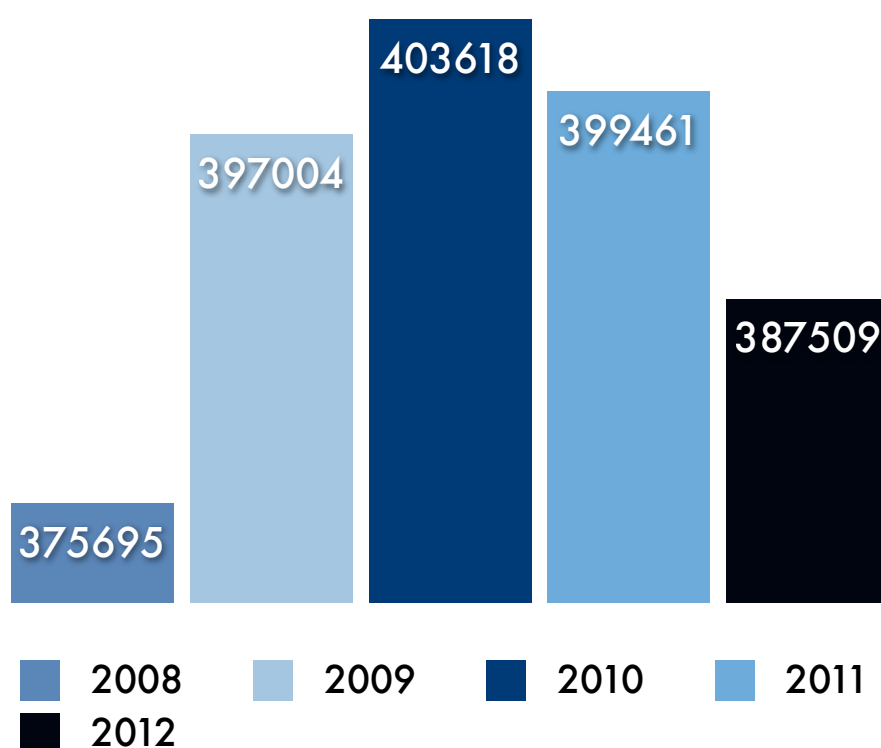


**Percentage structure of university graduates per specialization**  
Source: PwC, 2012

The grand majority of the employees of the SSC/BPO sector have a university degree. The industry offers opportunities to test in real life knowledge received at university but also gives opportunity to continue education in form support to post-graduate studies or professional certifications.

Often SSC's/BPO Centers become the first workplace for fresh graduates. Starting a career in a multi-national environment which is ran according to the best global practices is very valuable lesson for those who are new to the labor market.

### Number of graduates per year



Source: PwC

### Key trends:

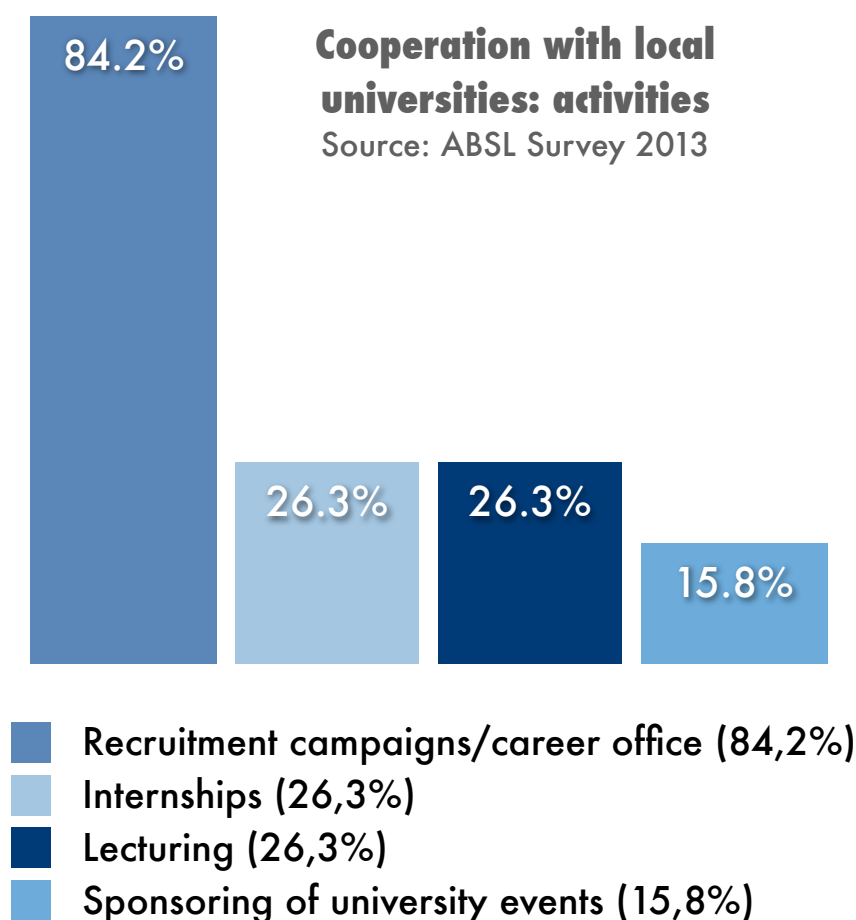
- Number of graduates in 2012 went down (-12,000) in comparison to 2011
- Trend is given by the fact that more potential students decide to go for work instead of universities for economical reasons, and also long term students finalize their studies motivated by the university fees
- The specialization remains similar over the period
- More students select only 1 language (strong preference for English)

### Challenges:

- Companies will focus more on the retention of people as good people will be a “rare commodity” and want to protect their investment
- More innovative and attractive value proposition will be put in place to attract the best candidates in the early stages of their studies

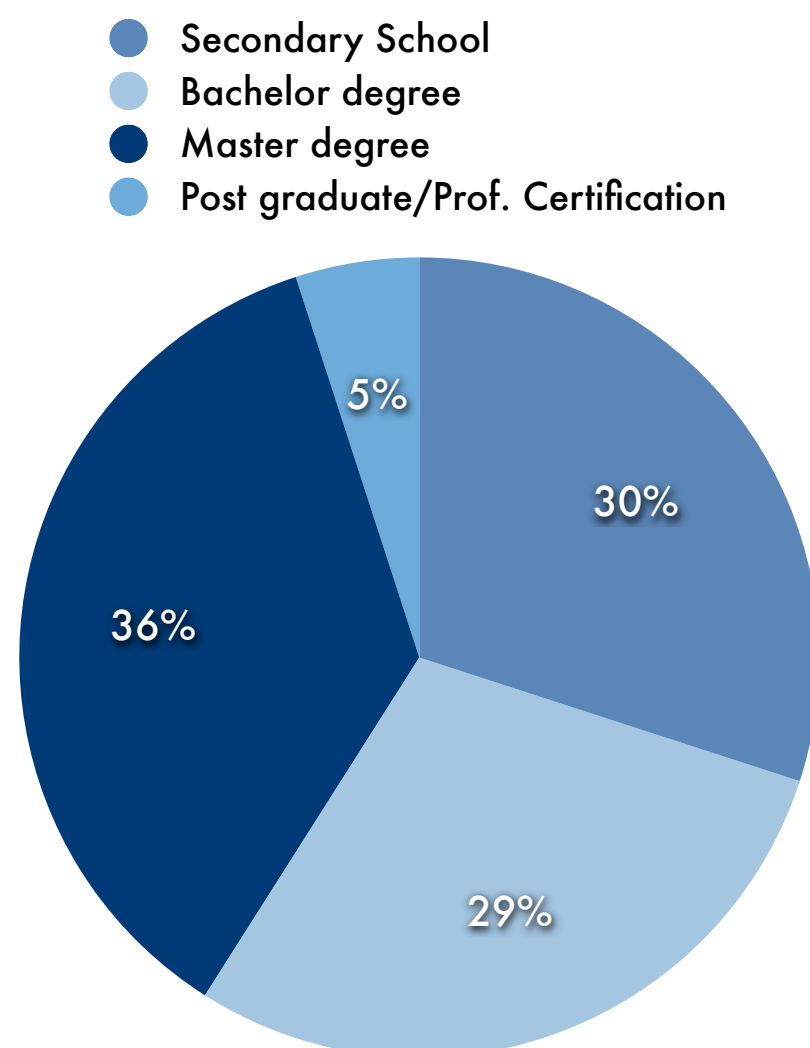
### Cooperation with local universities: activities

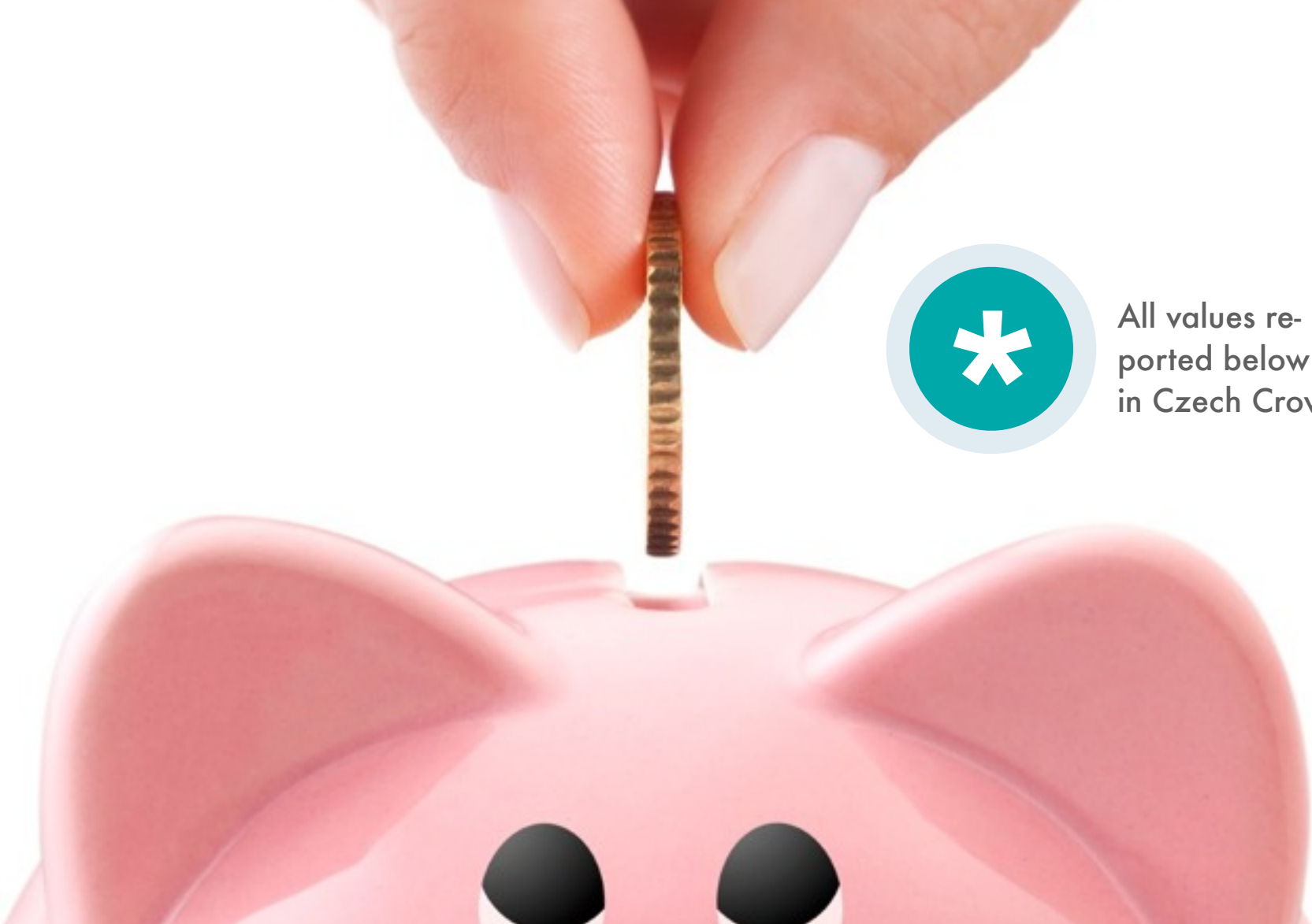
Source: ABSL Survey 2013



### Percentage of SSC/BPO Centers employees with various levels of education

Source: ABSL Survey 2013





All values reported below are in Czech Crowns

## SALARY LEVELS

Below you can see the results of the Business Services Salary Survey 2012/13 by Hays.

The data is based on Prague market. The difference in salaries between Prague and smaller cities (like Brno or Ostrava) is 5-15%

F&A - CS - IT Service - HRO - Procurement	Tier	Minimum	Maximum	Typical
Junior	Tier 1	22,000	30,000	25,000
	Tier 2	25,000	32,000	28,000
	Tier 3	28,000	36,000	32,000
2-3 yrs. Experienced	Tier 1	28,000	35,000	32,000
	Tier 2	35,000	45,000	40,000
	Tier 3	40,000	50,000	43,000
4-5 yrs. Team Leader	Tier 1	38,000	45,000	40,000
	Tier 2	40,000	50,000	45,000
	Tier 3	45,000	60,000	50,000

**1CZK=0,053\$**

AS OF OCTOBER 15TH 2013

TIER 1 – European language knowledge (Czech, Slovak, Polish, Hungarian, English, French, Italian, Spanish, Russian..)

TIER 2 – lower number of potential candidates on the market (German, Portuguese, Greek, Romanian, Bulgarian, South-East European..)

TIER 3 – insufficient number of candidates locally, need to source internationally (Norwegian, Swedish, Finnish, Dutch, Turkish, or Asian)

Project Managers / Transition Managers (*)	Minimum	Maximum	Typical
5 yrs. experience	50,000	90,000	70,000
10 yrs. experience	70,000	120,000	100,000
10+ years experience/potential lead SSC	80,000	150,000	120,000
Head of SSC/BPO			
up to 50 employees	80,000	120,000	100,000
more than 50 employees	100,000	250,000	150,000



## KEY MOTIVATION FACTORS OF SSC/BPO SECTOR WORKFORCE

The below material has been prepared in cooperation with Hays based on their report “A Maturing Market Developing Talent”

There are people who not only have significant experience working for organizations in the Business Services sector but have also made a decision to develop their careers within this industry. At the same time the sector is still attracting new people who want to work for SSC/BPO organizations. Not all of them will stay long enough to achieve a senior position but many will probably see it as a great career opportunity, where skills and hard work can earn a promotion and further career development.

And there are of course people somewhere in the middle, who have already made their career choice and are developing in the sector, achieving more senior positions.

Therefore, we are observing three distinct groups among SSC/BPO employees: 1) those with less than two years' experience, 2) those between two and five years and 3) those with over five years' work experience. In order to find out what are the differences in their expectations towards the employment and work environment Hays surveyed all these groups throughout three CEE countries, gathering some really valuable and interesting in-

sights. Altogether we received 1,641 responses from Poland, the Czech Republic and Hungary.

## JOB SATISFACTION

The first part of the survey reflected the importance of various factors on job satisfaction. Respondents could rate each factor as extremely important, very important, moderately important, slightly important and not important at all.

The results are presented in the chart below, showing the percentage of respondents who rated the factors either as extremely or very important.

The most important factor was the possibility to fully use one's skills, which is not surprising at all, given the fact that all the respondents had a higher education degree. The second highest rated answer was the opportunity to learn new skills, followed by salary levels. Although remuneration came third, it still scored highly, with 87.5% of those surveyed rating it extremely or very important. It is also important to note that the percentage of people rating these factors as not important at all was extremely low, only exceptionally rising over 0.5%.

When we look at these factors from a work experience perspective, we can note that more senior employees have rated the relationships with co-workers and direct supervisors significantly higher than their colleagues with less work experience. This might point to the fact that the longer you work the more valuable you hold your work relationships.

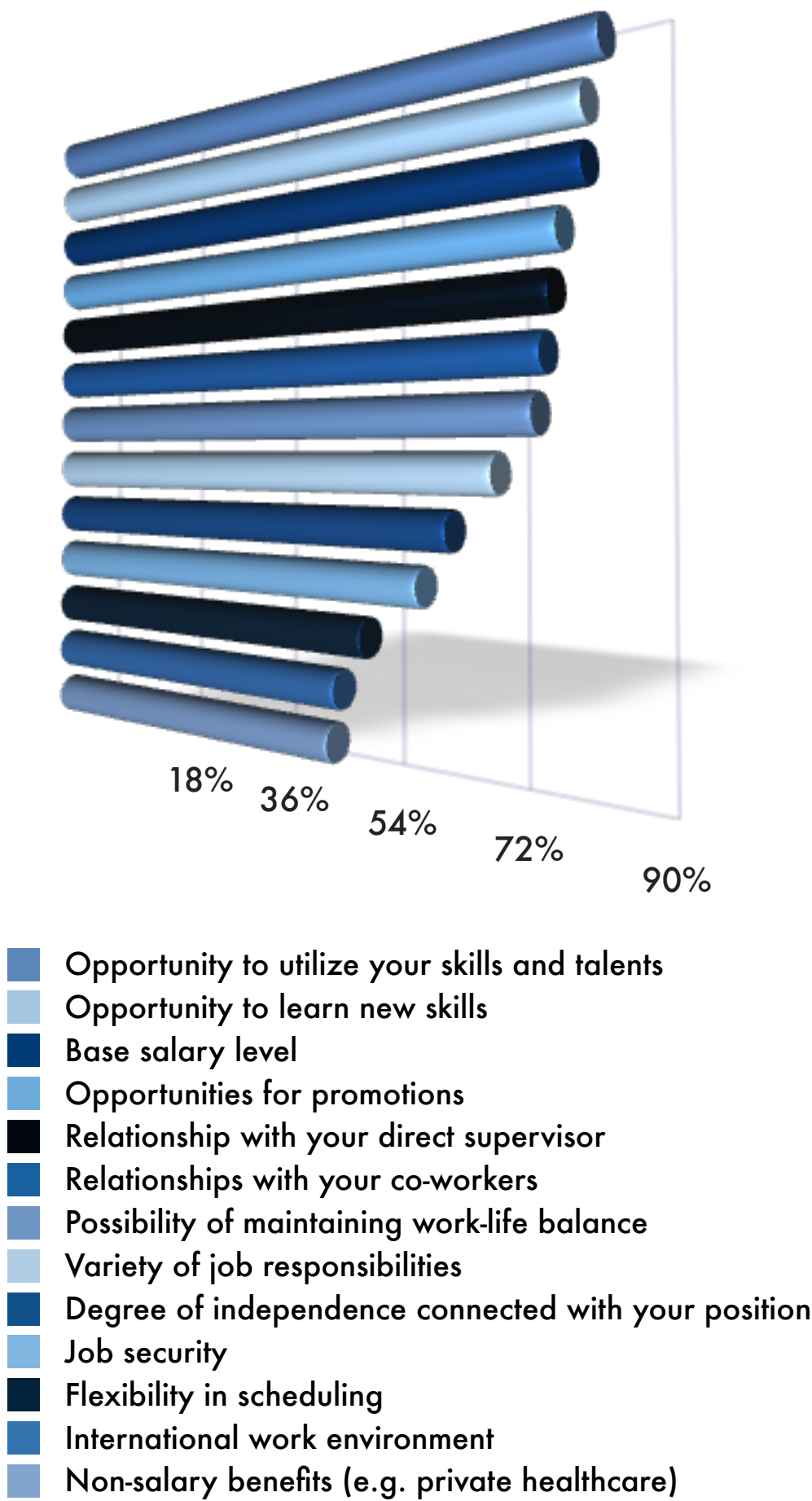


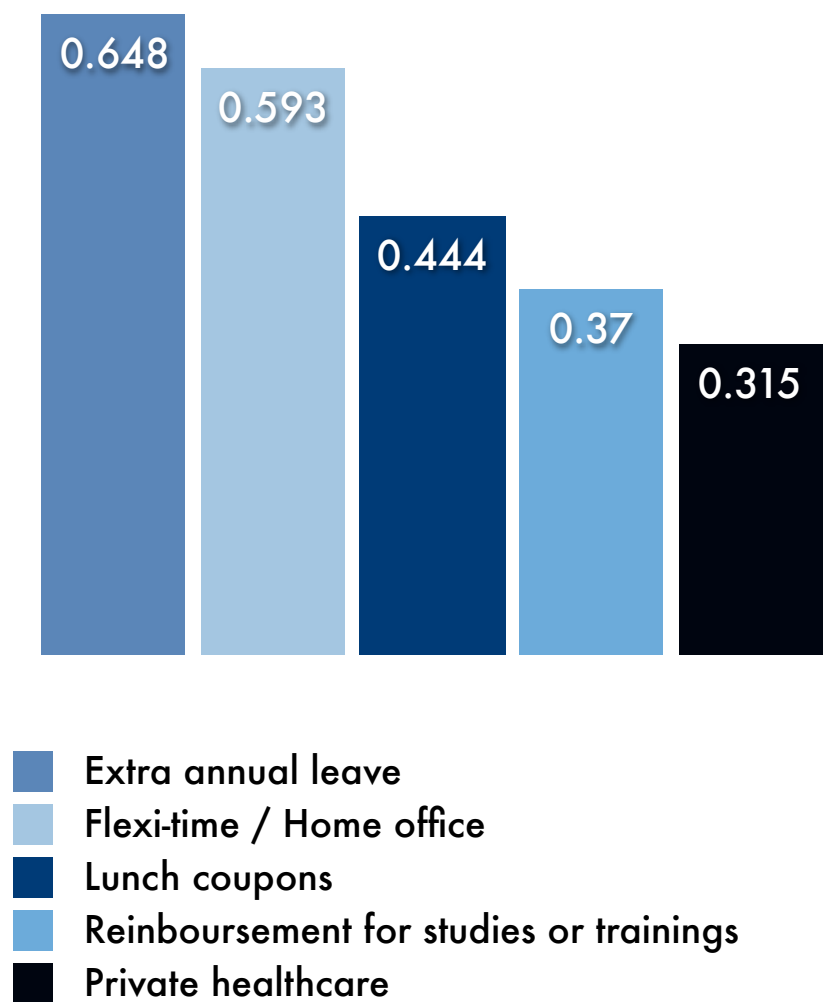
Chart and legend can be read in the same order: from top to bottom)

On the other hand, more junior employees value promotion opportunities higher, which again should come as no surprise given that they are at the beginning or in the middle of their career.

This tendency is especially evident among the middle group (2-5 years' experience), who rate this factor higher than their colleagues.

## PREFERRED NON-SALARY BENEFITS

Non-salary benefits are a very popular motivational tool available for managers in SSC/BPO organizations. The scope of benefits offered by organizations is currently very broad, which is why it is very helpful to see what type of benefits are preferred among the employees within the sector. The most preferred benefits in Czech Republic are presented in the table below:



There are also of course differences among different groups of employees. The most interesting seems to be the company car, which is usually available for only the most senior positions, especially those at director or managerial level. The research results back this up – it is one of the most preferred benefits among employees with the longest seniority.

Interestingly, even the most junior members of staff would like to receive this perk. This is probably due to the fact that they do not yet know the realities of the labour market.

Another interesting difference can be observed with financial support for training and career development.

This is one of the preferred benefits among employees with 2-5 years' work experience. We might suspect that people just starting their career are yet not so willing to return to formal education and prefer stimulating on the job training, while the most senior workers, having lots of experience themselves, are more demanding when it comes to choosing courses and will mostly be interested in postgraduate or MBA studies.

Other differences are closely related to age and marital status. People with more experience, who also tend to be older and are more likely to have families prefer the flextime arrangements, which allow them to spend more time at home. It is however interesting to note that extended maternity/paternity leave was not especially popular among any of the groups.

Another expected difference is the popularity of pension schemes. It is not surprising that people at the beginning of their career do not care so much about financial planning and therefore are

less interested if their employer offers them additional possibilities to save for the retirement.

It is common knowledge that the work environment has a huge impact on job satisfaction and therefore also on productivity.

On the most general level the most important factors are office location and transport links, especially the availability of public transport. It has a very direct effect on the time spent commuting to work every day.

The majority of our respondents spend between 15 and 45 minutes on their daily work commute. That is why the availability of public transport is extremely or very important for over 40% of respondents, especially for less experienced employees because it is more likely that they do not own a car yet and therefore are commuting using buses or trains. Linked to this answer are the results for the “proximity to home” factor. This is important for 35% of respondents.

Other factors influencing the work environment are the facilities and services available in the workplace with over a third (33,5%) of those surveyed, marking it as either extremely or very important.

When it comes to concrete facilities that might or might not be available in the workplace, simple improvements like natural light or manually controlled air-conditioning seem to bring the greatest improvement.

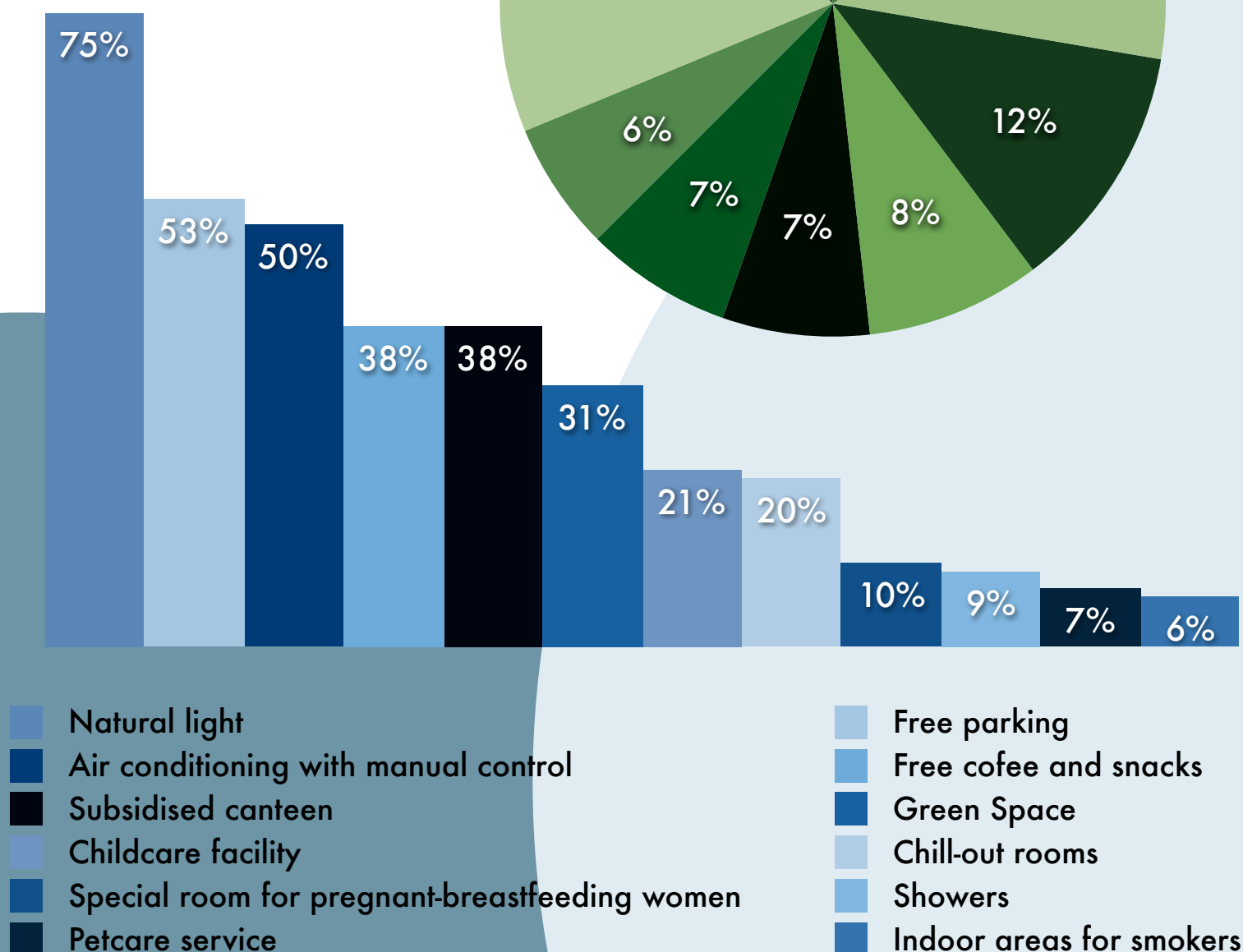
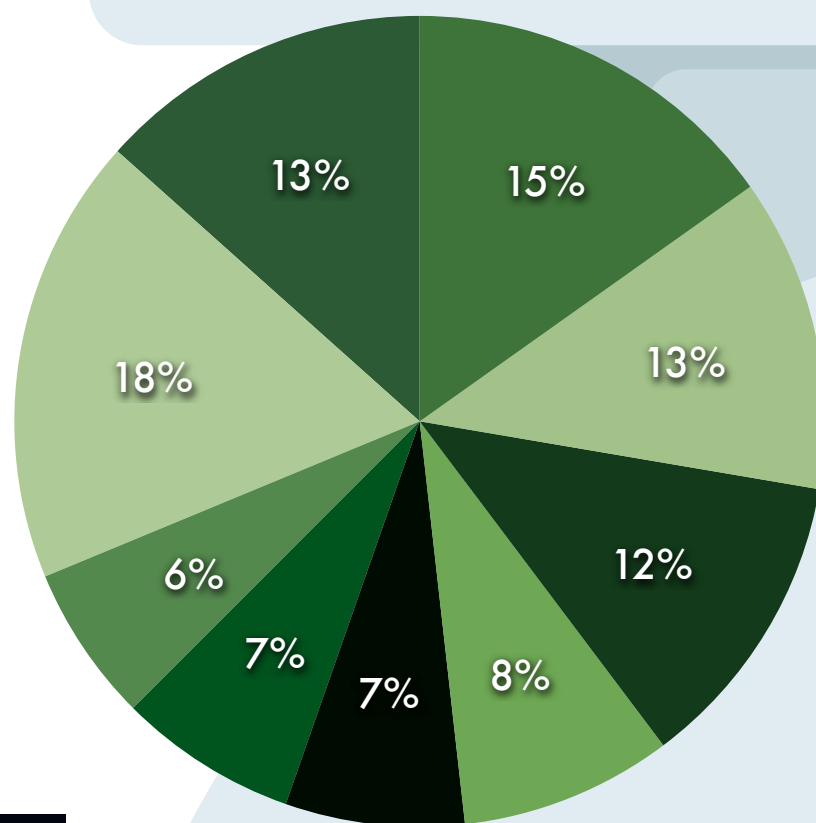


Again there are some differences between groups. The most significant is for free parking, which is more popular among senior employees who are also more likely to drive to work.

All other differences are in favor of more junior employees, who in general seem to pay closer attention to the environment they are working in. They prefer to have a subsidized canteen, free coffee and snacks, green space and chill-out rooms, whereas for more senior employees these amenities are not so important. Apart from the facilities available at the premises, office surroundings also make a difference.

- Restaurants/Cafe (34%)
- Medical centers (28%)
- Sports center (27%)
- Childcare facility (17%)
- Special offers from the on-site shops (16%)
- Shopping center (16%)
- Cultural facilities (14%)
- On-site laundry & dry cleaning (4%)
- Beauty salons (3%)

There are very few differences when it comes to these facilities. Only restaurants and sports centers are more popular among people with less work experience.



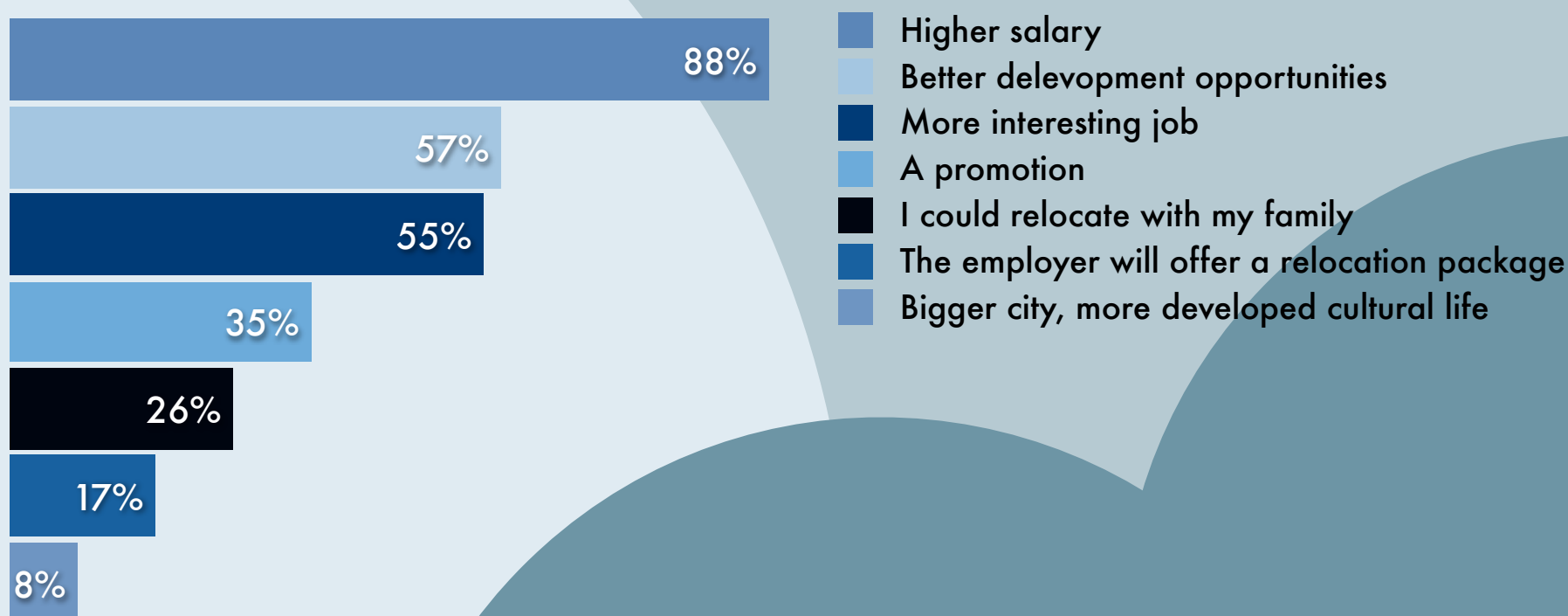
# WILLINGNESS TO RELOCATE

One of the main characteristics of SSC/BPO employees immobility. According to the survey, over half of respondents (57.7%) have moved to another city for a job while 84.6% would move if the right opportunity arises. We can observe a trend in which shorter work experiences directly correlated to a willingness to relocate. 89.9% of the employees with less than 2 years' experience are keen to relocate for an attractive job opportunity, compared to 76.7 % of employees with work experience exceeding five years.

The majority of the employees (52.7%) stated that a salary increase of more than 30% would encourage them to relocate. However 28.8 % would be satisfied with an increase that is lower than 25%.

There are also other significant differences when considering salary expectations, for example higher salary rises need to be offered for longer work experience in order to attract an employee to another location. Six in 10 respondents with over 5 years' experience require a salary rise of 30% when considering job relocation. When comparing groups of employees, especially experienced candidates ( over 5 years) indicate relocation package as a very important factor, including relocation support for family members.

What is also important, younger employees care more about the attractiveness of the city they relocate to (bigger city, more developed cultural life). Almost one in five (18.8%) employees with less than two years' experience consider this factor important.



# PROFILE OF THE “GENERATION Y” EMPLOYEE

Source: HAYS

**M**

**MORE PROJECTS EQUALS MORE PRODUCTIVITY**

**DRIVEN, AMBITIOUS AND HARD-  
WORKING**

**D**

**S**

**WANTS TO SAVE THE WORLD OR  
MAKE IT A BETTER PLACE**

**AT EASE WITH TECHNOLOGY, DIVER-  
SITY AND COMPLEXITY**

**T**

**H**

**“HERE AND NOW” GENERATION:  
WANTS IMMEDIATE PAY-OFFS**

**WANTS TO ACCOMPLISH WORK &  
LIFE BALANCE**

**A**

**F**

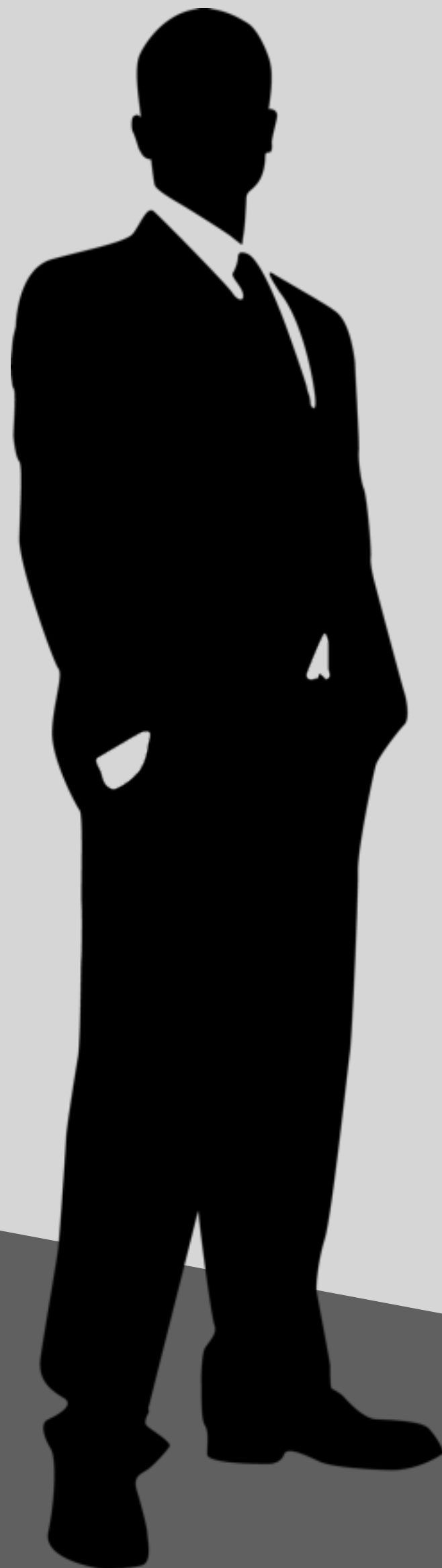
**WOULD CHOOSE A JOB JUST TO BE  
WITH HIS/HER FRIENDS**

**COMMITMENT  
PHOBIC**

**C**

**60%**

**OF SSC/BPO EMPLOYEES  
BELONGS TO THE  
GENERATION “Y”**





5

# THE CZECH OFFICE MARKET AND SHARED SERVICES

# THE CZECH OFFICE MARKET AND SHARED SERVICE CENTRES

The evolution of office buildings in the Czech Republic has undergone rapid change since the country moved away from a centrally based economy to free market principles. Whereas in the early to mid 1990's office occupiers concerned themselves with the phone line capacity of an office, today the same companies are focusing on the "green credentials" and whether the workplace meets the aspirations of the Gen-Y workforce.

An important driver behind the growth in office demand over the past 10 years has been the rise of Business Process Outsourcing / Shared Service Centres / Call Centres (BPO/SSC/CC) operations opening up in the Czech Republic. Such activities now make up a significant share of occupational office demand in the Czech Republic, especially in regional cities such as Brno and Ostrava.

In locations such as Prague, where this business model was established earlier, many companies have added more complex functions to the traditional business model, such as customer relationship management and business analysis/forecasting. While in cities such as Brno and Ostrava the BPO/SSC/CC activities to date tend to be characterised by less complex tasks such as basic IT support, call centres and transactional processing, however, we are seeing a move up the "value chain" as the sector matures.

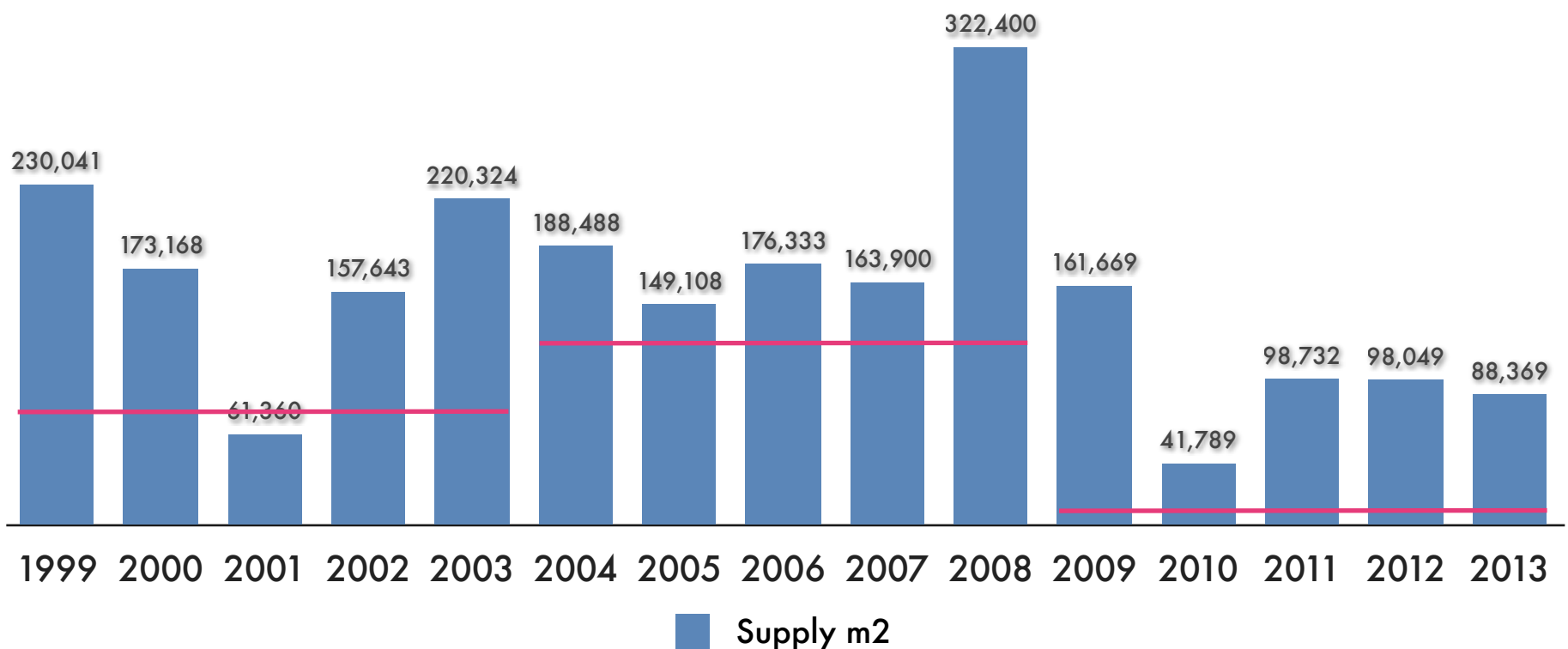
Real estate has an important role to play when companies evaluate their corporate BPO and shoring solutions. Principally the office building is simply where the functions take place, however, the availability of space, the quality and technical standard, the costs and legal framework associated with renting / leasing accommodation are all influencing factors behind the decision to establish a new BPO/SSC/CC operation or either to continue or expand an existing one.



## PRAGUE OFFICE MARKET

### STOCK AND SUPPLY

The total office stock in Prague stands at around 2.9 million m<sup>2</sup>, of which 70% is currently classified as Grade A, although in reality the true percentage is probably lower as some of the older buildings in the city are struggling to meet all of criteria requirements of what today is classed as modern office space.



The graph above shows the delivery of new office space per annum on a per m2 basis from 1999 to 2013.

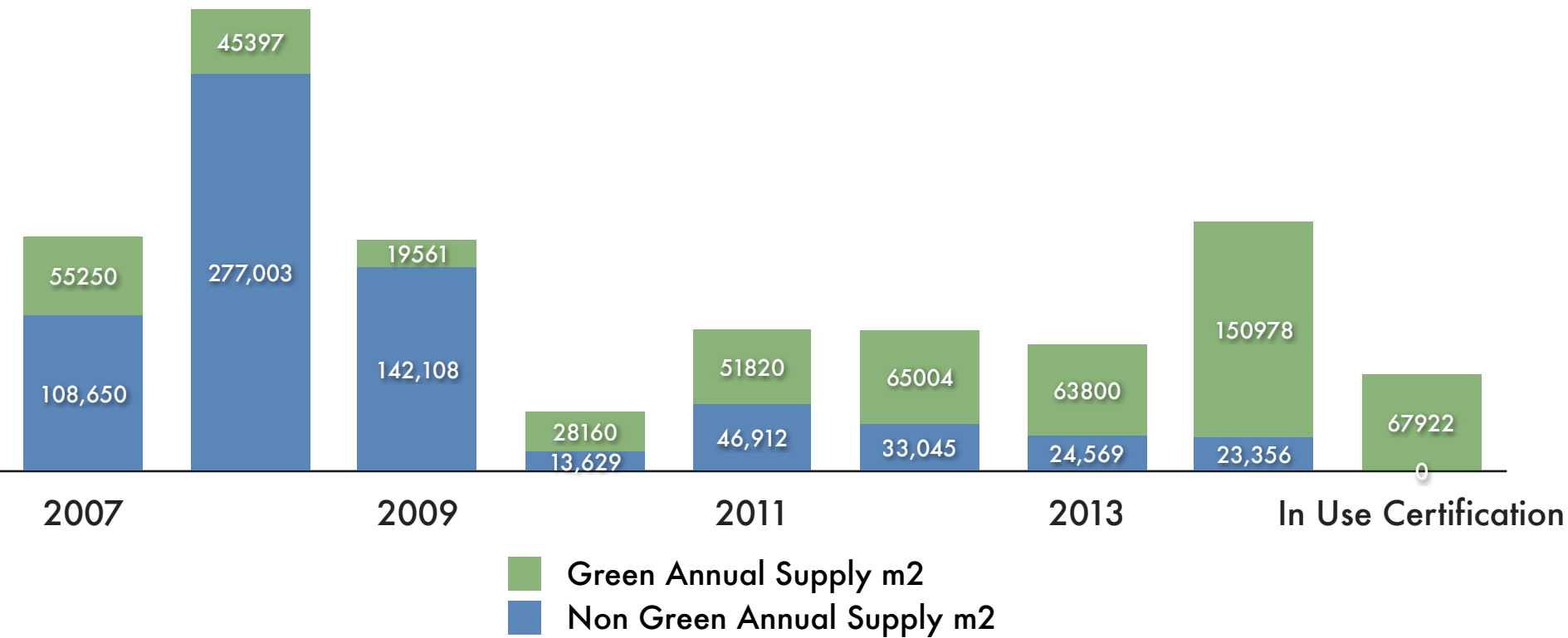
What the graph also illustrates is that the average amount of annual space delivered in the five-year period of 2009-2013 was 98,000 m2 while for 2004-2008 it was 200,000 m2.

The global economic challenges that flowed from the end of 2008, in part did knock the confidence of many corporate office users, as well as the attitude of banks towards lending on new construction projects. The effect of the global downturn has been felt by the Prague office market with a slow-down in new office supply. However, one trend that is not evident from the previous graph is the amount of new speculative office development being experienced in Prague in recent times. Of all new office building starts over the past two years, 82% were commenced on a speculative basis, while 100% of new construction starts this year are all speculative.

Speculative development is when projects commence construction prior to actually securing a major pre-lease and in most cases the developer funds the initial construction from its own private equity sources. What this demonstrates is the underlying confidence of many developers as to the longer term prospects of the Prague office sector.

Another trend we are experiencing in the office sector is the number of new office developments that are being constructed in line with sustainability principles. Such principles not only extend to the energy efficiency of the building but also to environmental and social aspects of the property. What the following graph shows is the number of new m2 being delivered to the market carrying a “green certificate”. Currently, the most commonly used independent certificate rating systems are administered

by organizations such as BREEAM and LEED. Office buildings carrying such certificates are becoming increasingly desirable for occupiers seeking to reduce their carbon footprint and from an economical standpoint also make sense for the developer as operating costs and rates of building obsolescence are lower, thus making it easier to attract and retain occupiers.



Whereas in 2009 around 12% of all new office stock delivered in that year had a “green certification”, this figure will grow to 70% by end of 2014.

The final bar in the above graph represents “In Use Certification” and denotes buildings, that whilst not initially applying for a “green certification”, have obtained such accreditation retrospectively and some time after the building was completed and open. The owners of these buildings obviously see the same benefits and advantages as described above and ultimately are aiming to maintain a high occupancy in their property.

## VACANCY

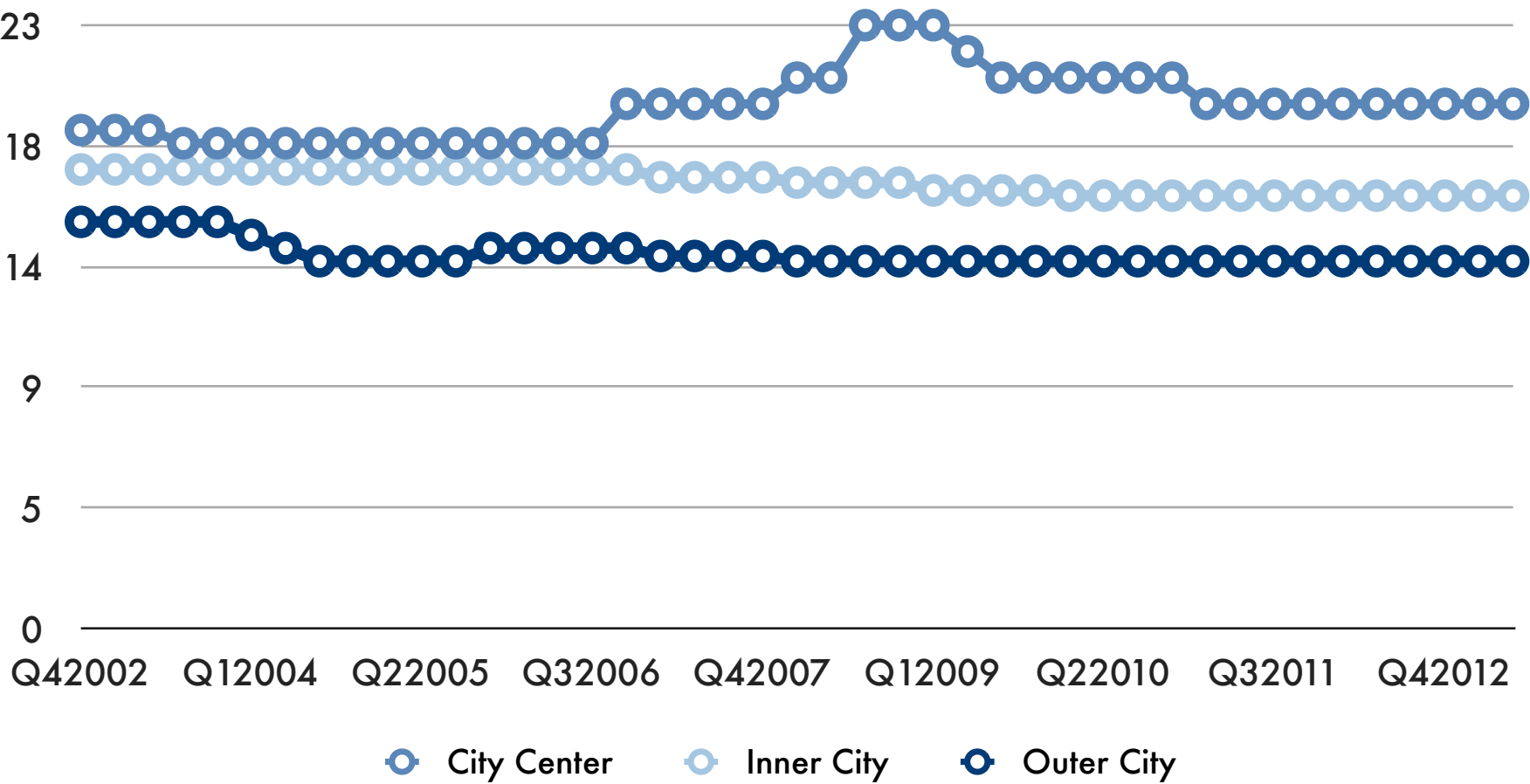
Office vacancy in Prague has been moving in the band of 11.5% to 12.75% over the past two years. There is 370,000 m2 of available of office space across the city.

What this vacancy means is that occupiers usually have at least two to three credible alternatives when seeking new office accommodation.

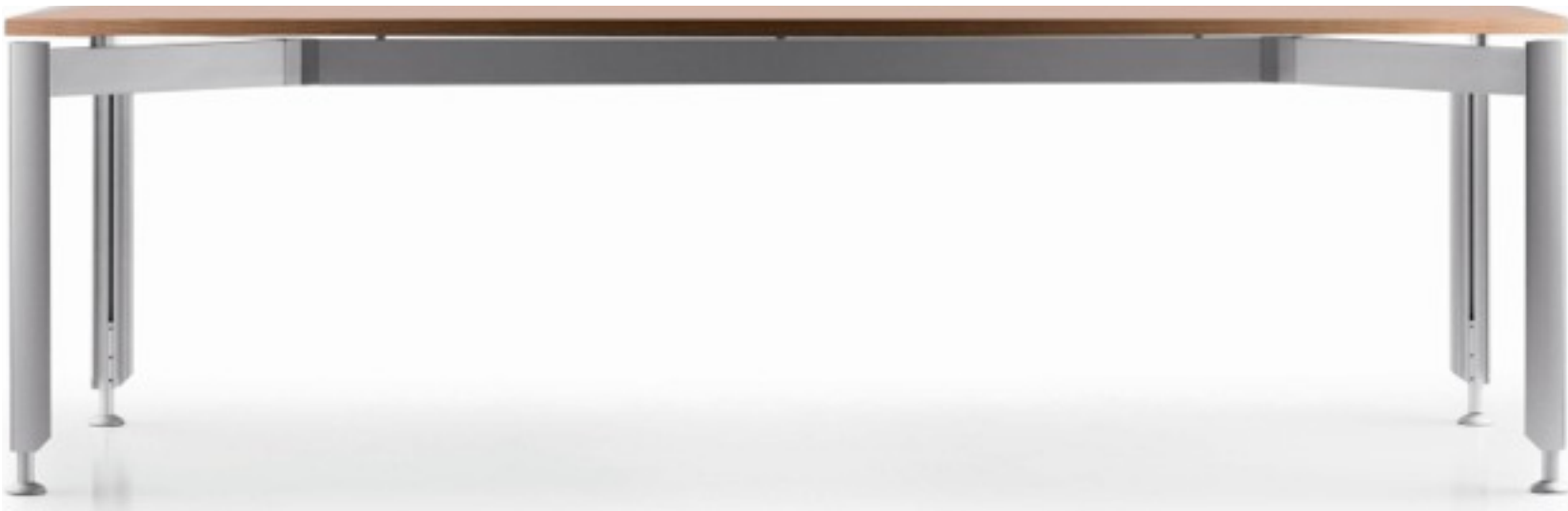
# OFFICE RENTS

The rents on most modern office space is quoted and agreed in Euro currency. One of the underlying characteristics of the Prague office market is the stable nature of the headline rent in all of the key office locations (see following graph).

We have ignored for the time being any rent free periods negotiated by tenants, the effect of can lower the average rent up to 25%. This is often referred to in the market as the “net effective rent”.



The above graph tracks the headline rents quarter by quarter for the main office locations of the city. Prime city centre rents are now around €20/m2/month having falling from their peak in 2008 of €23/ m2/month. The above graph illustrates, that for office locations such as the inner and outer city areas

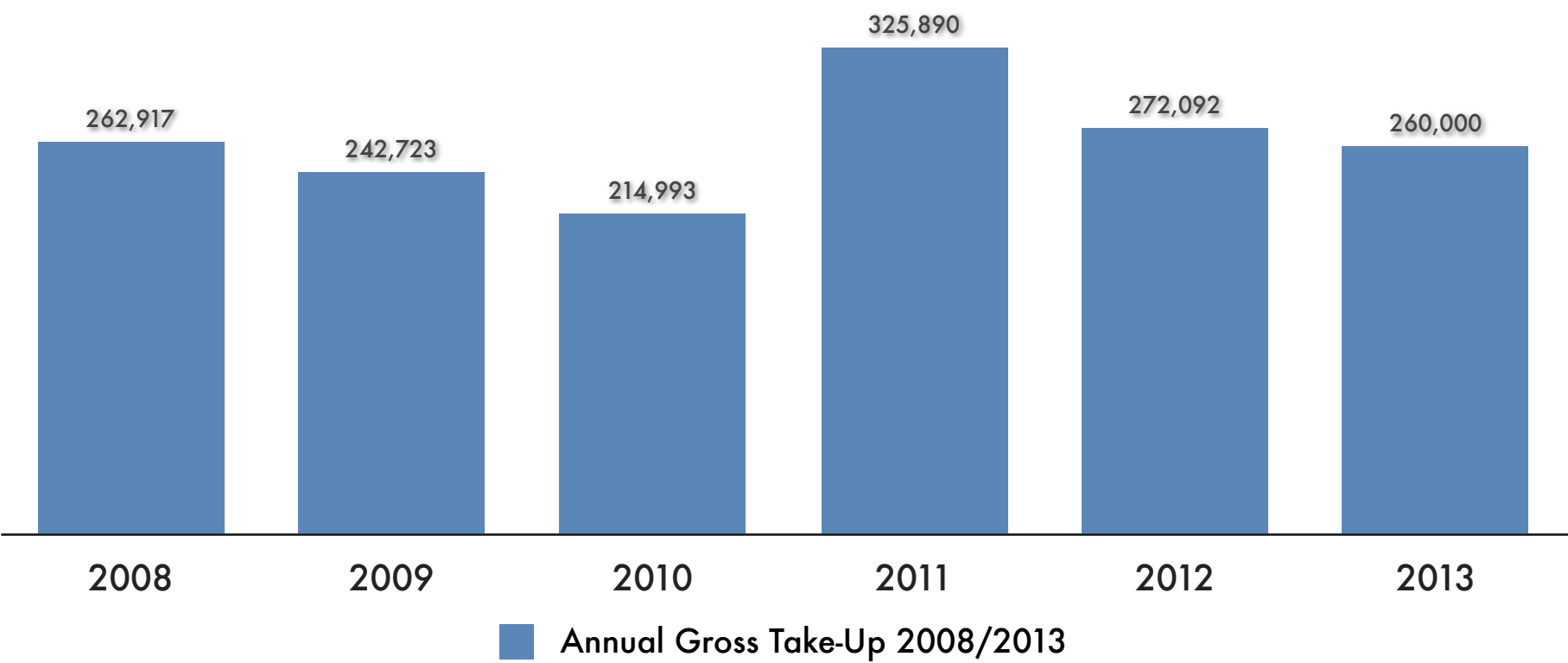


which are typically preferred by BPO/SSC/CC operators, rents have only marginally dropped over the past 10.5 year period and remained at around €16.50/m2/month (inner city) and €14/m2/month (outer city). The result being, that the Prague office market has not experienced significant up or down swings in its office rental costs. The reasons for this are many, however are principally a result of a balanced demand and supply cycle within the office sector.

The benefit of a stable rental market means that companies are able to predict with some degree of accuracy the future rental costs of their office accommodation. This in turns helps companies when it comes to cost budgeting or preparing proposals for their clients or own company.

## TAKE-UP/DEMAND

Gross office take-up, which includes office expansions, relocations and lease renegotiations reached figure of 273,300 m2 in 2012, which was 16% down on the 2011 result, but yet a 27% increase on the 2010 numbers.



The office demand figures for 2013 are forecasted to be slightly down on 2012, however, should be around the rolling five year average of 260,000 m2.

Examples of some of the office take-up accounted for by the BPO/SSC/CC sector over the past few years is highlighted below.

Company	Size (m2)	Location	Type of Deal	Date
Barclays	2,693	Prague 4	Expansion	2013
Barclays	1,357	Prague 4	New Occupation	2013
Panalpina	1,086	Prague 8	New Occupation	2013
Cisco Systems SSC	841	Prague 8	Renegotiation	2013
Computer Associates	7,201	Prague 4	Renegotiation	2013
Accenture	4,792	Prague 5	Renegotiation	2013
Bodycote	830	Prague 8	New Occupation	2012
Covidien	2,279	Prague 9	Renegotiation	2012
Covidien	1,036	Prague 9	Expansion	2012
Honeywell	8,649	Prague 4	Renegotiation	2012
ADP Employer Services	3,300	Prague 8	New Occupation	2012
ADP Employer Services	2,535	Prague 8	Expansion	2012
International SOS Assistance	959	Prague 5	Renegotiation	2012
eBay	925	Prague 8	New Occupation	2012
International SOS Assistance	601	Prague 5	Expansion	2012
CSC Computer Sciences	600	Prague 5	Expansion	2012
Monster Technologies	4,700	Prague 8	Pre-Completion	2011
Anheuser Busch-Inbev	2,985	Prague 4	Renegotiation	2011
CSC Computer Sciences s.r.o.	2,051	Prague 5	New Occupation	2011
CSC Computer Sciences s.r.o.	1,814	Prague 5	Renegotiation	2011
Expedia Services CZ	1,755	Prague 8	New Occupation	2011
Accenture	6,393	Prague 4	Renegotiation	2011
SAP Business Services Europe	6,139	Prague 5	Renegotiation	2011



# BRNO OFFICE MARKET



## STOCK AND SUPPLY

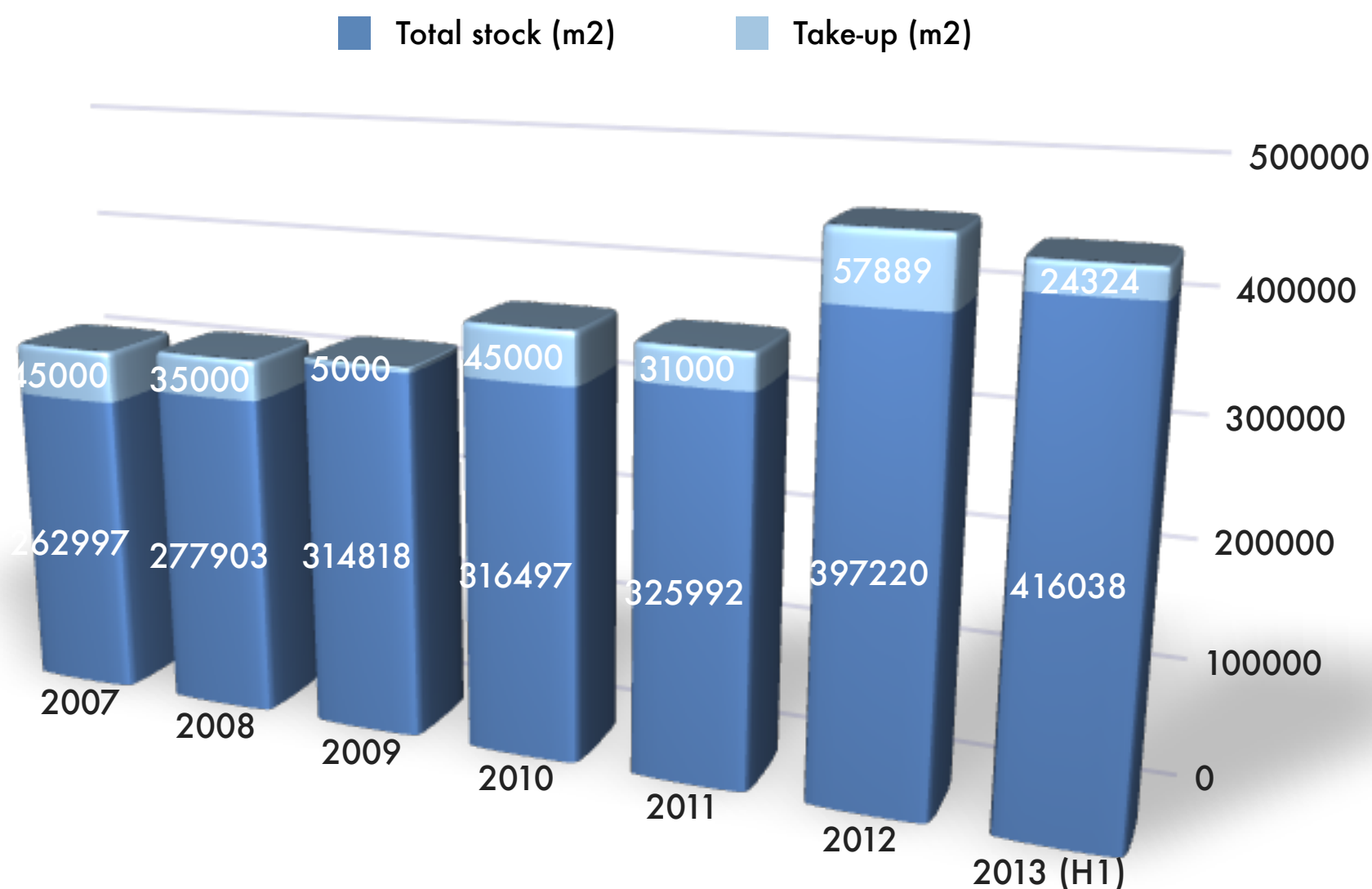
The office market in Brno is less mature than in Prague; nevertheless Brno has seen significant growth in the number of new office developments and has become an important destination for the BPO/SSC/CC sector.

Being the second largest city of the Czech Republic, Brno is also home to the second largest amount of office stock in the country. Total office stock currently is approximately 400,000 m2 and Grade-A space accounts for around 76% of this space.

Four new buildings totaling 35,300 m2 were completed in Brno in 2012 and included Spielberk Office Centre – Tower B, Campus Science Park – Building B, Vienna Point II and Forum Business Centre II.

Approximately some 51,000 m2 of office space is currently under construction with its delivery scheduled during 2013. These new office premises include AZ Tower, Titanium Phase I and CTZone Office Building.

### Total Stock / Annual Take-Up



## TAKE-UP/DEMAND

As Brno is home to many BPO/SSC/CC operations, demand for office space is predominantly coming from companies active in this sector. For example, IBM and DSG recently expanded in Brno, whereas KBC and Gardner Denver opened new shared-services centers in the city.

Company	Size (m2)	Location	Type of Deal	Date
Home Credit International	5,200	Brno	New Occupation	2012
Infosys Technologies	4,100	Brno	Renegotiation	2012
AT&T	2,708	Brno	New Occupation	2012
KBC	2,700	Brno	Pre-Completion	2012
PPG Industries	1,400	Brno	Renegotiation	2012
PPG Industries	1,291	Brno	Expansion	2012
Honeywell	1,700	Brno	New Occupation	2012
IBM	1,268	Brno	Expansion	2011
DSG International	2,756	Brno	New Occupation	2011
Pixmania	1,378	Brno	New Occupation	2011
Gardner Denver	1,020	Brno	New Occupation	2011
KBC	1,991	Brno	New Occupation	2011

Tenants leased almost 58,000 m2 of offices in Brno during 2012. In terms of BPO/SSC/CC activity, Infosys BPO renegotiated its lease in Spielberg Office Centre, while Home Credit Group leased over 5,000 m2 in the newly built Spielberg Office Tower, to expand the SSC services that it provides to the Home Credit Group across CEE and Asia. Furthermore, AT&T and KBC expanded their facilities at Campus Science Park and PPG Industries also extended its lease and leased additional premises.

## RENTS

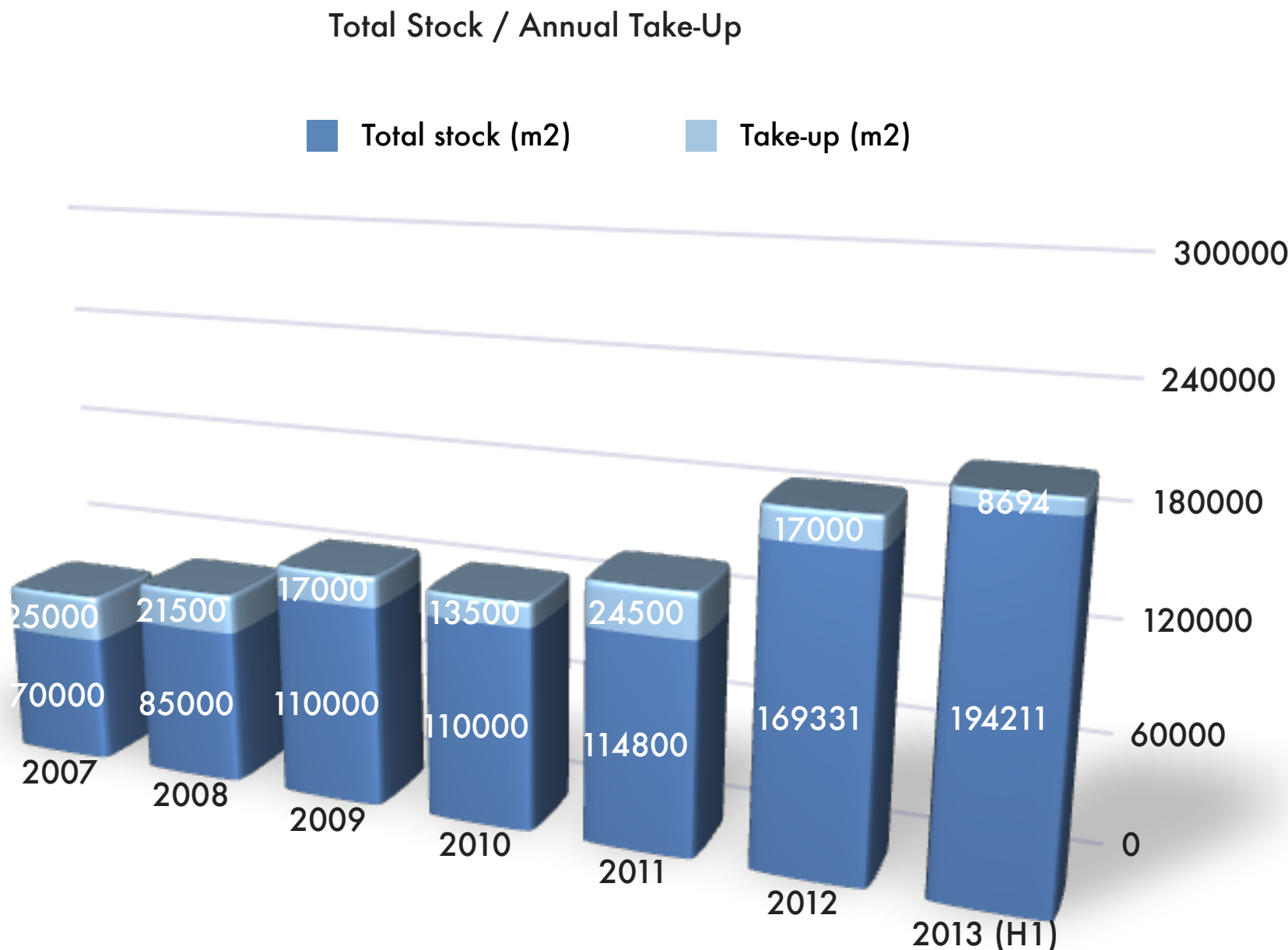
The average headline rents for office premises in Brno range from €9 to €12.50/m2/month largely depending on the location, amenities and current vacancy in the particular building. Landlords and developers in Brno are prepared to offer incentives (mainly in form of rent-free periods) to attract potential or retain existing tenants. Effective rents paid by tenants can be up to 20% lower than the contractual headline rents.

STOCK AND SUPPLY

Ostrava is some way behind the Prague and Brno office market in terms of new office developments; however, the future prospects for the city look promising as it transitions away from the dominance of its traditional heavy industry sector to other business activity functions (e.g. service sector).

The total office stock in Ostrava was 170,000 m2 at the end of 2012, of which 69% comprised Grade-A space. The largest projects delivered during 2012 were IQ Towers (21,700 m2), 80% of which was pre-leased by Tieto, which decided to consolidate its operations into one location. Two other smaller buildings underwent complete refurbishment during 2012.

Passerinvest / Gemo's Nová Karolina Office Park (24,900 m2) is currently the only building to be delivered in 2013. A few other office projects are ready for development as soon as a sufficient level of space is secured under pre-lease.



# TAKE-UP/DEMAND

In 2012, approximately 16,500 m2 of office space was leased in Ostrava. OKIN Group expanded its operations and DHL Express leased new premises in order to establish a new SSC serving the CEE region.

Company	Size (m2)	Location	Type of Deal	Date
DHL Express	1,699	Ostrava	New Occupation	2012
Okin Outsourcing	681	Ostrava	Expansion	2012
Comdata Group	500	Ostrava	New Occupation	2012

# VACANCY

The vacancy rate in Ostrava increased significantly during 2012 and at year end reached almost 25%. This represents nearly 42,000 m2 of offices that are ready for immediate occupation. This vacancy increase was the result of Tieto’s consolidation into IQ Towers and also HSBC’s withdrawal from Ostrava and vacating its office premises.

The vacancy rate is expected to drop by year end 2013 as some significant new leasing transactions are rumored to closing on some of the vacant offices around the city.

# RENTS

The average headline rents for modern premises in Ostrava currently range from €8 to €11.5/m2/ month. However, landlords are having to provide significant tenant incentive packages (including rent reductions, rent-free periods and fit-out contributions) in order to attract new occupiers.



# LEASING STANDARDS

As only a limited amount of rules and regulations pertaining to commercial lease contracts are stipulated by Czech law, a tenant and landlord can mutually agree to whatever terms and conditions they wish. There is however a common leasing practice which is adopted by most tenants and landlords and the main lease terms typically specified in office lease contracts are summarized below.

Lease Length	5 years is typical.
Area measurement	Varies however most widely accepted is “Rentable Area” – i.e. the useable area within a building measured to the internal face of the perimeter walls at each floor level. This includes toilets and kitchens but excludes lift shafts and staircases.
Payment Frequency - Offices	Rent is paid quarterly in advance.
Payment Frequency – Service Charge	Service charge is paid quarterly in advance.
Currency - Office	Rent is denominated in Euro’s or Czech Crowns.
Currency – Service Charge	Service charge is denominated in Czech Crowns.
VAT	Tenant pays 21% VAT on rent and service charge.
Security Deposit	Tenant provides to the landlord a 3 month rent and service charge deposit + VAT or an equivalent bank guarantee.
Rent Indexation	The rent is indexed annually based on Czech or EU inflation.
Repairs & Maintenance	Tenant is responsible for internal repairs of its space.
Insurance	Tenant is responsible insuring its goods, equipment and stock.
Reinstatement	Tenant at the lease expiry is to return the premises to landlord in its original state with fair wear and tear accepted

## BPO/SSC/CC TRENDS IN THE CZECH REPUBLIC

Cities in the Czech Republic continue to entice international companies to relocate their BPO/SSC/CC operations here. The country is considered attractive due to its good accessibility and infrastructure, as well as for its appeal to foreign employees who may be required to relocate to the country.

The main advantages of the Czech Republic's BPO/SSC market are its positive investment climate, highly qualified local workforce and the rapidly developing availability of modern office space also in the regional cities. Thus we expect to see more companies entering the Czech market and opening centers or expanding their facilities here, though they will also often compare the relative advantages and disadvantages of the Czech Republic versus other neighboring countries before reaching their decision.

Chapter by:

**Omar Sattar MRICS**

Managing Director | Colliers International





ASSOCIATION  
of BUSINESS SERVICE LEADERS  
IN THE CZECH REPUBLIC

# THANK YOU

ABSL thanks all its members and contributors who helped in the production of this report. We hope we were successful in giving a short and yet accurate description of the BPO and Shared Service Centers market in Czech Republic. ABSL aims to become a strong and unique voice for the sector, in order to facilitate the best use of the opportunities offered by the Czech region, and proactively tackle all the current and future challenges.

We want to invite all the companies from the business services sector to become Members of ABSL. Joining is easy and all the information and required documentation is available on our website.

**[www.absl.cz](http://www.absl.cz)**

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