



ASSOCIATION OF BUSINESS SERVICE LEADERS IN

### THE CZECH REPUBLIC

## 2014-15



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#### **INTRODUCTION:**

ABSL is proud to present the second report on Business Process Outsourcing and modern Business Services in the Czech Republic. Our goal was to present the most accurate picture of the industry and its development trends. We have also drawn on the expertise of our supporting members of ABSL to give a description of global trends in business services and developments in the key areas of human resources modern office space.

We hope that this document will help managers of Delivery Centers in the Czech Republic to further grow the size and portfolio of their services and that potential investors will be able to make fully informed decisions about expanding their presence to the Czech Republic.

#### **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) was formed in 2013 to give the business services industry a common voice to help shape its environment and destiny. 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 and has grown to include 36 members representing over 25% of the Czech business services market.



MISSION ABSL is a platform for enhanced dialogue and collaboration within the Busi-Service Comness munity. 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.



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.

#### **CURRENT ABSL MEMBERS:**







































































#### **Executive Summary**

The centralization of processes is the way to manage supporting functions in the globalized economy. The reduction of labor borders and major advancements in technology have allowed the movement of core processes to central or offshore locations in order to benefit on scale, cost arbitrage and enhanced control possibilities. There are differences between companies and regions in how many and what functions are subject to outsourcing programs. Many companies have learned to think about areas such as IT support and customer service as obvious to be centralized. When we look at the other supporting business functions, especially in Europe, then Finance & Accounting is the most popular subject for outsourcing programs. This is also valid for the Czech Republic where almost 40% of SSC headcount provides services in the Finance & Accounting area.

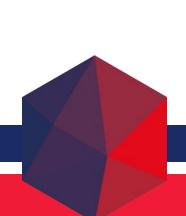
Often after achieving success in Finance, companies will look into other back office functions of the organization – and here the possibilities are vast. IT services, Human Resources, Sales and Fulfilment or industry specific processes are only a few to look at. Our understanding of 'sourceable' processes expands with the growing success of this new industry. For example traditional areas within Finance and Accounting cover Procure to Pay, Order to Cash and Record to Report cycles. But Shared Services Centers are more often responsible for execution of high end functions such as Financial Controlling or Compliance Services. Other outsourced functions are also subject to a similar expansion of their scope and complexity.

With this increase of scope and complexity comes more power and control over decision making and the center's importance in the corporate landscape increases. The centers become decision makers in terms of shape of the information flow in the organization. The centers no longer only process data but aggregate and analyze it in a way which enables direct decision making in other parts of the organization. This evolution of the business services role allows employees to build valuable experience and gain confidence working directly with senior decision makers in various geographies.

Shared services centers show what can be achieved in quality and process improvements in the Czech Republic and this further increases the opportunities for winning investments in other business areas. We should also remember that there is a significant proportion of the global market which is still to be shared between existing and established players (companies, regions, cities). Many companies are still at the beginning of their outsourcing journey and at the same time, more and more processes are being proven to be outsourceable.

The Czech Republic is a regional leader in the Business Services market but competition is strong and other CEE countries recognize the strategic benefits that come from investing in the growth of the industry and are proactively working on attracting new investments. It is important to keep emphasizing the many advantages of the Czech Republic as the ideal location to place long term investments based on a proven track record of business services success, a stable business climate and an attractive, central location in Europe.

Ota Kulhanek Chairman of the Board of Directors, ABSL SSC Prague Location Lead, Accenture





#### **About the Report**

The goal of this report is to give an up to date picture of the Business Services industry in the Czech Republic and show how we compare with global trends and benchmarks. The first part of the report is aimed at giving the reader the broader context of the Business Services Industry globally and in Europe. It is based on the global market analysis performed by one of ABSL supporting member PWC , in over 400 global centers. In the following part we focus on the Czech business services industry. This part is based on the survey made by ABSL of 34 of the leading BPO and Captive service centers in the country. We have also provided interesting comparisons with our previous years surveys that show how the industry continues to grow in size and quality

THE SURVEY

Almost half of the survey respondents are GENERAL MANAGERS of BPOs/SSCs in Czech Republic:

47%

General Manager of BPO/ SSC delivery center in Czech Republic

38%

Manager responsible for a BPO/SSC delivery center + other organization units in your organization

15%

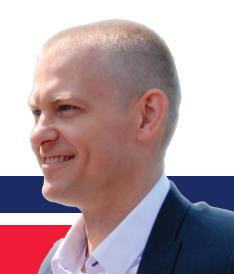
Manager of a team/department within your BPO/SSC delivery center in Czech Republic

Source: ABSL Modern Business Services Market in Czech Republic Survey 2014

Rafal Drygala Vice-chairman of the Board of the Directors Senior Program Manager, Infosys BPO Knowing that often Czech Republic service centers perform processes which are beyond the traditional scope of transactional outsourcing, we asked the responding companies to tell us more about such high complexity work. We are able to include case studies and success stories that show the remarkable quality of the workforce in the Czech Republic and scalability of advanced services executed here.

The following chapter is focused on Human Resources aspects. The increase in business experience among the Czech workforce enables more and more companies to successfully find the best talent and establish their service centers. Many graduates often find their first jobs in the Services Industry and thanks to that get exposure to world class solutions and to ways of working in global organisations. We have drawn on the expertise of our supporting member Hays, which provides insights on the current state and development trends within the HR area of the industry.

The other crucial success factor for modern services centers is the availability and competitive pricing for high quality office spaces. In the majority of cases, office space is the second biggest cost category in the financial statement of an average delivery center. On top of that each center needs fast and reliable connectivity. A high quality, well located office is one of the major motivational factors for service employees. Thanks to one of our partners Colliers International we are able to present an indepth analysis of modern office space in the Czech Republic. We thank all who put their time and effort into the preparation of this document. We are sure that information enclosed here will help the readers to make informed decisions on establishing or expanding successful service delivery in the Czech Republic.



## **Business Services - From the Global to the Local View**

The global business services picture is healthy and the industry continues to grow and mature. Future growth prospects are excellent as new firms establish outsourcing centres and existing centres are consolidating and driving the expansion of their activities. We have observed many new entrants to the industry, especially from Europe from small and medium sized companies, who are moving towards outsourcing - especially for near shoring options such as CEE. There is a growing professionalism and confidence across the services industry as more centres provide complex, non-transactional services and are achieving significant operational improvements and influencing the future direction of their companies. According to the recent PwC's Global SSC survey 2014 an increasing number of global SSCs are developing and maturing and moving up to Advanced and Business partner maturity levels.

Europe is still the number one choice for locating SSCs, and CEE is by far the most popular destination for Europe. The nearshore market grows strongly across CEE as European countries seek outsourcing locations closer to home and providing the requisite language capabilities for their European operations. A recent McKinsey report shows that business services in CEE continue to grow at an average of 30% per annum with approximately 100,000 new jobs per year arriving in the region. This growth rate is even faster than India and it is achieved by the expansion of existing centres, with only 10% from new centre arrivals into the region. This is a strong reflection of the growth in capability and performance of Central European business centres and their established reputation as Centres of Excellence.



Jonathan Appleton at the 2014 ABSL Conference held in Prague, on October 16th 2014.

The PwC survey shows that Cost and Risk are the top 2 deciding factors for investment in CEE. We are seeing a shift as other destinations are perceived as more risky in recent times and jobs are being transferred to the more stable parts of the world and the CEE region.

This will continue to bring a new wave of resourcing opportunities that is already being experienced by the Czech centres that we have surveyed this year.



#### The Czech picture...

As one of the first wave of outsourcing destinations, the Czech Republic is competing with regional growth leaders such as Poland and Romania, who continue to attract the bulk of new investors in the region. The growth in the Czech business services market is built on the expansion of the many mature centres that have been established here in the last ten years, especially in Prague, Brno and Ostrava. New centres have been introduced in other regional cities around the country as investors recognise the costs and quality benefits to be found in cities such as Pardubice, Hradec Králové, Olomouc, Plzeň and Liberec with large universities and available graduates.

The 2014 PwC survey shows that 97% of all Czech centres are in the Advanced or Business Partner maturity stages, which reflects the quality of Service operations in the country and the development of sophisticated, multi functional centres that are moving up the value curve utilising a growing population of highly skilled service professionals in the industry. This is confirmed in the number of services offered by Czech centres which has jumped by 50% in the last two years and now includes functions such as Reporting, Compliance, Treasury and Taxation, together with a move into Front end and sales support services. IT off shoring is a Czech success story and many major global names have established centres in the country to leverage the potential of IT graduates and professionals. Several large Pharma companies have moved their IT support functions to Prague in the last year and this trend looks set to continue.

The PwC SSC survey has shown that in Global Services, a highly skilled workforce is a key differentiator and the Czech Republic has grown one of the largest and most capable populations of service professionals in the region. The survey reveals that CEE has the highest cost savings achieved globally, and the Czech Republic leads the way with an average of 32 % reported savings on operating costs delivered by Czech centres. At the same time, service levels in Czech centres were rated as highly as Western Europe and significantly higher than other parts of the world.

The Czech success story in business services looks set to continue as Centres leverage their capabilities and bring new services into the market. Quality and operational effectiveness have moved up the agenda for investors and Czech Service leaders are seen to be contributing greatly to the success of their companies and making a significant contribution to the Czech economy.

Jonathan Appleton Executive Director, Member of the Board of Directors Director The Academy, PwC **CHAPTER ONE** 

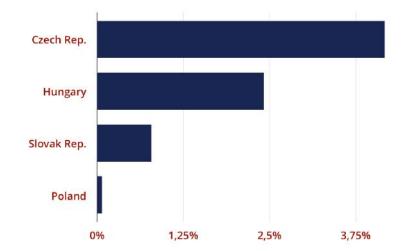
## THE CZECH REPUBLIC IN THE EUROPEAN CONTEXT

Shared service centers have experienced a major boom in the Czech Republic in recent years. Until the year 2000 nearly all foreign direct investments in the Czech Republic were in the manufacturing sector. Since 2000, however, investment flows have changed significantly. The development of information and telecommunications technologies supported the establishment of the first Business Support Service operations and thus an increase of foreign direct investment in the service sector. The development of this sector was initially characterized primarily by the establishing of call centers. However, as time passed, it became necessary to address the needs of more sophisticated operations in the fields of finance, accounting, and later human resources and information technologies.



Today the Czech Republic is a very attractive environment for foreign investors and Czech cities appear mostly on shortlists of possible sites together with cities in Poland. The Czech Republic's main advantages include the availability of workers with professional and language skills, the quality and cost of available office space and an excellent infrastructure. The country has traditionally been attractive for foreigners thanks to its high standard of living, highly ranked education system and interesting job opportunities. The majority of immigrants are foreigners from within the EU, with Slovakia being the largest contributor to this group. According to the latest figures presented in the IMD World Competitiveness Yearbook, the Czech Republic offers the highest percentage of foreign nationals compared to local workforce among CEE countries.

The poorer the Eastern European country, the more acute the problems it faces due to large-scale migration to more prosperous western countries. However, there are fewer Czech nationals working abroad in comparison with countries such as Poland, Slovakia or Hungary. Czechs like to travel and gain foreign experiences abroad, but they especially like to return home.



Source: IMD World Competitiveness Book, 2013

The Czech Republic has a strong, fully developed education system, based on a long tradition dating back to 1348, when the oldest university in Central and Eastern Europe, Charles University in Prague, was established. Currently, the Czech Republic can offer all types of education, including postgraduate and continuing lifelong education supported by the state. The graduation rate at the elementary, secondary and university levels is very high in the Czech Republic relative to world standards.

At present over 368, 000 people are studying at public and private universities around the country. All university students are required to study at least one foreign language (English being the most popular, followed by German and French). Czech Universities also offer study programmes in foreign languages and due to the continuous emphasis on foreign-language education, the Czech Republic fares very well in international comparisons. According to an in-depth study of the Czech labour market conducted by STEM in 2014, 42% of Czechs are able to speak at least one foreign language. Furthermore, more than 24% of the population is able to speak two foreign languages. English, German, Russian, French, Spanish, Italian, Polish and Slovak are the most widely spoken foreign languages in the Czech Republic.



TOTAL
NUMBER OF
STUDENTS AT
UNIVERSITIES
IN THE CZECH
REPUBLIC

REGION	NUMBER OF STUDENTS	ІСТ	BUSINESS ADMINISTRATION STUDIES	
Total Czech Republic	368 304	37 752	91 897	
Prague	150 124	12 071	41 389	
South Moravia	76 816	9 725	13 854	
Moravia-Silesia	38 740	4 535	11 032	
Olomouc	22 757	516	1 353	
South Bohemia	16 651	1 502	5 704	
Plzeň	13 459	2 619	1 496	
Zlín	11 705	1 735	3 320	
Pardubice	10 317	1 656	2 373	
Ústí	9 721	369	2 822	
Hradec Králové	8 824	1 832	2 112	
Liberec	7 890	867	2 124	
Vysočina	3 242	296	2 330	
Central Bohemia	1 435	40	1 556	
Karlovy Vary	467	45	575	

Source: Czech Regions, academic year 2013/2014



The Czech government recognizes the need to nurture an environment that will welcome new investment projects and support the establishment an growth of service centres in the Czech Republic.

The Business and Investment Development agency Czechlnvest is committed to helping investors during their entry into the country, as well as afterwards, providing a wide range of aftercare services. Czechlnvest has prepared the Welcome Package project for newly incoming investors, which is aimed at facilitating the issuance of residency and work permits for foreign employees of a range of investors. With Czechlnvest's

assistance, investors thus have the possibility of acquiring such permits more rapidly that was previously the case. With an open immigration policy, it is hoped that the Czech Republic will be able to attract even more talent to the country. The Czech Republic offers financial support to foreign companies through several EU structural-fund programmes. Moreover, the Act on Investment incentives is being amended and should bring new conditions for expansion of Business Support Services.



"The interest from potential investors registered by CZECHINVEST was higher in Q1 2014 than in the entire 2013."

**CHAPTER TWO** 

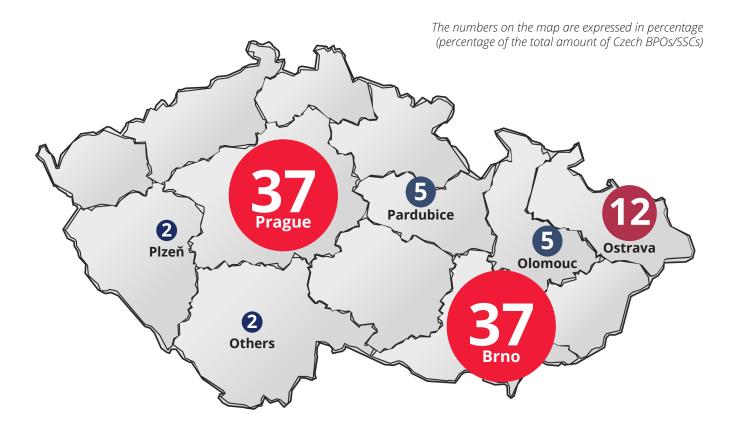
## MODERN BUSINESS SERVICES IN THE CZECH REPUBLIC

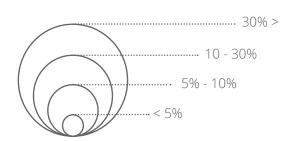
The first Delivery Center has started its operations in the Czech Republic in the early nineties, then came significant growth between the years 2000 and 2008. This relatively long time gave Czech centers the opportunity to achieve maturity and grow their operations. ABSL has asked through its survey about the stage of maturity of the Czech Delivery centres, in order to understand the complexity and breadth of the services being delivered. Following a precise scale, 80% of the organisations are assessed as either Advanced or Business Partner stage. Further details are provided in this chapter.



## The distribution of BPOs and SSCs across the Czech Territory

A quick look at the Modern Business Services industry in the Czech Republic: The great majority of delivery centers are located in the 2 biggest cities of the Czech Republic Prague and Brno, and we observe an equal presence between both cities. Ostrava is in third place followed by other cities such as Pardubice, Olomouc, Plzeň, Hradec Králové and Liberec.





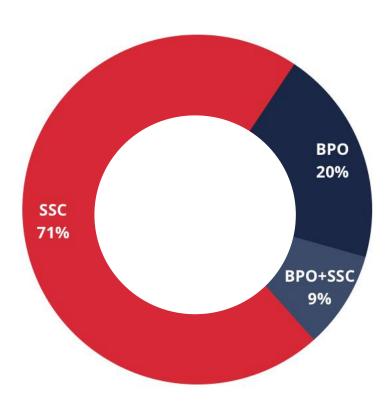
Source: ABSL Modern Business Services Market in Czech Republic Survey 2014

City	Geographical Spread		
Brno	37%		
Prague	37%		
Ostrava	12%		
Olomouc	5%		
Pardubice	5%		
Plzeň	2%		
Other	2%		

DEFINITION
OF BPO AND
CAPTIVE
SHARED
SERVICE
CENTERS

What we understand as a Business (Shared) Services 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 exist as captive centers being separate legal entities or just organizational units of the mother company. In terms of centers ran by BPO providers their Delivery Centers render various types of centralized services for multiple 3rd party clients. In the Czech Republic the great majority (up to 80%) are captive Shared Services Centers. Regardless if we talk about captive or commercial centers, 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.



ABSL estimates that there are

150 +

BPO/Captive SSC's present today in Czech Republic, the industry employs ca.

55,000

Staff

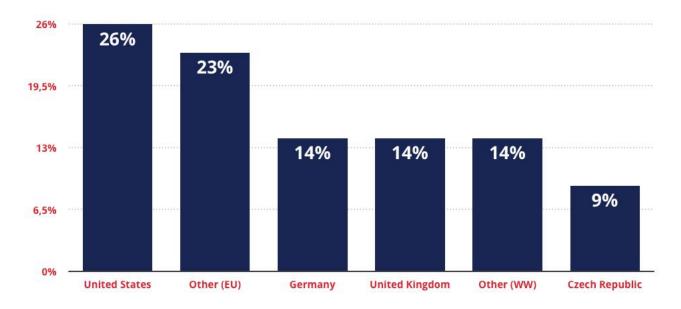
Source: ABSL Modern Business Services Market in Czech Republic Survey 2014

SENERAL
PICTURE OF
BPO/CAPTIVE
CENTERS
IN CZECH
REPUBLIC

The biggest share of the investment into Czech modern business services market comes from US companies. Two biggest European economies: Germany and UK take the second place, various other EU countries follow however none holds a significant share.



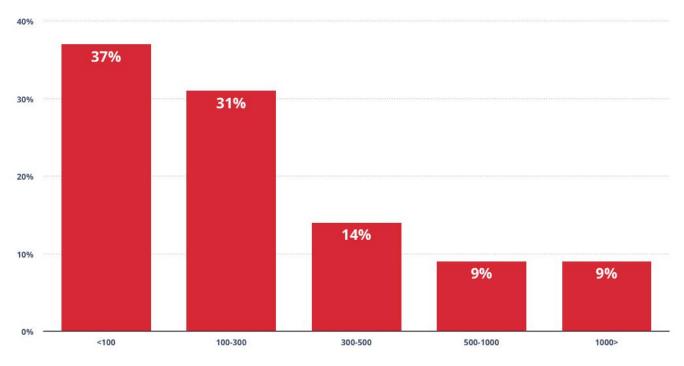
#### **HEADQUARTERS LOCATIONS PER COUNTRY (REGION)**



Source: ABSL Modern Business Services Market in Czech Republic Survey 2014

#### **AVERAGE SIZE OF THE CZECH BPO & SSC CENTERS**

The majority of the Centers in Czech Republic are small or medium sized. Almost 40% have headcount below 100 employees and another 30% are between 100 and 300 people.





Václav Havel, President of Czech Republic from 1993 to 2003. Source: Wikipedia

The first Delivery Centers have started their operations in the Czech Republic in the early nineties. This was followed by significant growth between years 2000 and 2008. This relatively long time gave Czech centers the opportunity to mature and develop their capabilities.

In terms of center maturity we categorize the center according to four stages of development. "Rookie" for the centers which are in the design or initial implementation phase. "Developing" for all those organizations which have finished transfer of some work and are still in the process of transitions of more processes according to the initial scope of their activities. Normally in such organizations the process of standardization, improvement and automation of the processes is already initiated (often already during transitions) but there is still a relatively long way to go to reach an advanced level of process maturity and centralization. "Advanced" - this stage describes centers where the majority of the initially planned scope of activities is already moved to the centralized environment. Also the process of standardization and automation is significantly advanced. Such centers will be usually looking for opportunities to expand their scope above what was initially planned. And finally "Business partner" - such organizations are fully mature with optimized processes and structured quality improvements. Their targets are aligned with the strategic goals of the corporation rather than the measurement of process efficiency itself.



23%
DEVELOPING

**57%** ADVANCED

17%
BUSINESS
PARTNER



Design and implementation plan in place



Some processes transferred, transitions in progress, majority of the processes not standardized



Transfer of processes completed or very advanced, specific SSC targets and strategies established, major processes standardized



Optimization across organization, structured quality improvements ongoing, targets aligned with strategic targets of overall company

According to our ABSL 2014 survey results 80% of organizations are in the Advanced or Business Partner stage. There are a few important consequences to be noticed. The more advanced the delivery center, the more it transforms into a decision making hub and center of organizational expertise. Mature centers are able to dictate the shape of the information flow in their organizations and are a key deliverer of data analysis tailored for senior decision makers of their mother companies.

Our ABSL 2014 survey estimates over 55,000 people working in business services in the Czech Republic. This represents a very significant number of employees who are experienced in working in world-class, optimized, dynamic and multicultural environments. This ensures the availability of a quality Czech and international workforce for future potential investors in the business services sector and across other business areas.

Interms of proportions of processes, Czech centers follow the structure observed in other CEE countries. Finance & Accounting and other Finance related processes are still being delivered by the biggest part of employees of the sector. This is followed by an almost equally big presence of Information Technologies Support and Customer Service. Human Resources services and Sourcing & Procurement are delivered by together 15% of the sector.

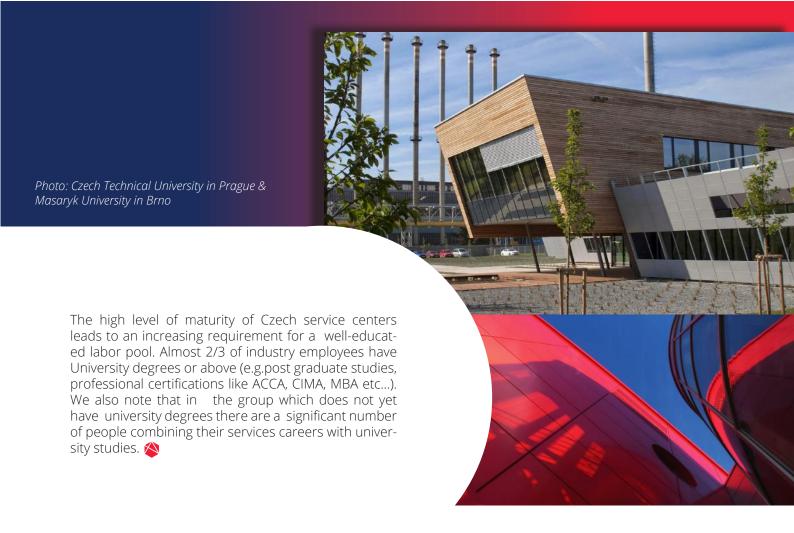
Year	F&A	IT support	HRO	S&P	cs	Other
13-14	38%	18%	9%	6%	23%	5%
12-13	48%	18%	6%	8%	20%	0%
11-12	54%	14%	6%	9%	16%	0%
10-11	56%	10%	7%	10%	16%	0%

Source: ABSL Modern Business Services Market in Czech Republic Survey 2014

Even though F&A services are still the largest and the number of employees delivering them goes up, its share in the overall industry headcount reduces year by year.

This relative reduction of share is balanced by increases of share for IT Support, HRO, Sourcing & Procurement and Customer Service. The biggest relative growth we can observe in the category "other". This category consists mainly of industry specific solutions.





#### **AVERAGE EDUCATION LEVELS WITHIN THE SURVEYED BPO's / SSC's**



27%
NO
UNIVERSITY
DEGREE



32%
UNIVERSITY
BACHELOR
DEGREE



38% MASTER DEGREE



3%
POST
GRADUATE

Czech modern services centers deliver work to almost all the countries in Europe and to many in other geographies including locations such as China, UAE or Thailand. However the majority of work is being delivered for the largest European economies: UK, Germany and France. A significant part is delivered also within the Czech Republic and to Slovakian customers. This obviously creates a major need for multiple foreign languages for BPO/SSC employees.

#### **SOURCE OF THE BUSINESS**

COUNTRY	PERCENTAGE
Germany	19%
Czech Republic	16%
UK	12%
France	10%
Slovakia	7%
Belgium	5%
Poland	4%
Hungary	3%
Russia	3%
USA	3%
Austria	2%
Italy	2%
Netherlands	2%
Sweden	2%
Canada	1%
China	1%
Finland	1%
Greece	1%
India	1%
Romania	1%
Switzerland	1%
Thailand	1%
United Arab Emirates	1%

#### **LANGUAGE OF DELIVERY**

LANGUAGE	PERCENTAGE			
English	49%			
German	17%			
Czech	12%			
French	6%			
Dutch	3%			
Greek	2% 2%			
Italian				
Norwegian	2%			
Slovak	2%			
Spanish	2%			
Russian	2%			
Polish	1%			
Swedish	1%			



#### DEVELOPMENT TRENDS OF THE INDUSTRY

The Czech business services industry is still in its growth phase. Based on the results of our ABSL surveys we see over 11% organic growth in the Czech centers in 2014. This is in line with levels achieved in the last 3 years and the forecast growth for 2015 shows an increase to 16% as Centers continue to win additional services and develop their portfolios.

"The forecast for next period is at the level of 16% growth, which is on the level of best of last 3 years. The realistic optimism is still there!"



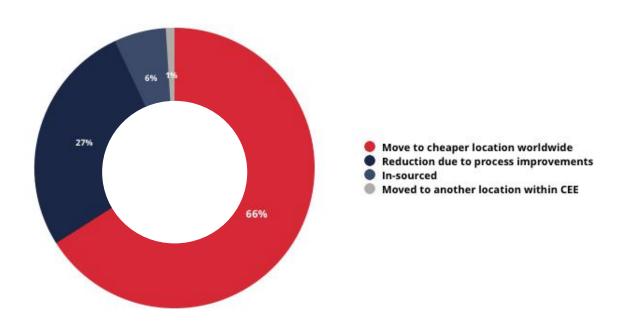
#### **ORGANIC GROWTH**

2011/12 growth	.12%
2012/13 growth	16%
2013/14 growth	11%



Czech service centers are reporting some outflow of work to other global locations but in the majority of cases this is more than balanced by new scope coming in. The outflow is related to the natural maturing path of the outsourced processes. After reaching a certain stability and maturity in their near-shore location, a certain portion of transactional work is ready to be either automated or moved to more remote and cost effective locations.

It is important to mention that the move to cheaper locations is particularly happening in commercial BPO centers, as it is often part of the overall business model of such companies and the promise given to their clients.



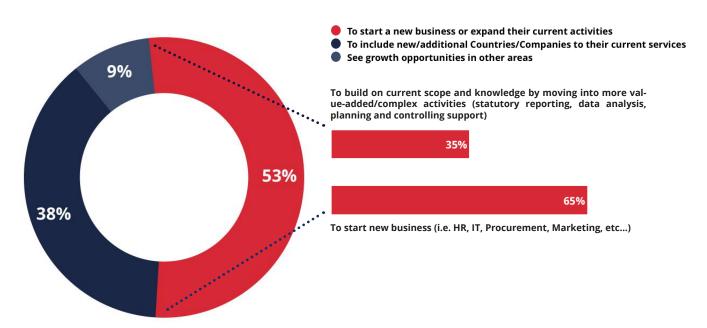
Source: ABSL Modern Business Services Market in Czech Republic Survey 2014

58%

Thinks that the expansion of the process portfolio is the way forward We asked the Czech centers what are the best opportunities for them to grow. The majority of center heads replied that they are looking to expand through offering new and more advanced processes.

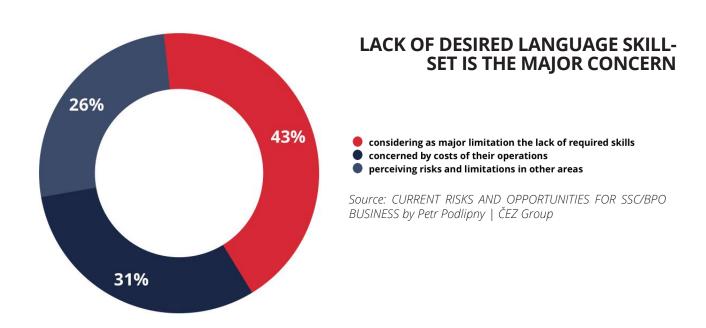
We can see similar results also in the Czech BPO/SSC market analysis done by our ABSL founding member ČEZ. Almost 60% of responses indicate that the expansion of the process portfolio is the way forward. We can observe that there is a large appetite to expand with more added value services, but even bigger to start performing more traditional and proven processes. The presence of many Czech success stories for these new processes is a strong argument for other centers to start performing and therefore a quick way to grow.

#### COMPANIES SEE EXPANSION INTO NEW BUSINESS AS MAJOR OPPORTUNITY FOR THEIR GROWTH



Source: CURRENT RISKS AND OPPORTUNITIES FOR SSC/BPO BUSINESS by Petr Podlipny | ČEZ Group

In terms of limitation for long term growth most of the answers were related to the limited pool of employees who have required domain skills and at the same time speak a foreign language(s). We can see very similar results in the ČEZ survey. Cost is actually seen as a secondary risk.





The increasing maturity of centers results in moving more strategic decisions to experts in the Czech Republic. Over 80% of centers report that they have the decision making powers to design some or all the processes in their scope.

ASSESSMENT	PERCENTAGE
yes, we have full ownership of all processes in our scope and we have decision power to modify them	13,3%
yes, we have full ownership of some processes in our scope and have decision power to modify them. Other processes are owned by retained organization	70,0%
no, we do not own any processes in our scope, however opinions and suggestions of SSC regarding process changes are an important input for process owners	16,7%
no, all decisions of process changes are made within retained organization	0,0%

Source: ABSL Modern Business Services Market in Czech Republic Survey 2014

The mature centers also often become drivers of the outsourcing programs that initially were driven from headquarters. After proving quality and ability to scale, centers themselves reach out for more scope. On top of that Czech service centers are being perceived as hubs of specialized knowledge and a source of expert consultants who are able to provide support for other parts of the organization. Almost 20% of centers say that from 5% up to 25% of their employees are located in the clients offices outside the delivery center.





The strategic development path for centers in this part of the globe is to leverage an experienced and well educated workforce, cultural fit and geographical proximity. Many managers of the Czech centers replied that the expansion of their service portfolio with more complex processes is the way to grow their organizations.

The success of one organization in delivering new processes is a success for the whole industry. It gives others arguments to discuss similar expansion within their corporations. This year we asked Czech centers to share with us their success stories and to point out the processes that are beyond the usual scope of services given to shared services centers.

Almost all of the centers replied with examples of such processes. Some of them, especially Finance & Accounting related were present more than once. Czech centers more and more often take ownership of statutory accounting and statutory reporting performed according to other countries accounting principles. Many are involved in financial controlling, reporting and analysis. A similar situation can be observed in terms of the calculation of taxes and tax declarations.

As mentioned before Czech centers have become a source of experienced consultants for other entities in their corporations. In 1/5th of them there is some group of employees located out of their clients offices. In many cases these employees serve as subject matter experts or project managers. In the case of BPO providers consulting and project management services are an important part of their offerings, often being embedded into the wider outsourcing contracts.

Other high-end processes were among others:

- Global Mobility Services (employees' travel and reconciliation)
- Fraud Prevention Services
- Project Management
- Facility & Fleet management
- Industry Specific Accounting
- Various Specific IT Services



**CHAPTER THREE** 

## ADVANCED BUSINESS SERVICES IN THE CZECH REPUBLIC

CASE STUDIES AND REAL EXPERIENCES

The Czech Republic has a mature, growing industry in Business Services and the success of many leading centres has been achieved by adding complex, high value activities to their service portfolios. On the following pages we provide insights into the adavnced services provided by 5 leading Czech Centres AND how these services are adding value to their business. Our ABSL mission is to share best practices across the business services industry and support other Czech centres to develop their portfolios. We would like to thank these four ABSL members for sharing their success stories and showing what more can be achieved with Czech service professionals.





#### CASE STUDY ONE: OKIN

Managing the Customer Network. Providing Full scale solutions for Global Telecomms

Our company was established in 2004 as Shared Service Centre for an American telco client. We started with a small team and simple scope of work – data entry transactional tasks.

Over the years we grew in terms of number of employees as well as the portfolio of activities. After 10 years we evolved into a professional Business Process Service Partner with over 900 employees, 3 delivery centres (2 in Ostrava, 1 in Prague) and a wide range of services provided.

Today we have our focus on B2B segment – primarily telecommunications, but expanding to estate management, utilities and financial services. Currently we manage full end-to-end process and are delivering our service throughout the whole product/service lifecycle.

We cover fully EMEA region, supporting our client and its customers in 5 core languages (English, German, French, Spanish, and Italian) and additional 11 languages on an on-demand basis. Our service lines are:

- Backbone network planning, technical design of managed customer networks
- Sales support and Solution design
- Order verification & Entry, Provisioning and Project Management
  Lease Administration and Deeds Management
- Tier 1-3 Technical support and dedicated multilingual Customer Support & Care
- Business Analytics and Reporting

"We are so proud of all of our people, most of whom come from the Ostrava region. The region and city have incredible potential and we have found really easy access to the people we have needed. In return we keep growing our offering of positions. The industriousness we have found leads very clearly to our core focus: our clients satisfaction and creating the "light bulb" moments. in the end, it's always people dealing with people, no matter what kind of service provided. Last month saw our 10th anniversary and looking at our current size and capability, it's unbelievable what we've achieved over that period of time. Every success is attributable to our people who are commmitted and willing to learn and do new things every day. We are delighted to make this small contribution in service to Ostrava being a better place, not only for working, but also for living."



For more information: http://www.okinbps.com

#### Dan Smith, Managing Director of OKIN BPS







#### CASE STUDY TWO: INFOSYS BPO Near-share multilingual center, part of a

Near-shore multilingual center, part of a Global Delivery Model

Infosys BPO, the business process outsourcing subsidiary of Infosys, a global leader in consulting, technology and outsourcing solutions, established its presence in the Czech Republic in 2004, as its first international delivery centre outside of the company's headquarters, when it decided to leverage the Czech Republic's potential with respect to easy availability of an educated workforce, robust infrastructure as well as economic and political stability.

Since 2004, Infosys BPO Czech Republic has established itself strongly as a strategic nearshore location, as part of the company's Global Delivery Model, with over 500 employees and 2 delivery locations - in Brno and Prague. The Czech Republic Delivery Center has been providing business process and transformation services to several leading global organizations including several Fortune 500 companies across industries such as hitech and discrete manufacturing, financial services, banking and insurance, and telecommunications, among others. Infosys has leveraged Czech Republic to provide services in 20+ global languages and across multiple time zones, through a diverse team consisting of more than 40 nationalities.

Infosys BPO has leveraged Czech Republic to provide end-to-end business process and transformation services across the following service lines:

- Finance and Accounting
- Sales and Fulfilment
- Sourcing and Procurement
- Customer Service
- Human Resource Outsourcing
- Analytics
- Legal Process Outsourcing
- Green and Sustainability

"In 2004, Infosys BPO selected the Czech Republic as the location for its first international service delivery center. Ten years on, we can proudly say that it was the right decision. The scale and number of satisfied clients across multiple industries and processes that we have been servicing from Brno and Prague over the years, is the best validation of the excellent outcomes that our teams have been delivering, on the basis of the strong foundation that the Czech Republic has provided. Our last ten years in the Czech Republic have been highly productive and rewarding, and we are eagerly looking forward to many more successful years

Jan Skotak, Regional Center Head of Infosys BPO
For more information: http://www.infosysbpo.com





## Johnson Johnson

#### JNJ Global Business Services s.r.o.

#### **CASE STUDY THREE: JOHNSON & JOHNSON**

Global reporting and consolidation services

#### What services do the JnJ reporting team carry out for your clients and who do they service?

Our reporting team carries out the reporting of Actuals, more specifically sales and the trial balance (TB) which are used for global consolidation for public filing in the US.

The service is provided to the Medical Devices & Diagnostics (MD&D) business with in Europe and for the commercial/marketing companies, no production plants are in scope.

#### How does this service add to the value of your SSC in Prague?

These activities put us at the end of the line of financial reporting which brings a sense of importance. It also allows the organization to think from an end-to-end perspective on the accounting process for a corporation such as JNJ. The impact of our colleagues is felt within the same building and not across country borders.

#### What other high value services do you plan to introduce in the future?

In the sphere of reporting we have already kicked off a project to begin shifting business planning reporting to our organization. To do so, we are acting as key stakeholders in shaping a new and standardized way of conducting business planning. Also we will be piloting full reported TB ownership by taking over the approval of the actual TB reporting on a quarterly basis. In other words, we will have final say on what numbers will be sent for global consolidations.



David Mansfeld, FCCA Managing Director, Global Finance Services EMEA Johnson & Johnson

For more information: http://www.jnj.cz



#### CASE STUDY FOUR: A WORLD LEADER IN PAINTS AND INDUSTRIAL COATINGS - Captive Shared Service Centre

Human resources, Training and Development and Global VAT compliance services



Besides finance & accounting and IT services, the center provides also services in the area of human resources as well as training and development programs in Europe.

The HR SSC department provides support for more than 15 EMEA countries covering extensive HR Administration processes including the preparation of employment document, updating the HR database, the selection of candidates as part of the recruitment process and the involvement in payroll processes. The team has built top level knowledge of the HR database system and provides 1st level support to other users across the region. In addition to the HR Administration activities, the team also coordinates and organized centrally from Brno all European training and development activities. This includes course development, advertisement, registration, administration and evaluation as well as facility coordination and administration. The HR team has also extended further into HR specialist roles like data analytics, compensation & benefits and global support of various HR applications. The Brno team has become a strong partner to the business and also functions as a back-up team in time of crisis. Last but not least, it is a talent pool from which future HR directors will come.

Furthermore, the center also has a sophisticated VAT compliance team servicing multiple locations in Europe. The team is involved in VAT compliance activities for more than 25 countries. It also provides support and in some cases fully coordinates VAT audits initiated by the local tax authorities. Due its more in-depth knowledge of VAT legislations in the different jurisdictions it also performs a first line advisory function within and outside the SSC. In order to further standardize the VAT compliance process on a pan-European level the team developed a compliance tool, which automates a significant part of the compliance process achieving a better quality of the data output and better efficiency of the preparation process.

Other activities of the team are providing support on VAT recovery on T&E expenses, safeguarding timely VAT refunds and therefore improving the cash flow, providing country specific VAT trainings and improving the reconciliation of VAT accounts. More recently the team started a joint effort with credit control to establish country specific processes on VAT recovery on bad debts.

**CHAPTER FOUR** 

# MEETING THE HUMAN RESOURCE NEEDS FOR CZECH BUSINESS SERVICES

BY HAYS CZECH REPUBLIC

People are the driving force behind the success of business services and this chapter focusses on the key HR issues for services staff in the Czech Republic. We cover the key HR components of recruitment, reward and education and show how these are developing in the country to support the growing needs of service centers and their clients.

The growth of major global Czech centers with increasing complexity in their services is reflected in increased demands for the right language skills, attractive salary and benefits packages and a steady supply of appropriately educated graduates. Meeting such growing demand is not without its challenges and the industry needs further support and collaboration with the Ministries and Universities to ensure an adequate pipeline of talent to meet future growth forecasts across the industry.



#### BUSINESS SERVICES GROWTH MEANS MORE LANGUAGES NEEDED: GERMAN, CEE LANGUAGES AND NORDIC LANGUAGES ARE TRENDY

Analyzing the 2014 statistics, we can identify **3** main trends: The increasing demand for German skills continues and is well ahead of other European languages such as French.

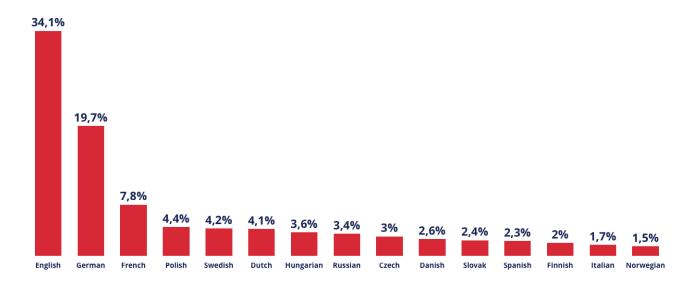
Another visible trend is the **growing popularity of CEE languages:** Polish is number 4, Hungarian and Russian hold 7th place and 8th place. We can find Czech on 9th place and Slovak on 11th place.

Nordic languages are also becoming highly sought after. Swedish is 5th most wanted language and also Danish (10th place), Finnish and Norwegian are members of TOP 15.

On the other hand, Dutch language has not changed its good position in Czech SSC/BPO market for years (currently 6th place). We cannot say the same about big European languages Spanish or Italian – they are still members of TOP 15 but they are significantly less needed than 5 or 10 years ago.

LANGUAGE	PLACE	% OF ROLES OPEN IN 2014
English	1	34,1%
German	2	19,7%
French	3	7,8%
Polish	4	4,4%
Swedish	5	4,2%
Dutch	6	4,1%
Hungarian	7	3,6%
Russian	8	3,4%
Czech	9	3,0%
Danish	10	2,6%
Slovak	11	2,4%
Spanish	12	2,3%
Finnish	13	2,0%
Italian	14	1,7%
Norwegian	15	1,5%

Source: HAYS Czech Republic 2014

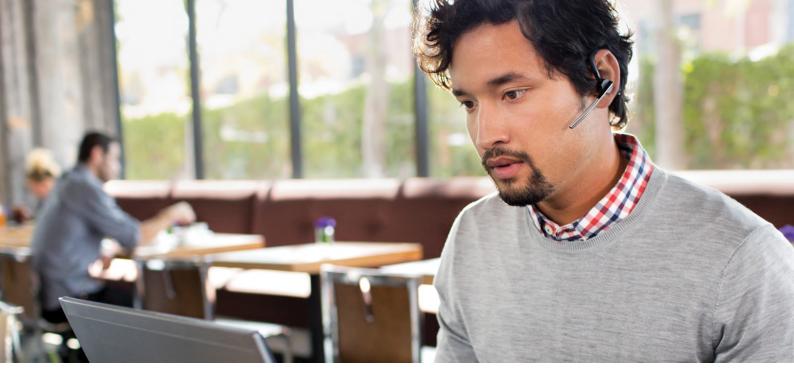


#### SSC/BPO SALARIES IN 2014: COMPENSATION LEVELS REMAIN STEADY BUT REWARDING TALENTS MOVES UP THE AGENDA

Our salary survey for 2014 shows that compensation levels have remained steady and Czech is not experiencing over inflation in people costs for the industry. However we observe an increasing trend for providing more advanced services and transferring more expensive projects to the Czech SSC/BPO market. As a reaction to this situation we can report specific salary increases around 5% helping to attract and retain talents or/and experienced professionals with specific knowledge and skills. Target groups are candidates with **most valuable languages** (e.g. German, Dutch or Scandinavian languages) AND especially professionals with **specific experience or know-how** (eg accounting + transition).

	Experience	Prague Minimum	Prague Maximum	Prague Typical	Brno Typical	Ostrava Typical
Customer	Up to 1 year	24,000	31,000	27,000	23,000	22,000
Service	2 to 3 years	27,000	34,000	30,500	26,000	25,000
	4 years and more	31,000	36,000	33,500	31,000	31,000
	Team Leader	37,000	47,000	43,000	36,000	34,000
	Manager	57,000	140,000	85,000	70,000	65,000
Finance	Up to 1 year	24,000	31,000	28,000	24,000	22,500
	2 to 3 years	28,000	35,000	32,000	27,500	26,000
	4 years and more	32,000	37,000	34,000	30,000	28,000
	Team Leader	38,000	55,000	45,000	38,000	35,500
	Manager	59,000	160,000	90,000	75,000	70,000
IT (1st level	Up to 1 year	24,000	33,000	29,000	26,000	24,000
support)	2 to 3 years	31,000	38,000	34,000	31,000	28,000
	4 years and more	35,000	50,000	42,000	37,000	35,000
	Team Leader	42,000	55,000	47,000	44,000	42,000
	Manager	60,000	140,000	85,000	75,000	70,000
Project /	3 to 5 years	40,000	55,000	47,000	42,000	40,000
Transition Role	6 years and more	60,000	120,000	80,000	70,000	65,000
Head of SSC	up to 70 FTEs	150,000	250,000	175,000	155,000	N/A
	more than 70 FTEs	170,000	400,000	220,000	200,000	180,000

Source: HAYS Czech Republic 2014



#### BUSINESS SERVICES BENEFITS IN THE CZECH REPUBLIC IN 2014: INCREASING THE FOCUS ON NON-FINANCIAL BENEFITS

Salary levels in the Czech Republic have remained steady and we are now seeing Non-Financial Benefit packages returning to pre crisis levels as centers aim to recruit and reward talents in the industry. Two kinds of benefits are worth mentioning: First, the companies operating in the areas connected to traveling (airlines or hospitality customer service) that are able to offer **discounts on travel or hospitality services** have a big advantage in the SSC/BPO environment where the average age is around 30 (specifically in Customer service even under 30). Second, the attention is now paid to the needs of both **Generation Y and young parents.** What matters now is the extent of flexible working hours plan, part-time plan or home office rules, amount of holiday provided, number of sick days or bridge days.

#### PROVIDED BY THE MAJORITY OF BPOS - SSCS

5th week of holiday

Meal vouchers contribution

Language courses

Sick days (up to 4 days)

Pension insurance contribution

Life insurance contribution

Cafeteria plan 100 to 1000 CZK monthly

Water, coffee, fruit days

Relax zone (sofa)

**Induction training** 

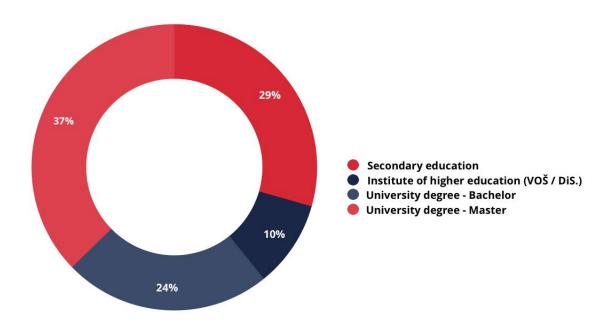
Source: HAYS Czech Republic 2014

#### PROVIDED BY THE MINORITY OF BPOS - SSCS

13th salary Meal vouchers 100% paid Part-time as a standard option 5 sick days and more "Bridge days" (extra days off) Medical care card Cafeteria plan 1000 to 4000 CZK monthly Flight tickets / Hotels discounts Relax zone (table football, TV etc.) Company academy or equivalent 14th salary Handling work permit process Home office Company product discounts Flexible working hours Annual life cover City transportation card Relocation Support Sports trainer/Masseur in the office Ergonomy specialist in the office

#### CZECH SERVICE CENTRES ARE DEMANDING MORE GRADUATES TO MEET GROWING BUSINESS SERVICE SUPPLY AND COMPLEXITY

2014 numbers show the high percentage of university degree holders (60,8% in total) among new hires again. Especially the percentage of Masters Graduates (37,3%) is one of the highest in the CEE region and reflects the growing need for highly qualified talents across the industry. On the one hand, graduates from the institutes of higher education (VOŠ) and bachelors should be the main sources for SSC/BPO hiring, on the other hand, the Czech Republic is currently attracting more complex projects requiring a more qualified workforce from the Czech Republic and beyond. This is shown also in the next section on the rise in international employees across the sector to meet the language and knowledge demands of growing centers.

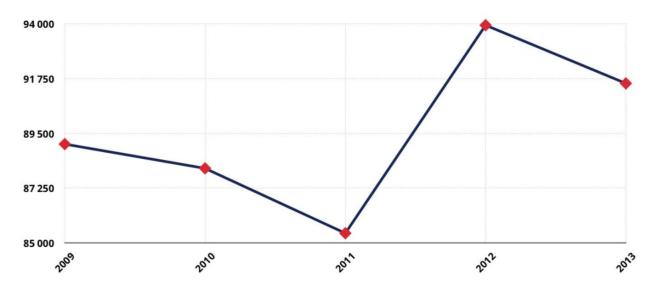


Source: HAYS Czech Republic 2014

#### GROWING THE SUPPLY OF GRADUATES AND NATIVE SPEAKERS TO MEET BUSINESS SERVICES DEMAND.

The Czech education system currently produces around 100,000 graduates per year from leading Universities across the country. This includes high quality technical universities in Prague, Brno and Ostrava plus the growing regional cities of Plzeň, Olomouc, České Budějovice, Hradec Králové and Pardubice where new Service Centres are taking advantage of the supply of graduate talents and cheaper location costs.

In Slovakia another 50,000 new graduates enter the market every year and an increasing number of these are finding career opportunities in Czech Business Services.



Number of graduates produced by the Czech Education System per year. Source: Ministry of Education, Youth and Sports 2014

NUMBER
OF CZECH
UNIVERSITY
STUDENTS
STUDYING 2 OR
3 LANGUAGES

Universities and Czech Schools are providing a steady flow of quality Czech employees into the market but many centers are also recruiting native speakers from around the world to provide the language and knowledge skills they require. The Czech Republic has one of the highest proportion of quality international expats in the region with over 500,000 in the labour market according to recent surveys.

	2007		200	8	200	9	201	0	201	1
	#	%	#	%	#	%	#	%	#	%
Students in total	159 445	100	166 490	100	172 330	100	172 243	100	177 941	100
1 language	119 918	75,20	128 015	76,90	133 002	77,20	136 315	79,10	147 027	82,70
2 languages	36 008	22,60	34 485	20,70	36 092	20,90	33 071	19,20	28 956	16,30
3 languages	3 519	2,20	3 990	2,40	3 236	1,90	2 857	1,70	1 958	1,70

Source: Ministry of Education, Youth and Sports 2014

This represents 5% of the Czech population and a significant proportion of the workforce. Business services benefits greatly from this talent pool, which continues to grow steadily across the country – not just in Prague. The table below shows that Slovaks make up a large portion of the expat population. European nationals are well represented and this ensures a steady stream of language and international talent for service centers here in the Czech Republic.

The stable situation in the country, high quality of life and international work experience are the reasons the Czech Republic continues to be a very attractive location for international talent. This in turn drives the capability for centers to add additional languages and services to their portfolio and attract further work opportunities.



The following information is based on a data provided by Czech Statistical Office, embassies and expatriate associations. The German number includes also German or Austrian citizens living in the Czech Republic. The English covers especially UK, U.S. and Canadian citizens. The Spanish number covers Spanish citizens and Spanish embassy's estimation regarding Latin American countries citizens in the Czech Republic.

# NATIVE SPEAKERS IN THE CZECH REPUBLIC



Slovak	300 000
Ukrainian	120 000
Russian	40 000
Polish	25 000
German	24 000
Hungarian	15 000
English	13 000
Italian	3 500
Dutch	3 000
French	3 000
Spanish	2 700
Turkish	1 500
Greek	1 200
Swedish	700
Portuguese	600
Danish	350
Finnish	300
Norwegian	190

**CHAPTER FIVE** 

### CZECH OFFICE SPACE MARKET

BY COLLIERS INTERNATIONAL

In the current property cycle, the status of the office sector would be described as an "occupiers" or "tenants" market. This shift to the tenant/occupier side is especially apparent in Prague and can be attributed to increasing office vacancy rates as a result of new office stock entering the market against a backdrop of relatively flat office demand and take-up.





From a tenant's perspective, this change has been good news. The net affect has meant that occupational costs have fallen and/or occupiers have been able to upgrade their accommodation by relocating to higher-quality premises. In addition, many tenants have succeeded in getting their landlord to subsidise costs of refurbishment to their existing offices.

Prague is the largest office market in the Czech Republic and one of the most popular markets in the Central Eastern European (CEE) region for office occupiers, including those specialising in office-based outsourcing and offshoring (O&O) business activity. In recent times, regional cities of Brno and Ostrava have also begun to play an important role in attracting companies involved in two of the main sub-groups of the O&O sector, specifically, Business Process Outsourcing (BPO) and/or Shared Service Centres (SSC).

Year	Modern Office Stock (m2)	Under Construction (m2)	Vacancy Rate	Non Central Rents: €/m2 per month
Prague	2,960,000	180,000	14.6%	13-14.5
Brno	460,000	33,000	17.4%	7.5-12.95*
Ostrava	200,000	0	22.5%	9.75-12.75**

<sup>\*</sup> Class A buildings across whole of Brno

<sup>\*\*</sup> Class A buildings across whole of Ostrava

### PRAGUE

New office supply for Prague in 2013 amounted to 78,380 m2 with a further 77,120 m2 being delivered in H1 2014. The expectations of new stock for all of 2014 should be around 152,380 m2.

Gross take-up (office demand) in 2013 reached 338,580 m2 while net-take up accounted for less than half of this total at 103,960 m2. For H1 2014 these figures were 127,550 m2 and 34,690 m2 respectively.

(For an explanation of gross take-up and net take-up see the key definitions section in the next page, below the chart)

### BRNO

Brno's new office supply for all of 2013 totalled 26,660 m2 while this figure was already surpassed by H1 2014 with 37,700 m2 of new office completions.

Gross take-up in 2013 was 32,350 m2 with the vast bulk of this demand being accounted for by net take-up at 27,130 m2. The 2013 gross take-up figure was actually 30% down on the 2012 figure of 53,300 m2.

Gross take-up for H1 2014 amounted to 9,000 m2 representing new demand (net take-up) as opposed to companies simply renewing their lease contracts.

### OSTRAVA

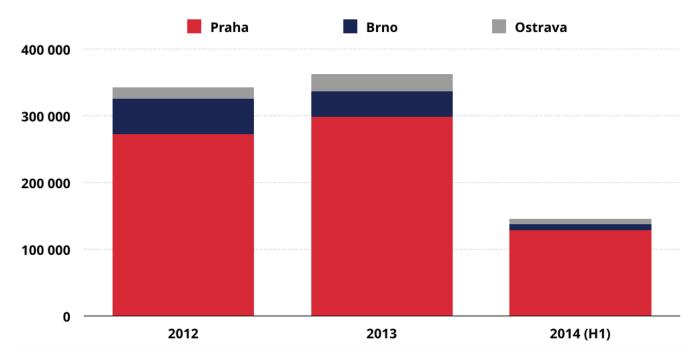
Some 25,000 m2 of new office space hit the Ostrava market in 2013, similar to the figure of 2012. Currently there are no new major office developments underway in the city and modern office stock is set to remain stable over the coming 12 months. 2013 gross take-up was 26,580 m2 with the majority of it being accounted for by net take-up at 23,590 m2. In H1 2014 both gross and net demand was 8,070 m2. Office demand in Ostrava for 2014 is expected to be similar to the 2012 figure of 17,000 m2, however slightly down on 2013 levels.







#### GROSS TAKE-UP 2012 - 2014 PRAGUE / BRNO / OSTRAVA



**Gross Take-up:** represents the total floor space all occupational market activity known to have been let or sold as one of the following activity types during the survey period: Pre-let, New Occupation / Lease, Renewal / Renegotiation, Expansion, Sub-lease and Sale & Leaseback.

**Net Take-up:** represents the sum of all occupational market activity categories which represent a net increase in demand for space, i.e. excluding Renewal / Renegotiation, and Relocations within existing office stock.



We analysed office leasing transactions for Prague and Brno that are easily identified as being generated by businesses operating in the BPO / SSC sector for the period 2009-2013 (see graph below).

In conducting the research, we found that there has been a steady increase in recent years, both in the share represented by BPO / SSC of total annual office gross take-up and in terms of the absolute figures of m2 leased. Our analysis did show, however, that these figures were pared-back in 2013 as the market continued to recover from the recessionary trough of 2012.

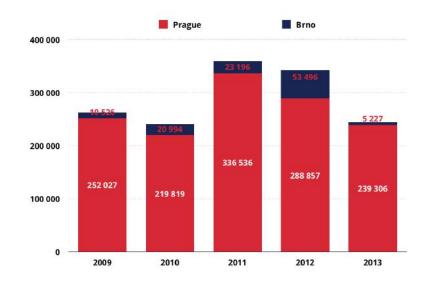
For both 2010 and 2012 years, the BPO / SSC sector accounted for 40,000 m2 of gross take-up, while in 2011, the same figure was 40% higher at 56,000 m2. Furthermore, we estimate that the overall office demand being generated by the BPO / SSC's sector is most likely higher than our analysis indicates since not every company openly declares they are operating a BPO / SSC in their premises.

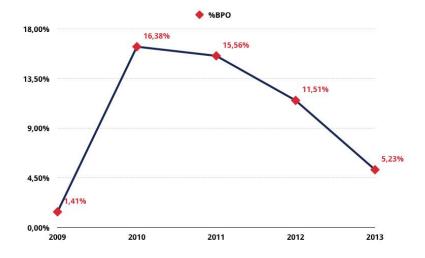
#### PRAGUE & BRNO TAKE-UP AND BPO/SSC SHARE 2009 - 2013

In capturing growth in the BPO/ SSC sector, the prospects for 2014 and beyond look positive for the Czech Republic. Domestically, with many companies making enquiry and considering location options, there appears to be great potential for growth in the short-to-medium term. As a result, we anticipate office demand will at least reach the levels of 2010 and 2012.

Prague, for example, is one of the core existing CEE locations for the sector and has already begun to experience an increase in real demand from large BPO / SSC specialists. MSD, a global provider of heathcare products, recently announced it will open a global IT centre in Prague in 2015. This global IT centre will occupy over 6,000 m2 of office space and in time will create over 500 jobs, many of which will draw in skilled IT specialist. ACS (part of Xerox Corp) has also leased new offices in Prague of 1,200 m2 and will provide BPO services in the field IT.

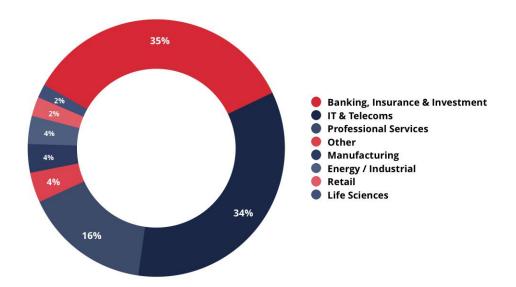
In addition, companies active in the Pharma, FMCG and Manufacturing sectors are currently considering the Czech Republic as a location to expand or open a new SSC. Similarly, a number of established BPO operators are in discussions with their clients about transferring additional business to this country.







In terms of the profile of the BPO / SSC business sectors driving office demand, you will see from the chart below, around one-third each has come from either a Banking / Insurance or a IT / Telecoms background, thereafter followed by Professional Services.





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 summarised below.

Lease Length	5 years lease term 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.

### OFFSHORING AND OUTSOURCING (O&O) - REGIONAL HIGHLIGHTS

Our analysis of office demand across a range of known 'Offshoring and Outsourcing' (O&O) cities in the region highlights that there has been **very strong demand for office space from the sector since 2010.** Following the early phase of growth up to 'pre-crisis' times, **the sector has grown by 80%** in terms of the volume of office space occupied over a four-year period. Not only has there been strong demand from new companies wishing to enter the regional O&O market, there is also evidence of a maturation of the sector with a large number of established operators having expanded their footprint across a wider geographical area.

There were some clear leaders in the region - markets that had developed critical mass by attracting the outsourcing industry: namely Prague, Budapest, Bratislava, Krakow and Warsaw. These first tier, capital cities were also seen as more expensive locations within the region in which to operate an O&O facility. There were other cities that were emerging as significant players in the regional sector that had plentiful labour capacity (and a lower operational-costs base) that are ideal locations to 'rapidly absorb' new O&O facilities. These have included Czech cities such as Brno and Ostrava.

With such a range of locations offering different levels of O&O experience, skill sets and cost profiles, we believe the region was very well placed to continue absorbing an increasing number of O&O functions, which would lead to an increase in the size of the sector in the near future.

However, we would also point out that there were a number of risks to the growth of the sector in the region. Some capital locations appear to be closer to capacity – based on the types of jobs which were being relocated to and/or established in these markets. Problems were being recognised by operators in these cities, whereby high levels of staff attrition were taking place between competitors, which have been driving up the cost base.

While existing regional leaders have grown strongly, there has also been very sharp growth in O&O occupiers positioning operations into less-experienced and lower-cost locations. This pattern is clearly seen in the Czech Republic with new SSC centres established across the country in regional cities such as Pardubice, Plzeň, Hradec Králové, Olomouc and Liberec.





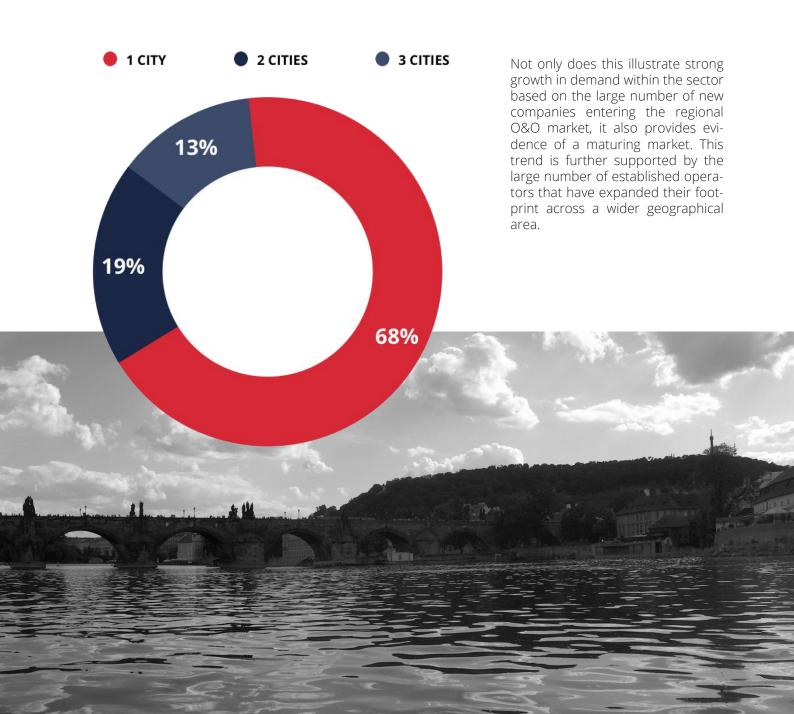
## THE EXPANSION OF THE O&O SECTOR. CONTINUED GROWTH IN A MATURING MARKET

Just as the business environment in CEE has continued to improve, so has the number of O&O business operators. Based on our analysis of companies operating in the sector, we have identified that since 2010:

- Some 199 O&O companies have acquired modern office space within one of the target city markets for the first time.
- A further 144 companies have maintained their presence within one of the target city markets.
- Of those companies that had an existing presence in the region, 47 have expanded their operations into other cities in the region.

As the chart below highlights:

- 68% have expanded into one additional city,
- 19% have expanded into two additional cities, and
- 13% have expanded operations into three additional cities.



## CHAPTER SIX ABOUT ABSL

THE ASSOCIATION OF BUSINESS SERVICE LEADERS IN THE CZECH REPUBLIC



#### THE 2014 ABSL CONFERENCE

The ABSL Conference is the key event the association organizes, this year for the second time in Prague. The event was held on October 16th 2014, with more than 160 participants including heads and leaders of major Czech SSCs and BPOs, the audience was double last year and delegates comments have been very supportive.



"Loved it, had a great time, and day, thank you for including me and OKIN BPS!"



"Event was really great. The second half was a bit more interesting but sessions were quite short, but very interesting topics and I was impressed. Organisation of the whole event was really good. Many Thanks."



"Really good event. Well managed and a pleasure to attend an event focused on collaboration & sharing rather than buying and being sold to."



ABSL would like to thank all our members and sponsors for their significant contributions in 2014. We look forward to building on these strong foundations and achieving even more in 2015.

Join us and get the value that ABSL can bring to your company.

ABSL board of directors www.absl.cz





#### **Current ABSL members**

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.

ABB

ACCA

**Accenture Services** 

**Bodycote SSC** 

CA CZ

**CGI IT Czech Republic** 

**Colliers International** 

Comdata Czech

ČEZ Korporátní služby

**DHL Express Czech Republic** 

**Dixons Retail SSC** 

**EDITEL CZ** 

**Edwards Services** 

**Fabory CZ Holding** 

Gardner Denver CZ + SK

Global Tele Sales Brno

Hays Czech republic

**Infosys BPO** 

International SOS Assistance

**JNJ Global Business Services** 

John Crane Sigma

Jones Lang LaSalle

**KBC Group NV Czech Branch** 

**LUKOIL Accounting and Finance Europe** 

MANN + HUMMEL Service

Monster Worldwide CZ

**Motorola Solutions CZ** 

NonStop Recruitment

**OKIN Group** 

PPG INDUSTRIES CZECH REPUBLIC

PricewaterhouseCoopers ČR

**Process Solutions** 

SAP Business Services Centre Europe

Siemens

Skanska Property Czech Republic



#### About ABSL

Association of Business Service Leaders (ABSL) was founded by 15 founding members in 2013.

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.

#### **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.

Membership benefits		
	Core members	Supporting members
Voting rights in ABSL general meeting		
Nominating candidates for Management Board for election by the general meeting		
Suggestion rights for new members		
Leadership in work streams as per defined objectives of the association		
Knowledge access and sharing & networking		
Full access ABSL governmental network		
Benefit from publicity and PR		
Economical and business advisory		

#### 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.

### Members of the Board of Directors



Ota Kulhánek Accenture Services



Rafal Drygala Infosys BPO



Jonathan Appleton PwC ČR

Ota has been working in the SSC / BPO industry for last 10 years. Since 2011 he has been leading the internal SSC for Accenture in Prague. From 2003 to 2011 he had been working in the BPO area, lastly he was leading Finance & Accounting BPO for Accenture in the Czech Republic. His areas of expertise are: SSC / BPO market and management, finance and accounting, project management and operational excellence.

Rafal has over 12 years of experience in areas of Management, F&A and Outsourcing. Till November 2014 he was responsible for Infosys operations in Czech Republic, running 600 people multinational, multi-process delivery from Centers in Prague & Brno. Infosys Czech Republic serves some of the most well known, Fortune-500 companies in fields of high tech industry, insurance, pharmacology, automotive or heavy machinery manufacturing. Today Rafal is responsible for all the transition programs of Infosys in EMEA region.

Jonathan is the Executive Director and a founding member of ABSL Czech Republic. Jonathan is the Director of the PwC Academy in the Czech Republic and supports Business Services clients across CEE with learning solutions and qualifications. Jonathan has worked with multinationals in finance and training in many parts of the world and PwC now has Academy operations in over 50 countries across the Globe providing clients with the highest levels of learning and business solutions.



Tomáš Frkal Process Solutions



Blanka Cabáková Edwards Services



Jan Pokorný Gardner Denver

Since 2008 Tomáš has been Managing Director of the Czech office of Process Solutions. In 2013 he held the position of Chairman of the Finance Committee of the American Chamber of Commerce in the Czech Rep. Previously he was working for international tax advisory firms and as an in-house tax counsel at some large utility companies. His areas of expertise are: leadership and development of a small BPO organization and business development in the area of professional services mainly accounting, payroll and trust services.

Blanka is a Process & BPI Manager at FSC Edwards Services s.r.o. She has got 8 years of experience in SSC environment. Her areas of expertise are transitions from Europe, Asia, US, transaction processing AP, AR, Cash & Bank and BPI improvements. She is an ACCA student and also Board Member of the ABSL.

After his studies and foreign experience, Jan joined Ernst & Young Business Advisory team, where he held various positions and worked on various projects over a period of more than 7 years. In 2009, he joined Lifestyle Sports International Group as the CFO and Interim CEO of the Czech legal entity, with the responsibility for the Czech and Slovak market. From August 2011, Jan has worked for Gardner Denver Group as the Director of the SSC, being responsible for establishing and the strategic development of the Group Shared Services Centre.



Adam Kiwalski Siemens

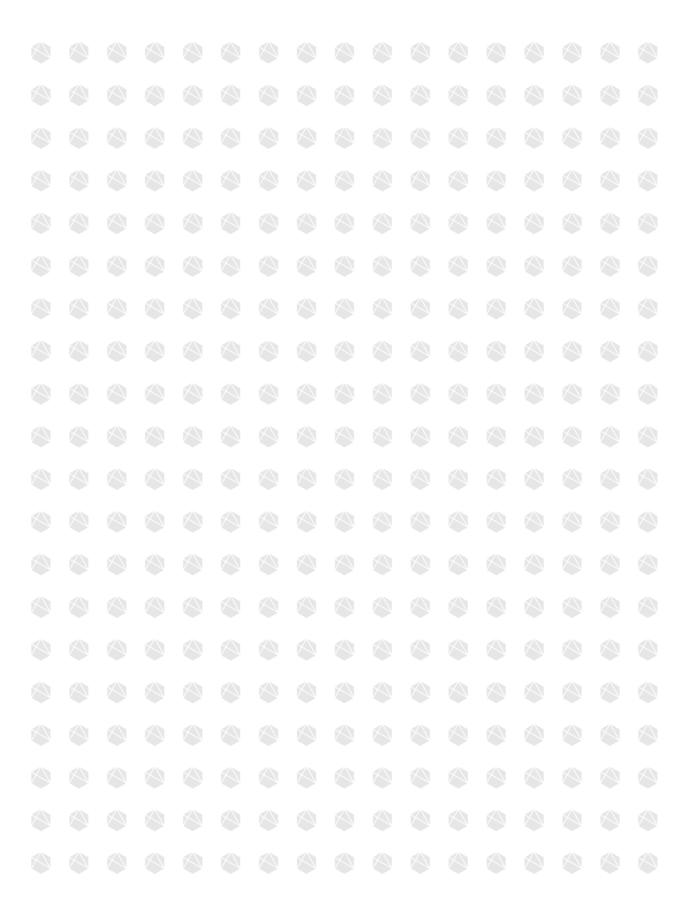


Katka Benešová ACCA

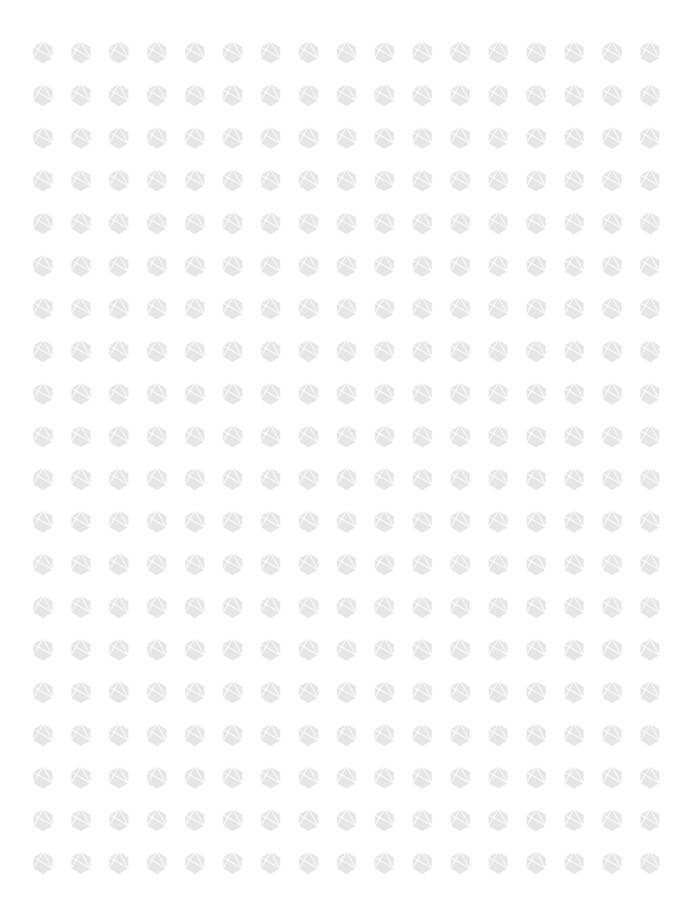
From 2004 Adam was involved in creation of captive SSC for Philips in Lodz Poland where later on he held number of leadership positions. In 2007- 2011 Adam worked in Infosys BPO where he was managing European consulting practice - Business Transformation Services. From 2012 he works as Head Operational Excellence at captive SSC of Siemens in Prague. His areas of expertise include: SSC/BPO market, process excellence, project management, outsourcing operations, development of back-office services.

Katka is Head of ACCA Czech Republic, Slovakia & Hungary. Katka has been building the ACCA market and brand recognition since the local Prague office has opened in 2003. She is customer focused and builds strong relationships with ACCA stakeholders in CEE. She has been involved in finance professional training and people talent development for over 13 years while working for ATC International and Arthur Andersen. She is a member organization of the CIPD (Chartered Institute of Personnel & Development), in the area of HR management.

#### **NOTES**



#### **NOTES**







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