BPESA
Business Process Enabling South Africa

SOUTH AFRICA BUSINESS PROCESS SERVICES **KEY INDICATOR REPORT** *2018*

About BPESA

BPESA is the national association for companies operating in the Business Process Services (BPS) sector, commonly known as Business Process Outsourcing (BPO) and contact centre sector in South Africa. BPESA's mandate is to market South Africa to the global BPO market in collaboration with the government.

BPESA also facilitates stakeholder engagement through:

- Industry development
- Skills development
- Public Relations and Marketing

BPESA works with all contact centres in South Africa in all provinces and with current regional representation in the Western Cape, Gauteng and KwaZulu-Natal only.

For more information about BPESA, visit www.bpesa.org.za

About BPESA Key Indicator Report

The report provides an insight into various BPO metrics across industry types, widening the view of the sector's trends and challenges in the country. For the past five years to date, the report remains a central source of critical information for the BPO sector.

It has been conveniently divided into three sections:

- Industry Analysis
- Operations Analysis
- Human Resources Analysis

The report also contains excerpts from experts who provide exciting views on the BPO sector in South Africa.

Acknowledgements

BPESA would like to thank the following partners for their contributions to the 2017 Key Indicator Report:

- Baker Street Properties
- Quest
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- Mazars
- Liquid Telecoms

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FOREWORD BY THE CEO OF BPESA

Andy Searle

It is with great pleasure that I present to you the 2017 BPESA Key Indicator Report, the main source of information for the South African Business Process Services sector.

Now in its fifth year, the Key Indicator Report remains an invaluable sector intelligence report providing relevant and adequate information to key investor and operator questions, including relevant benchmarks and market trends, and the South African BPS value proposition.

2017 was a very successful year for the sector. The announcement by the Global Sourcing Association to collaborate with BPESA to invite the world to descend on South Africa for a joint BPESA/GSA BPS Summit and Awards in October 2018 was an unprecedented moment for the sector. This development offers all South African regions a chance to showcase their strengths and harness all opportunities presented by the sector to enhance their economic performance and in so doing contribute to addressing the challenges of economic exclusion, poverty and youth unemployment. With the repositioning of BPESA for a national focus and the creation of an enabling environment for high levels of stakeholder engagement and collaboration, I am confident that the sector will continue to grow from strength to strength.

There was a standout moment in 2016 when South Africa was named the Offshoring Destination of the Year at the 2016 Global Sourcing Association (GSA) awards in London, an award it previously received in 2014 and 2012. The consistency with which the awards have been received, corroborated by research conducted by a range of global analysts, confirms South Africa's position as an industry leader and a world class service delivery destination in the global BPS value chain.

The South African government continues to profile the BPS sector as one of the priority sectors that are key to economic growth and job creation. Government, led by the Department of Trade and Industry and well supported by many other departments, works very closely with BPESA and our broad group of stakeholders, within and outside of the country, to enhance the environment within which business can thrive and grow.

The support is provided in many forms. The Department of Trade and Industry's BPS incentive scheme, which helps us to compete favourably with destinations such as India and the Philippines; funding support for demand lead skills development programmes, at all levels of work; and the establishment of a dedicated division in the dti, InvestSA, which focusses on investment promotion, facilitation, and aftercare with One Stop Service investment centres located in the main cities.

The Incentive Development and Administration Division (IDAD), has already begun the review of the BPS incentive. This review, which will be completed by the end of November 2018, will shape the scheme and ensure that we remain a compelling and competitive investment destination. Invest SA and IDAD, supported by BPESA, will then coordinate the launch of the revised incentive in the key source markets of the United Kingdom, Australia and the United States of America, where we will undertake direct engagements with existing and potential investors.

Notably for our investment community, Invest SA coordinates and facilitates activities with the relevant government departments involved in regulatory, registration, permits, and licensing. InvestSA also provides specialist advisory, intergovernmental coordination, and fast track processors to make it easier to do business in South Africa.

With comparatively low capital expenditure requirements, the sector is perfectly positioned to offer service delivery growth at scale across a number of world class cities. At the time of publication, there are in excess of 40,000 people employed in the country to provide services to destinations across the globe.

Our BPS national skills strategy ensures that the demand for entry level skills is met with a consistent supply of talent that will easily and seamlessly articulate to more complex roles like LPO, Finance and Accounting, Knowledge Process Outsourcing etc. The national skills strategy is designed to re-skill, up-skill and future-skill the workforce ensuring that South Africans are competitive in the digital world and that we continue to embrace the changing ways of work brought on by Industry 4.0. Our skills programmes include the roll out of development centres in the local communities taking work to the people and ensuring that previously excluded youth can access this sector and make their impact on our global competitiveness.

We at BPESA, together with our broader group of stakeholders, look confidently to the future in which South Africa features prominently in the service delivery footprints of top domestic and international BPS outsourcers and captives, whose experience of value always exceeds their expectations.

I am grateful to all the stakeholders who have collaborated to produce this report. Your contribution and synergy is certainly making a difference.

May you all find good value in the South Africa Business Process Services Key Indicator Report, 2018

Welcome to South Africa

BPESA Business Process Enabling South Africa

the dti Department: Trade and Industry REPUBLIC OF SOUTH AFRICA

investSA ONE STOP SHOP

EXECUTIVE SUMMARY

REGIONAL OVERVIEW OF INDUSTRY JOBS

	Domestic			Offshore			Total		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Gauteng	133,800	138,900	138,204	5,300	5,500	8,100	139,100	144,400	146,304
Western Cape	29,400	30,800	31,364	16,000	20,500	23,500	45,400	51,300	54,864
KwaZulu-Natal	20,100	13,300	13,574	5,400	6,500	7,000	25,500	19,800	20,574
Other	5,000	7,000	6,900	0	0	0	5,000	7,000	6,900
Total jobs	188,300	190,000	190,042	26,700	32,500	38,600	215,000	222,500	228,642

CAPTIVE VS OUTSOURCE JOB GROWTH

	2015	2016	2017
International outsourcer	21,146	26,455	30,400
International captive	5,554	6,045	8,200
Domestic outsourcer	45,569	49,400	88,560
Domestic captive	142,731	140,600	101,482
Total	215,000	222,500	228,642

SECTOR BREAKDOWN

	Telecoms	Retail	Financial Services
INTERNATIONAL	20,7%	25,9%	18,0%
DOMESTIC	7,5%	2,1%	82,6%

INTERNATIONAL MARKETS SERVICED

2015	2016	2017
59,9%	63,2%	67%

2015	2016	2017
22,4%	25,1%	21,5%

2015	2016	2017
8,5%	3,8%	1,2%

OTHER

2015	2016	2017
9,2%	7,9%	10,3%

DESCRIPTION OF COMPANY'S STRATEGY FOR BUSINESS

Being developed	36,8%
Delivering	31,6%
Optimised	15,8%
Separate strategy for each contact channel	13,2%
Don't have one	2,6%

MEASUREMENT OF CONTACT CENTRE EFFECTIVENESS

2015	2016		2017
86,0%	89,2%	Customer satisfaction	94,7%
65,1%	73,0%	Customer complaint levels	76,3%
39,5%	54,1%	Sales generated	50,0%
25,6%	45,9%	Revenue per customer	34,2%
25,6%	29,7%	Customer life time value	47,4%
23,3%	24,3%	Cost per customer	26,3%
18,6%	16,2%	Customer effort scores	29,0%

FACTORS THAT TRANSFORMED BUSINESS IN PAST FIVE YAERS

	%
Analytics and business intelligence	78,4%
Customer experience led strategy	67,6%
Access to new technology (e.g. via cloud solutions)	62,2%
Growing digital capability	56,8%
New operating structure	51,4%
Agent multi-skilling	51,4%
Our product diversification	43,2%
New market accessibility	32,4%
Our response to new threats from competitors	16,2%

CONSIDERATIONS IN CONTACT CENTRE DEVELOPMENT STRATEGIES

	2015	2016	2017
Customer satisfaction	93,3%	↗ 97,4%	↗ 100,0%
Staff satisfaction	77,8%	↗ 79,5%	↗ 86,8%
Cost reduction	84,4%	↙ 76,9%	↙ 76,3%
Customer base/growth retention targets	66,7%	↗ 74,4%	↙ 73,7%

ANNUAL ATTRITION RATE

	Outsource international	Outsource domestic	Captive international	Captive domestic
Inbound customer service	18,3%	21,4%	31,2%	22,8%
Debt collection	0,9%	10,2%	-	2,7%
Outbound sales	19,0%	26,8%	30,5%	9,4%
Inbound sales	8,3%	22,7%	21,3%	20,4%
Legal Process Outsourcing (LPO)	1,4%	-	-	0,8%
Shared Services Centre (SSC)	-	-	28,2%	19,7%
Finance & Accounting	-	-	13,2%	8,7%
Other back office processing	5,0%	-	11,5%	7,7%

ANNUAL ABSENTEEISM RATE

	Outsource international	Outsource domestic	Captive international	Captive domestic
Inbound customer service	7,0%	3,5%	6,3%	6,1%
Debt collection	1,3%	3,5%	-	1,7%
Outbound sales	2,1%	5,0%	2,3%	3,3%
Inbound sales	3,2%	5,0%	-	4,2%
Legal Process Outsourcing (LPO)	0,6%	-	-	-
Shared Services Centre (SSC)	-	0,4%	-	4,3%
Other back office processing	2,0%	-	-	2,8%

BREAKDOWN OF AGENT WORKFORCE

	2015	2016	2017
Full time permanent	91,7%	80,2%	75,9%
Full time contracted	2,2%	13,6%	15,1%
Part time contracted	0,2%	1,7%	8,6%
Part time permanent	5,9%	4,5%	0,4%

MAIN FACTORS DRIVING DIGITAL BUSINESS

	%
Improve customer experience	94,7%
Customer demand for digital	68,4%
Cost reduction	68,4%
Improve sales opportunity/revenue generation	50,0%
Part of omnichannel strategy (creating seamless customer journeys across channels)	60,5%
Extends service coverage hours	26,3%
Competitor offering/industry pressures	44,7%
Maximise intelligence learnings from digital footprint data	47,4%

SOCIAL MEDIA USAGE

	2015	2016	2017
Facebook	53,8%	81,8%	60,0%
Twitter	46,2%	68,2%	45,7%
LinkedIn	23,1%	36,4%	20,0%
YouTube	15,4%	27,3%	11,4%
Google Plus	2,6%	9,1%	11,4%
WhatsApp	0%	22,7%	25,7%

WHY SOUTH AFRICA

In 2016, South Africa was named Offshoring Destination of the Year at the 2016 Global Sourcing Association (GSA) awards in London.

South Africa also received the National Outsourcing Association's (NOA) Skills Development Project of the Year award in 2014, the European Outsourcing Association's (EOA) Offshoring Destination of the year award in 2013, and the NOA's Offshoring Destination of the year award in 2012.

The awards were received due to a strong BPO value proposition which competes favourably with other emerging and mature BPO locations like Philippines and India. Below, is an abridged South African BPO value proposition:

South Africa as a preferred BPO destination

2

- Cost of operations are at least 50-60% lower than those in England and Australia for both voice and non-voice work
- Incentives further reduce the costs to bring them in range of costs in the Philippines and India

3

- Apart from contact centre, which has been one of the key strengths of South Africa's BPO industry, the scope of international delivery has expanded into non-traditional areas of work, such as financial services, legal process services, and healthcare

1

- Availability of highly skilled, English-speaking talent pool with neutral accent and very high empathy levels
- Additional talent pool through impact sourcing
- Cultural affinity with UK, Australia, and, increasingly, the US
- Recognised domain knowledge in the banking and financial services sector
- Availability of talent across multiple global delivery location options across the country

5

- High quality of life with superior business and operating environment infrastructure
- A wide variety of government support in areas of skill developemnt and infrastructure incentrives for increasing investment in the BPO sector

4

- South Africa is pivoting towards delivery of next-generation of contact centre and digital services
- In the core strength of contact centre, companies have successfully demonstrated capabilities for high quality multi-channel customer experience, supplemented by deep customer analytics

Figure 1: SA value proposition as defined by industry stakeholder - Everest Consultancy 2013

Cultural affinity

- South Africa is similar to many English native speaking locations such as the UK, Australia, and the USA and makes it the ideal destination to service English markets.
- South Africa operates on similar time zones as many European countries. As such, it is strategically positioned to service the European market and provide 24/7 customer support services to USA and Australian companies.

Good quality, English speaking talent

- South Africa has a highly skilled, English speaking talent pool with a more neutral accent as compared to those in India and other offshore geographies – this makes it ideal for contact centre delivery to UK and Australia, and increasingly, the USA.
- More than 60,000 graduates have IT, engineering and related degrees, providing a large talent pool for IT infrastructure and development work.
- Additionally, ~5,000 students study law in South Africa every year – this is reflected in the niche and high quality work that the LPO sector does.
- Apart from bachelor's degree holders, South Africa also has a large skill base in financial services, it is one of the leaders in terms of availability of CFA charter holders and actuarial degree holders; in fact, the latter is almost eight times that of India.
- South Africa is home to the University of Witwatersrand which was ranked among the world's top universities for development studies in the QS World Rankings by Subject for 2016.
- The University of Cape Town's MBA programme consistently features in the Financial Times' Top 100 MBA programmes.

Cost savings

- South Africa offers major cost saving alternatives of at least 50 -60% when compared with other source destinations such as the UK and Australia for both voice and non-voice work.
- The national incentive scheme provided by the government helps to further lower the cost to the range of Philippines and India. For more information on the incentive scheme, refer to the section on invest in South Africa or visit https://www.thedti.gov.za/financial_assistance/financial_incentive.

First world experience

- High quality of life with superior business and operating environment infrastructure.

- A wide variety of government support in areas of skill development and infrastructure incentives for increasing investment in the BPO sector.

- Global contact centre standards – ISO 18295 are based on South African standards (the global standard development was led by South Africa).

- South Africa's modern transportation networks, sophisticated telecommunications, and internationally acclaimed tourism facilities have positioned it as a prime business destination.

- International airports located in major regions such as Durban, Cape Town, and Johannesburg provide direct international flights across the globe.

Robust enabling environment

- Government has identified the BPO sector as a focus area for investment in the region.
- Quality and cost of international connectivity to and from South Africa has improved since the arrival of several undersea cables.
- South Africa has been ranked number one in the world for its auditing and reporting standards in the World Economic Forum's Global Competitiveness Report for 2016, for the seventh consecutive year.

BPO SKILLS OUTLOOK

Background

With the launch of the new South African BPO value proposition in July 2018, the continued evolution of the digital economy, and with Industry 4.0 developments changing the way we work, skills remain a top priority in the BPO sector and a priority focus area for BPESA and its social partners in government, labour and communities.

Much work has been done on the skills front since the last key indicator report was published.

The industry has implemented quarterly skills forums in which skills development practitioners engage to unpack obstacles and opportunities for the development of the domestic and export service workforce while also formulating a future skills framework and strategy for the next five years.

The government has continued to support and fund skills development with the Monyetla Work Readiness Programme and the SETA learnership programmes, while also partnering with Industry to define an integrated and holistic approach to the continued and accelerated development of current and future skills in the sector.

Policy amendments have been made, specifically to support the Youth Employment Service (Y.E.S) to give more recognition to Y.E.S measured entities who will be able to claim up to 50% of their skills development spend as informal training (category F and G of the skills development matrix) against the skills development scorecard. This recognition for occupationally directed informal instructional programmes and work-based informal programmes is welcome and consistent with the sector's strategic intent to make work-specific programmes and short courses a core component of the skills development framework for re-skilling, up-skilling and future-skilling of the work-force.

The sector has also seen an increasing uptake in the adoption of inclusive hiring practices for new hires particularly for the job families for advanced sales and service jobs and, increasingly, for analytics and technology related jobs. This practice has the double benefit of increasing the supply of quality skills at entry level, while positively impacting our social challenges of exclusion, poverty and youth unemployment.

Lobbying is underway to expand the existing BPO critical skills list from seven to include contact centre / shared services operation managers, data analysts, customer analysts, business development managers and others, to facilitate job creation and investment in the sector.

Looking ahead, the higher level of collaboration of role players, combined with better insights into the skills landscape and a clear skills framework and strategy, will enable the sector to make fundamental and sustainable changes to the skills environment that will support growth at scale and transform the workforce for the workplace of the future.

Strategic focus areas and progress made

The focus during the past period was on laying the foundations for a sustainable skills pipeline.

Progress has been made in the following areas:

- Preparing youth in school for the workplace
  Numerous stakeholders are focused on shifting secondary level engagement with school going youth, a progressive example would be Columba Leadership who have led the way in transforming schools' culture thereby changing the trajectory of youth. Their youth leadership and engagement training aimed at Grade 10 learners addresses a large portion of the skills necessary for success in the future (critical thinking, complex problem solving, creativity, cognitive flexibility, people management, negotiation, coordinating with others, emotional intelligence, service orientation, judgement and decision making). Graduates of this programme (which is country wide) have proved themselves as great candidates in the BPO workplace and as future leaders.

- Impact sourcing and inclusive hiring
  BPESA, as a member of the Global Coalition for Impact Sourcing – GISC, and as a strategic partner of Harambee Youth Employment Accelerator has advocated for the hiring of excluded youth (young people who have been locked out of the formal economy) and the adoption of this practice has grown steadily with a goal for the sector to hire more than 20% of new staff inclusively. There is a growing number of operators who provide work readiness programmes including Harambee Employment Accelerator, Career Box, Maharishi Institute, EOH, Merchants, Adcorp, People Solutions, SA Business School and UCademy etc. Government supports impact sourcing through its inclusive hiring focus built into the Monyetla Work Readiness Programme, the SETA levy grant system, and regional specific projects.

- Management and leadership development
  Progress has been made in registering new qualifications for contact centre workorce managers and generic management, introducing more blended learning interventions into the market and in preparing managers and leaders for the workplace of the future. While this area is also supported to some extent by government through the Monyetla Programme and SETA levy grant system, it is primarily the responsibility of business to roll these programmes out across all BPO centres.

- Preparing for the workplace of the future
  BPESA has facilitated several skills forums across the country to identify new roles and competencies required for the BPO work place of the future. The first stage of the process, 'defining a future-skills framework', has been completed. In parallel to this, public and private sector training providers have been implementing programmes for digital jobs applicable in the BPO sector and for new competencies driven by growing adoption of AI, IoT, RPA

and analytics. Proposals are being tabled and discussed with industry stakeholders to introduce a 'future-skills platform' accessible to the domestic and export market workforce in the BPO Sector. This will be modelled along the lines of the successful NASSCOM future skills programme and platform, powered by Edcast, in which individuals can self-manage learning through on-line courses that addresses competency requirements of jobs that are in high demand

Successes

The past period has seen significant success in the continued implementation of the skills strategy, including:

- The initiation of the BPO Skills Forums across the country
- The formulation of a BPO 'Future-skills' framework
- The Training of 175 young unemployed work-seekers in the Western Cape to prepare them for access to the BPO Sector by providing work readiness training and a 12 month learnership. This initiative is being funded by the City of Cape Town, DEDAT, and EOH
- The training of 360 young work seekers in KZN on a fast track work readiness training prior to placing them in employment for a minimum period of 12 months. This programme is being funded by the EThekwini EDU
- The training of 20 potential team leaders in the Western Cape to build individual knowledge and competence related to operational efficiency to positively effect change within the environment through managing team performance efficiently and effectively. This programme is also being funded by the City of Cape Town.
- The adoption of key elements of the BPO skills supply chain across all regions.
- The collaborative effort of Government and Business to lobby support for the acceleration of youth employment and the up-skilling, re-skilling and future-skilling of the work force.
- The adoption of the Programme Office model into BPESA to support strategic skills programmes across the country
- The forming of a relationship with the Y.E.S – Youth Employment Services campaign

Challenges

The key challenges facing the sector in implementing its skills strategy are: improving the profile and appeal of the sector to young people to attract them into the sector for the long term; scaling up the proven models for inclusive hiring and impact sourcing; introducing policy changes to create greater flexibility and recognition for micro learning and non-accredited short courses and programmes; building leaders for the future; addressing the scarce and critical skills challenges; developing skills for the workplace of the future; improving collaboration across a growing number of role players in the skills value chain; and finding innovative funding models, focused on outcomes, that can channel government and private sector funds into skills development with less risk than previously and with much higher returns for the economy.

Domestic market outlook

The domestic market, employing an estimated 85% of the current Business Process Services work force, enjoyed steady double-digit growth between 2004 and 2010 but this growth has slowed in recent years to less than 1% CAGR since 2015.

This segment of the market faces similar challenges to the international market. The advent of (robotic) process automation, the impact of AI on job roles, the impact that the IoT is having on the way we work, and the rise of new job types driven by the digital economy, further hindered by slow local economic growth. Recent research conducted in the UK contact centre and BPS market projected that between 3% and 5% of jobs could be lost in the UK to automation by 2021. It is conceivable that the same impact could be experienced in South Africa.

This risk however also presents the opportunity of re-skilling, up-skilling and future-skilling the workforce to adapt and prepare for Industry 4.0. By re-skilling the incumbent workforce and adequately equipping new entrants to the BPS market with relevant future skills, this risk could be largely mitigated, and the BPS Sector could be re-purposed to be competitive in the market place shaped by Industry 4.0.

International (export) market outlook

Building off a zero base, the sector grew slowly at first but accelerated to an average CAGR of between 21% and 23% since 2014 a point that over 40,000 people are currently employed.

With government and private sector having invested much time, effort and funding over the years, (Government and Private Sector), South Africa has now established good brand awareness in UK market and is growing its brand awareness in USA, Canada and Australia (the major English language speaking source markets). Many global and regional companies have set up or expanded their operations in South Africa; these companies represent a variety of industry verticals, such as technology and communications, financial services, legal, retail and healthcare.

The new and compelling BPO value proposition which was recently compiled supports efforts to use this to attract new foreign direct investment which has the potential to scale up the rate and quantum of growth significantly over the next 5 plus years.

With this growth opportunity, all key stakeholders have shown an interest to collaborate to ensure that there is a sustainable supply of good quality skills for existing and new job types. The core elements of the skills supply chain have been tested and proven. We face a bright future in the sector and it is now time to "blow wind into the sails" of the skills ship to ensure that this future delivers on its full potential.

ACCESSING RELEVANT TALENT IS NEW VALUE PROPOSITION FOR IMPACT SOURCING IN SOUTH AFRICA

"We are not doing impact sourcing to get more profits. We pay similar salaries to our impact workers and charge same rates from our clients. We are in this [impact sourcing] because we, as an organization and our employees, want to do this for the social welfare." -Accenture: Manish Sharma, Senior Managing Director

In 2016, Everest Group and The Rockefeller Foundation partnered on research in support of the Foundation's Digital Jobs in Africa (DJA) initiative, the goal for which is to demonstrate the value of impact sourcing and promote its adoption in South Africa and beyond.

Impact sourcing is a business process service delivery model that provides employment opportunities to previously unemployed individuals who have not been meaningfully engaged in the formal economy. Generally, the individuals who are employed via impact sourcing belong to economically and/or socially disadvantaged backgrounds or are differently-abled.

An overview of the impact sourcing market in South Africa in 2016

50 to 55 percent of the estimated 230,000 FTEs in the South Africa BPO market qualify as impact workers. This high share is because there is no, or limited, difference in the profile of impact and traditional workers hired in normal course of operations, meaning that although companies hire impact workers, they do not claim it to be impact sourcing.

Value proposition of impact sourcing in South Africa

As part of the 2016 engagement with The Rockefeller Foundation, our detailed business case included identification of six key elements to the impact sourcing value proposition in South Africa:

The six key elements of impact sourcing business case in South Africa

- Facilitate access to a large, untapped talent pool
- Performance comparable with regular/ traditional workers
- Stable workforce, (low attrition, high motivation)
- Cost savings compared to traditional workers
- Competitive advantage for business in Africa
- Social impact (Impact workers, family and community)

During our research, companies indicated that impact workers, especially those who have gone through training programs, exhibit better behavioural characteristics. These include higher adherence to timetable, lower absenteeism, higher motivation level, and lower attrition. In fact, as it relates to workforce stability, which is a critical component of the value proposition, the companies indicated almost 50 percent lower attrition among impact workers as compared to traditional workers.

Impact sourcing ecosystem in South Africa

A unique feature about impact sourcing in South Africa is the presence of a robust ecosystem comprised of BPO service providers, buyers, training academies, and government/industry associations. The presence of impact sourcing-focused training academies is a key element of this ecosystem.

These academies, such as Careerbox, Harambee, and Maharishi Institute, help buyers and service providers identify, screen, and train entry-level candidates through job readiness training or learnership programs. The thrust of these programs is on intentional talent development to ensure impact workers are employment ready. These programs include training on technical skills (e.g., computer literacy and language) and soft skills (e.g., adapting to a corporate environment, dealing with stress, and the benefits of stable employment).

In fact, providers including Aegis, CCI, and WNS have established their own in-house learnership programs as part of their intentional focus on impact sourcing.

What has changed since 2014?

Since our last study in 2014, there have been some significant positive developments in the impact sourcing market landscape in South Africa.

Perhaps the most important is the higher level of maturity exhibited by companies in understanding the benefits and challenges associated with impact sourcing, thereby, enhancing intentional adoption. Moreover, there has been a shift in the value proposition toward "accessing relevant talent" rather than just "cost savings." In the past, companies had expressed concerns related to higher upfront training and the administration cost of impact sourcing programs. But our research established that the total cost of ownership (TCO) for impact sourcing is 3-10 percent lower than that of traditional sourcing. Finally, companies are increasingly adopting impact sourcing for the many different types of value it provides. For example, significantly lower attrition among impact workers not only contributes to improvement of the work culture of the organization, but also translates into better service delivery.

Outlook

As there is an intrinsic link between adoption of impact sourcing in South Africa and the expansion of the BPO market in the country, there are understandably concerns around security risks, the impact of automation technologies, etc. Nevertheless, our study shows that the desire to intentionally adopt impact sourcing in the country has increased, and that the model is expected to grow, albeit gradually.

- Everest Consultancy

1. INDUSTRY INTRODUCTION

The report provides strategic insights into various contact centre metrics on operations and human resources management which include absenteeism rates, attrition rates, omnichannel integration, entry salary levels, digital transformation. Analysis and discussion of these metrics is expected to help BPO Executives make informed decisions about their contact centre development. The report also acts as a resource for investors.

Many companies in the BPO sector in South Africa realise the importance of customer experience, as a result, 84,2% of the companies surveyed are working on digital transformation of their contact centres for omnichannel integration. Customer experience remains the focal point for the South African BPO deliverables.

The collaboration between a vibrant domestic market, which includes companies such as Old Mutual, Sanlam, Woolworths Financial Services, Discovery Health, The Foschini Group, Metropolitan Health Group etc and an international market with companies like Aegis, Capita, CCI, EXL, Merchants, Barclays, Conduent, Infosys, Genpact, Teleperformance, Webhelp and WNS has positioned the country as a leading offshoring destination. The country is also the offshore destination for international brands such as Amazon, Asda, Bloomberg, British Gas, Direct Line Group, iiNet, 02, Shell and Shop Direct.

1.1 Overview of the Industry

PROVINCE	DOMESTIC			OFFSHORE			TOTAL		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Gauteng	133,800	138,900	138,204	5,300	5,500	8,100	139,100	144,400	146,304
Western Cape	29,400	30,800	31,364	16,000	20,500	23,500	45,400	51,300	54,864
KwaZulu-Natal	20,100	13,300	13,574	5,400	6,500	7,000	25,500	19,800	20,574
Other	5,000	7,000	6,900	-	-	-	5,000	7,000	6,900
TOTAL JOBS	**188,300**	**190,000**	**190,042**	**26,700**	**32500**	**38,600**	**215,000**	**222,500**	**228,642**

Figure 2: Number of jobs created

1.2 Offshore provincial growth and market share

YEAR	WESTERN CAPE	MARKET SHARE	GAUTENG	MARKET SHARE	KWAZULU - NATAL	MARKET SHARE	TOTAL
2013	8,300	48,8%	5,100	30,0%	3,600	21,2%	17,000
2014	11,700	53,9%	5,000	23,0%	5,000	23,1%	21,700
2015	16,000	59,9%	5,300	19,9%	5,400	20,2%	26,700
2016	20,500	63,1%	5,500	16,9%	6,500	20,0%	32,500
2017	23,500	60,9%	8,100	21,0%	7,000	18,1%	38,600

Figure 3: Provincial growth and market share

The size of the BPO/contact centre sector in South Africa, by jobs, is approximately 228,600 of which 38,600 are servicing international markets. Although the domestic market accounts for most of the jobs within the sector, there was a slight growth recorded in 2017.

- Although Gauteng accounts for 64% of jobs created in the sector, only an estimated 21% are international, with the Western Cape accounting for approximately 61% of international jobs created.
- KwaZulu-Natal has experienced a significant increase in the total number of jobs, with an approximate 4% increase. Job numbers have increased from 19,800 in 2016 to 20,574 in 2017.

1.3 Methodology

- The report was compiled using both quantitative and qualitative research methods.
- The first phase of the research process used data from the BPESA Quarterly Barometer Report from previous reports and existing literature from other industry research partners such as Dimension Data, London School of Economics, and Nelson Hall.
- In the second phase of the process, a quantitative approach was adopted, where an on-line questionnaire was distributed to the respondents.
- The third phase involved telephonic interviews and follow-up communication with respondents.

1.4 Sampling

- The sample population targeted for the survey, focused on all the sector players who make up 80% of the total BPO market in South Africa. The response rate was 60%.

2. INDUSTRY ANALYSIS: KEY FINDINGS

REGIONAL OVERVIEW OF INDUSTRY JOBS

	Domestic			Offshore			Total		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Gauteng	133,800	138,900	138,204	5,300	5,500	8,100	139,100	144,400	146,304
Western Cape	29,400	30,800	31,364	16,000	20,500	23,500	45,400	51,300	54,864
KwaZulu-Natal	20,100	13,300	13,574	5,400	6,500	7,000	25,500	19,800	20,574
Other	5,000	7,000	6,900	0	0	0	5,000	7,000	6,900
Total jobs	188,300	190,000	190,042	26,700	32,500	38,600	215,000	222,500	228,642

CAPTIVE VS OUTSOURCE JOB GROWTH

	2015	2016	2017
International outsourcer	21,146	26,455	30,400
International captive	5,554	6,045	8,200
Domestic outsourcer	45,569	49,400	88,560
Domestic captive	142,731	140,600	101,482
Total	215,000	222,500	228,642

SECTOR BREAKDOWN

	Telecoms	Retail	Financial Services
INTERNATIONAL	20,7%	25,9%	18,0%
DOMESTIC	7,5%	2,1%	82,6%

INTERNATIONAL MARKETS SERVICED

59,9%	63,2%	67%
2015	2016	2017

22,4%	25,1%	21,5%
2015	2016	2017

8,5%	3,8%	1,2%
2015	2016	2017

OTHER

9,2%	7,9%	10,3%
2015	2016	2017

2.1 Type of operations

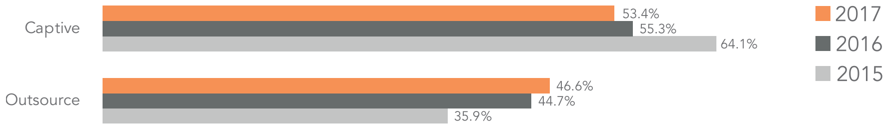


Figure 4: Type of operation

The BPO sector in South Africa is embracing the outsourcing concept, data available indicates a slight increase of 1,9% in outsourced operations from 44,7% in 2016 to 46,6% in 2017. This development shows opportunities that exist for outsourcers on the local market as a strong domestic captive market is enabling growth of both international and domestic outsourcer market by outsourcing business processes.

2.1.1 Type of operation by province

TYPE OF OPERATION	GAUTENG			KWAZULU-NATAL			WESTERN CAPE		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Captive	68,7%	63,6%	59,0%	43,0%	37,5%	27,1%	45,8%	42,3%	40,1%
Outsource	31,3%	36,4%	41,0%	57,0%	62,5%	72,9%	54,2%	57,7%	59,9%

Figure 5: Type of operation by province

Data in figure 5 above shows similar patterns to the previous year. Although the figures indicate a downward trend since 2015, from 68,7% to 59% in 2017, captive operations continue to make up the majority of Gauteng's operations. Captive operations figure has decreased from 63,6% in 2016 to 59% in 2017, with outsourcer operations still accounting for the majority share of the Western Cape and KwaZulu-Natal's BPO/contact centre sector.

This large captive market in Gauteng can be attributed to the presence of a strong domestic market where most company head offices are located.

2.2 Sector breakdown – an international and domestic comparison

	INTERNATIONAL MARKET		DOMESTIC MARKET	
	2016	2017	2016	2017
Financial services	8,3%	18,0%	66,5%	82,6%
Retail	13,9%	25,9%	5,4%	7,5%
Telecoms	51,5%	20,7%	8,7%	2,1%
Travel	-	9,8%	-	-
Utilities/Energy	7,1%	7,2%	1,3%	-
IT	6,5%	5,4%	5,4%	-
Transport	7,4%	4,5%	2,3%	0,9%
Legal	1,8%	2,8%	0,5%	-
Education	0,8%	1,0%	0,1%	1,0%
Health care	-	0,4%	2,7%	1,5%
Public sector	-	-	3,6%	1,7%
HR Outsourcing	-	0,2%	-	0,9%
Marketing	-	0,1%	-	0,9%
Security	-	-	3,1%	0,9%
Tourism	0,1%	-	-	-
Media	-	0,5%	0,1%	-
Other	2,6%	3,5%	0,3%	-

Figure 6: Domestic and International sector breakdown

The domestic BPO market predominantly operates in the financial services, at 82,6%, a 16,1% increase from 66,5% in 2016. There has been a shift in the international market, with the Telecoms industry experiencing a dramatic decrease from 51,5% in 2016 to 20,7% in 2017. Retail accounts for the largest share of international market, at 25,9%, a 12% increase from 13,9% in 2016. Financial services in the international market has also grown from 8,3% in 2016 to 18% in 2017.

2.2.1 International outsourcer breakdown

	2015	2016	2017
Retail	11,9%	10,6%	27,2%
Telecoms	53,3%	58,9%	21,8%
Travel	-	-	8,5%
Utilities/Energy	4,7%	7,4%	7,5%
IT	9,3%	7,0%	5,7%
Transport	7,8%	4,4%	4,7%
Finacial services	6,3%	7,0%	14,8%
Legal	0,2%	2,2%	2,9%
Education	0,4%	1,0%	1,1%
Healthcare	0,6%	-	1,1%
Media	-	-	0,5%
HR outsourcing	-	-	0,2%
Marketing	-	-	0,1%
Public sector	2,4%	-	-
Security	1,3%	-	-
Tourism	0,1%	-	-
Other	1,7%	1,5%	3,9%

Figure 7: International outsourcer breakdown.

The international outsourcer market has shifted from being predominantly driven by Telecoms industry which in 2016 accounted for 58,9% but decreased to 21,8% in 2017. This dramatic decrease may be attributed to re-shoring of one of the biggest Telecoms operator in the country. Retail is now the largest industry among international outsourcers, at 27,2%, a 16,6% increase from 2016. This increase indicates vast opportunities for potential international retail providers to offshore their operations to a highly skilled South African talent pool.

Other growth sectors include LPO, Edutech (online tutoring) and healthcare which have shown a slight increase in comparison to the previous year.

2.2.2 Provincial sector breakdown

	GAUTENG			WESTERN CAPE			KWAZULU-NATAL		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Financial services	69,7%	71,8%	71,3%	43,8%	25,7%	40,4%	35,7%	41,2%	70,9%
Telecoms	6,8%	11,4%	2,1%	19,3%	30,6%	15,8%	40,9%	39,9%	-
Transport	5,5%	4,7%	2,6%	4,4%	5,9%	2,7%	-	-	-
Public sector	5,0%	3,0%	0,2%	2,9%	2,4%	1,2%	-	-	-
Media	4,0%	0,2%	0,3%	0,6%	-	0,2%	-	-	-
Retail	2,4%	-	16,9%	11,6%	15,8%	17,2%	22,9%	11,9%	-
Tourism	0,7%	0,1%	-	0,1%	-	0,7%	-	-	-
Education	0,6%	-	0,1%	0,3%	0,9%	1,4%	-	-	-
Energy	0,6%	-	-	4,6%	7,6%	4,4%	-	-	18,4%
Healthcare	0,6%	-	0,3%	0,8%	3,9%	0,8%	-	0,4%	10,7%
IT	0,6%	8,3%	-	6,1%	4,2%	3,9%	-	5,0%	-
Legal	0,6%	0,1%	1,1%	0,5%	2,3%	1,5%	-	-	-
Marketing	0,6%	0,1%	0,1%	0,4%	-	0,7%	-	-	-
Security	0,6%	-	-	-	0,2%	0,7%	-	1,6%	-
Travel	-	-	4,8%	-	-	4,9%	-	-	-
HR Outsourcing	-	-	0,2%	-	-	0,7%	-	-	-
Other	1,4%	0,3%	-	4,5%	0,5%	2,8%	0,5%	-	-

Figure 8: Provincial sector breakdown.

Financial services dominate the BPO sector in Gauteng, with a decrease from 71,8% in 2016 to 71,3% in 2017. As indicated in the earlier sections of the report, dominance of financial services may be attributed to the fact that most of the financial companies are headquartered in Gauteng. Other growth industries in Gauteng include retail which is at 16,9% in 2017. The Western Cape has experienced a shift in its BPO landscape with the financial services industry now making up the majority of the sector in comparison to a previously dominating Telecoms industry in 2016. The financial services industry has increased from 25,7% in 2016 to 40,4% in 2017, resulting in a significant shift in the Telecoms industry from 30,6% in 2016 to 15,8% in 2017.

Available but limited data for KwaZulu-Natal indicates that financial services still account for most of the work done in BPO.

2.3 Operational service functions

	2015	2016	2017
Inbound customer service	42,6%	53,2%	51,3%
Inbound sales	13,7%	8,6%	16,0%
Outbound sales	17,0%	9,3%	10,8%
Debt collection	13,4%	11,9%	6,3%
Legal Process Outsourcing (LPO)	-	3,1%	1,0%
Shared Services Centre (SSC)	-	1,4%	0,9%
Finance & Accounting (F&A)	-	0,1%	2,2%
Other back office processing (document processing, research etc.)	12,8%	11,4%	10,3%
Other	-	1,1%	1,3%

Figure 9: Service function breakdown

Although there has been a slight decrease of 1,9% in inbound customer service from 53,2% in 2016 to 51,3% in 2017, it remains the predominant service function in South Africa's BPO sector. There has been an overall increase in sales related functions with an increase in both outbound sales and inbound sales from 9,3% in 2016 to 10,8% in 2017 and 8,6% in 2016 to 16% in 2017 respectively.

2.3.1 Service function breakdown by function

	GAUTENG			WESTERN CAPE			KWAZULU-NATAL		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Inbound customer service	45,1%	51,0%	52,5%	52,9%	55,3%	47,6%	18,1%	10,9%	11,6%
Inbound sales	24,5%	10,1%	19,8%	8,1%	14,7%	9,1%	-	-	8,5%
Outbound sales	7,6%	3,8%	8,4%	9,7%	6,2%	14,4%	53,2%	58,0%	36,7%
Debt collection	6,0%	7,8%	-	14,0%	12,5%	16,4%	20,4%	29,7%	34,2%
Legal Process Outsourcing (LPO)	-	4,3%	-	-	2,5%	2,6%	-	-	-
Shared Services Centre (SSC)	-	3,5%	-	-	-	2,3%	-	-	-
Finance & Accounting (F&A)	-	0,1%	2,1%	-	0,2%	2,2%	-	-	-
Other back office processing (document processing, research etc.)	16,7%	19,4%	13,3%	13,7%	6,7%	5,1%	-	1,4%	8,9%
Other	0,1%	-	3,8%	1,7%	1,9%	0,3%	8,3%	-	0,1%

Figure 10: Breakdown of service function by province

Inbound customer service continues to make up the majority of Gauteng service functions which have increased from 51% in 2016 to 52,5% in 2017. Western Cape experienced a decrease in customer service from 55,3% in 2016 to 47,6% in 2017, a 7,7% decrease.

Limited data available shows that outbound sales comprises the majority of KwaZulu-Natal's BPO/contact centre sector work, at 36,7%, followed by debt collection which experienced a significant increase from 20,4% in 2016 to 34,2% in 2017. Other back office processing in KwaZulu-Natal is at 8,9% in 2017.

2.4 International market breakdown nationally

	2015	2016	2017
UK	59,9%	63,2%	67,0%
Australia	22,4%	25,1%	21,5%
Germany	4,2%	3,9%	1,9%
USA	8,5%	3,8%	1,2%
France	1,0%	0,6%	0,8%
Netherlands	0,9%	0,6%	0,3%
Other	3,1%	2,8%	7,3%

Figure 11: International markets serviced

2.4.1 International markets serviced by province

	GAUTENG			WESTERN CAPE			KWAZULU-NATAL		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
UK	61,3%	55,7%	86,6%	62,0%	66,7%	62,1%	55,0%	54,5%	61,0%
Australia	28,8%	36,3%	6,9%	10,8%	17,1%	16,0%	45,0%	45,5%	38,1%
US	5,3%	5,7%	2,1%	12,9%	5,0%	1,0%	-	-	0,9%
Germany	-	-	4,4%	6,8%	5,5%	3,9%	-	-	-
France	-	-	-	1,7%	0,9%	1,7%	-	-	-
Netherlands	-	-	-	1,5%	0,9%	0,5%	-	-	-
Other	4,6%	2,3%	-	4,3%	3,9%	14,8%	-	-	-

Figure 12: International markets serviced by province

The UK remains the major source market for South African BPO business, at 67%, compared to 63,2% in the previous year, followed by Australia at 21,5%.

The shifts in the offshore market have seen Gauteng recording a decrease in the Australian market from 36,3% in 2016 to 6,9% in 2017, with Western Cape decreasing from17,1% in 2016 to 16% in 2017.

Data available for KwaZulu-Natal shows that UK is still the largest source market in the region at 61%, a significant shift in the market from 54,5% in 2016. Australia has had a reduction, from 45,5% in 2016 to 38,1% in 2017.

2.5 Languages used to service international business

	2015	2016	2017
English	90,9%	94,3%	96,5%
German	4,1%	1,7%	1,9%
French	1,7%	0,8%	1,1%
Dutch	0,9%	0,6%	0,4%
Spanish	0,7%	0,7%	-
Italian	0,7%	0,5%	-
Portuguese	0,3%	0,5%	-
Japanese	0,2%	0,4%	-
Russian	0,1%	0,1%	-
Other	0,4%	0,4%	0,1%

Figure 13: Languages used to service international business

With the majority of South African international BPO business sourced from English-native regions such as the UK, Australia, and the USA, English continues to remain the dominating language used to service international markets, at 96,5%, an increase of 2,2% from 94,3% in 2016. Other Foreign languages like Germany and French are increasing.

3. OPERATIONS: KEY FINDINGS

MAIN FACTORS DRIVING DIGITAL BUSINESS

	%
Improve customer experience	94,7%
Customer demand for digital	68,4%
Cost reduction	68,4%
Improve sales opportunity/revenue generation	50,0%
Part of omnichannel strategy (creating seamless customer journeys across channels)	60,5%
Extends service coverage hours	26,3%
Competitor offering/industry pressures	44,7%
Maximise intelligence learnings from digital footprint data	47,4%

CUSTOMER DATA REGULARLY COLLECTED

	%
Complaints	100,0%
Customer feedback	97,4%
Social media	57,9%
Customer journey interaction	52,6%
Customer product and account information	50,0%
Website usage	44,7%
Customer value	44,7%
Demographic	29,0%
Connected device and sensorship data (internet of things)	13,2%
None of these	5,3%
Other	5,3%

FACTORS THAT TRANSFORMED BUSINESS IN PAST FIVE YEARS

	%
Analytics and business intelligence	78,4%
Customer experience led strategy	67,6%
Access to new technology (e.g. via cloud solutions)	62,2%
Growing digital capability	56,8%
New operating structure	51,4%
Agent multi-skilling	51,4%
Our product diversification	43,2%
New market accessibility	32,4%
Our response to new threats from competitors	16,2%

MEASUREMENT OF CONTACT CENTRE EFFECTIVENESS

2015	2016		2017
86,0%	89,2%	Customer satisfaction	94,7%
65,1%	73,0%	Customer complaint levels	76,3%
39,5%	54,1%	Sales generated	50,0%
25,6%	45,9%	Revenue per customer	34,2%
25,6%	29,7%	Customer life time value	47,4%
23,3%	24,3%	Cost per customer	26,3%
18,6%	16,2%	Customer effort scores	29,0%

CONSIDERATIONS IN CONTACT CENTRE DEVELOPMENT STRATEGIES

	2015	2016	2017
Customer satisfaction	93,3%	97,4%	100,0%
Staff satisfaction	77,8%	79,5%	86,8%
Cost reduction	84,4%	76,9%	76,3%
Customer base/growth retention targets	66,7%	74,4%	73,7%

SOCIAL MEDIA USAGE

	2015	2016	2017
Facebook	53,8%	81,8%	60,0%
Twitter	46,2%	68,2%	45,7%
LinkedIn	23,1%	36,4%	20,0%
YouTube	15,4%	27,3%	11,4%
Google Plus	2,6%	9,1%	11,4%
WhatsApp	0%	22,7%	25,7%

3.1 Distribution channels used in contact centres

	Yes			Available within 12 Months			Planned for 24 Months			No plans	
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2016	2017
Telephone	97,4%	100,0%	100,0%	97,4%	-	-	2,6%	-	-	-	-
E-mail	94,1%	100,0%	100,0%	94,1%	-	-	4,1%	3,0%	-	-	-
Internet	90,3%	92,6%	94,1%	90,3%	3,7%	-	3,2%	3,7%	2,9%	-	2,9%
IVR (touchtone) self-service	82,6%	57,7%	71,0%	82,6%	-	9,7%	8,7%	11,5%	6,5%	30,8%	12,9%
SMS (text messaging)	91,7%	80,0%	83,9%	91,7%	4,0%	-	4,1%	4,0%	-	12,0%	16,1%
Social media - Facebook, Twitter, LinkedIn etc.	83,3%	85,9%	75,8%	83,3%	3,8%	6,1%	-	3,8%	3,0%	15,4%	15,2%
Web chat	58,9%	46,9%	62,5%	58,9%	21,9%	9,4%	17,6%	9,4%	18,8%	21,9%	9,4%
Smartphone application services	68,4%	44,0%	48,4%	68,4%	20,0%	9,7%	21,1%	16,0%	22,6%	20,0%	19,4%
Speech self-service	36,4%	15,4%	10,3%	36,4%	15,4%	20,7%	45,5%	7,7%	24,1%	61,5%	44,8%
Other	-	25,0%	13,3%	-	25,0%	16,7%	-	-	16,7%	50,0%	53,3%

Figure 14: Distribution channel usage

Telephone remains the primary channel for customer service, at 100%. The data records a decrease in the use of distribution channels such as social media and speech self-service. Use of smartphone applications has made a significant increase, from 44% in 2016 to 48,4% in 2017, a 4,4% increase. The use of speech self-service in the contact centre sector continues to decline, from 15,4% in 2016 to 10,3% in 2017. There has been a significant increase in the use of IVR, from 57,7% to 71%. For use of speech self-service, 44,8% of respondents indicated that they have no plans to make use of speech self-service in the future and a further 19,4% shared these sentiments about the use of smartphone applications within their contact centres.

The data also shows a significant increase in the use of web chat, from 46,9% to 62,5%. The increase in the use of digital platforms suggests that South African contact centres are aligning themselves to digital transformation.

3.2 Factors influencing contact centre development strategies

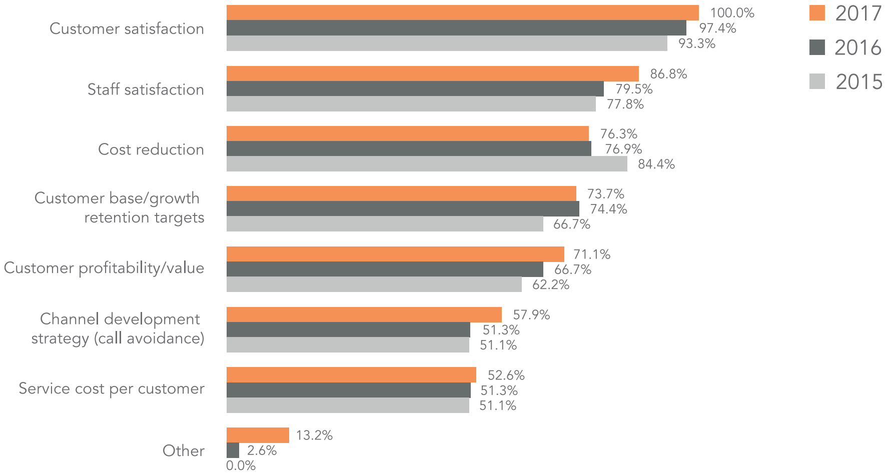


Figure 15: Contact centre development strategy

The data shows that cost consideration is not amongst the top factors influencing contact centre development strategy since 2015. In 2016, 76,9% of respondents consider cost reduction compared to 76,3% in 2017, a 0,3% decline. Customer satisfaction and staff satisfaction remain the top factors influencing contact centre development strategy with customer satisfaction at 100% in 2017, a 2,6% increase from 2016. According to data in figure 15 above, customer satisfaction is the top factor to consider for contact centre development.

Of the respondents, 86,8% indicated that they also consider staff satisfaction in contact centre development strategy, a 7,3% increase from 2016, at 79,5%. This suggests that more contact centres are prioritising employee wellness.

3.3 Description of company's strategy for digital business

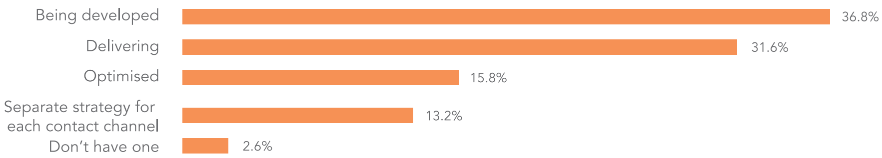


Figure 16: Company's strategy for digital business

Figure 16 indicates that 36,8% of respondents' digital business is still being developed while only 31,6% of the respondents are already delivering. Only 15,8% of the contact centres surveyed indicated that their strategy for digital business is being optimised and 2,6% do not have a strategy for digital business. The data also shows that most contact centres in South Africa are aligning themselves to digital transformation.

3.4 Channels covered by an omnichannel (connected customer journey) strategy

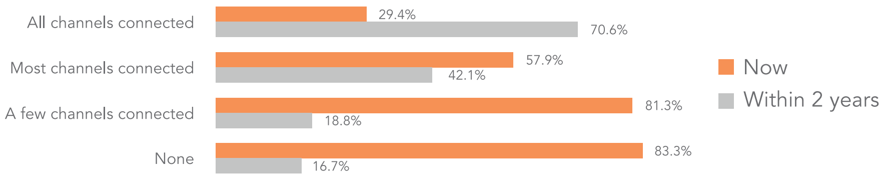


Figure 17: Channels covered by omnichannel strategy

Of all the contact centres surveyed, only 29,4% who have all their channels connected now plan to have a full channel integration done within 2 years. 57,9% of respondents have most of their channels connected and also plan to have full integration within 2 years. 81,3% have a few channels connected 83,3% do not have any channels connected. The integration of channels is linked to the availability of many smartphone applications and social media platforms used in customer engagement, forcing contact centres to keep pace in managing these multiple channels.

3.5 Challenges for establishing a full omnichannel strategy

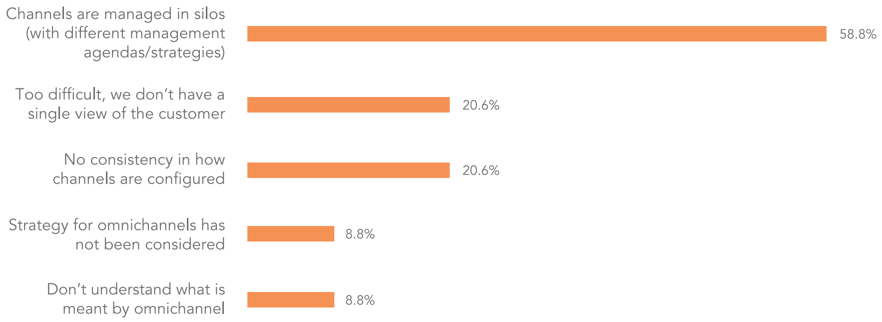


Figure 18: Challenges for establishing full omnichannel strategy

The data indicates that the top challenge for establishing full omnichannel strategy is that the channels are managed in silos (with different management agendas/ strategies), at 58,8%. There is no integration of channels, each channel deals with its own enquiries independent of others. 20,6% of the contact centres surveyed indicate that a full omnichannel strategy is too difficult and that they do not have a single view of the customer. Interestingly, 8,8% of the companies say that they do not even know what omnichannel strategy is.

3.6 Factors contributing most to positive transformation in the past five years?

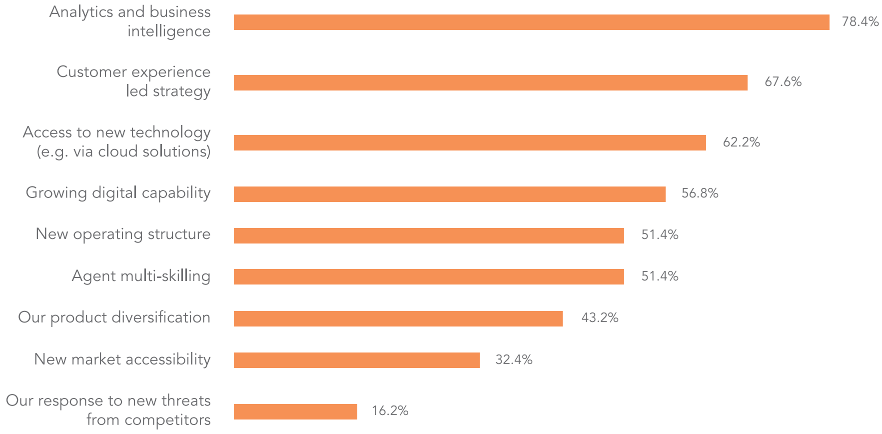


Figure 19: Factors contributing to service transformation in the past five years

Of the companies surveyed, 78,4% believe that analytics and business intelligence contributed most to the positive transformation of service in the past five years. Other top factors making contribution to service include CX led strategy, at 67,6% and access to new technology, 62,2%. Other companies surveyed indicated that agent multi-skilling, at 51,4%, was also a contributing factor to positive service transformation. Alignment to digital transformation may also result in changes in operating structures, 51,4% of the companies believe that new operating structure has contributed to positive service transformation.

3.7 Strategies to accommodate the evolving demands of the millennial generation workforce (e.g. those born after 1990)

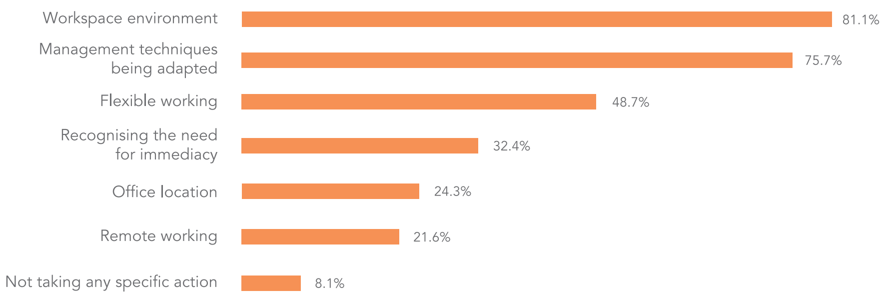


Figure 20: Strategies for millennial generation workforce

Majority of the contact centres have strategies to deal with evolving demands of the millennial generation workforce, with 81,1% changing the workspace environment, 75,7% adapting management techniques. Contact centres are also adopting flexible working, at 48,7%. Only 8,1% of the respondents are not taking any action for the millennial generation workforce.

3.8 Does your organisation view customer experience (CX) as a competitive differentiator?

Figure 21: Customer experience as a competitive differentiator

The data in figure 21 above shows that 94,7% of companies surveyed consider CX as a competitive differentiator. 5,2% of the companies are either not sure if they view CX as a competitive differentiator or not at all. The data shows that South African companies consider CX as an important element in driving organisational excellence and profitability. A competitive edge is created through customer perception of their journeys to satisfaction.

3.9 The most important CX outcome to company business?

Figure 22: The most important CX outcome for company business

65,8% of the companies believe that the most important CX outcome is improved efficiency. Improved efficiency may lead to lower costs of operation and effectiveness. In the long run, building customer trust is an essential component of profitability. 63,2% of companies say that CX builds customer trust. 50% feel that CX promotes business growth.

3.10 Frequently of process review to improve customer experience?

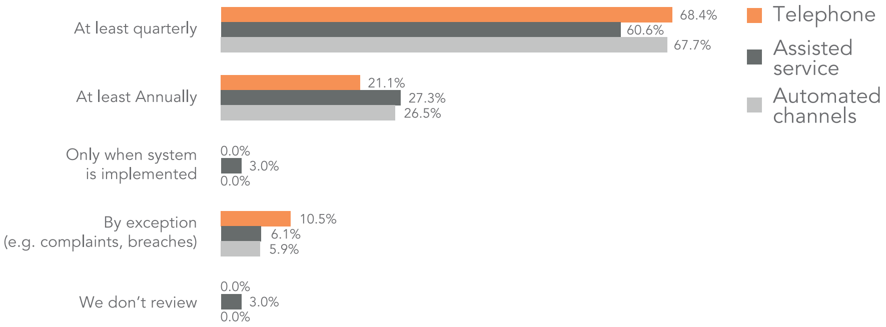


Figure 23: Process review frequency

Review of processes for all channels is done mainly on a quarterly basis. 68,4% of companies review telephone processes quarterly, with assisted service and automated channels at 60,6% and 67,7% respectively. Telephone processes reviewed by exception are at 10,5%, while assisted service and automated channels are at 6,1% and 5,9% respectively. 3% of companies surveyed indicated that their processes for assisted service are not reviewed at all. With the increasing number of service access applications and social media platforms, organisations need to align them with changes that result from customer preferences by reviewing channel processes.

3.11 Measures of contact centre effectiveness

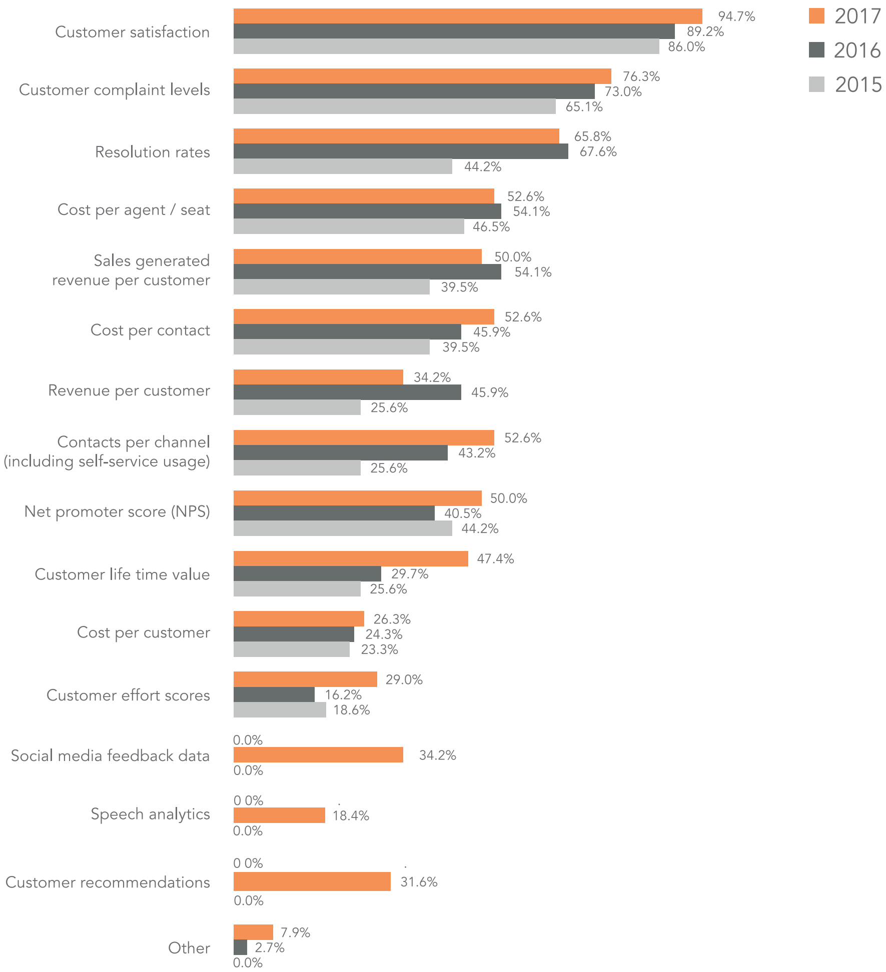


Figure 24: Measurement of contact centre effectiveness

Data from figure 24 above indicates that customer satisfaction and customer complaints are common measurements of contact centre effectiveness and have increased from 89,2% in 2016 to 94,7% in 2017 and 73% in 2016 to 76,3% in 2016, respectively. The increase in use of customer satisfaction to measure the effectiveness of the contact centre shows the importance of CX in South African contact centres.

3.12 Customer data regularly collected to improve service offering

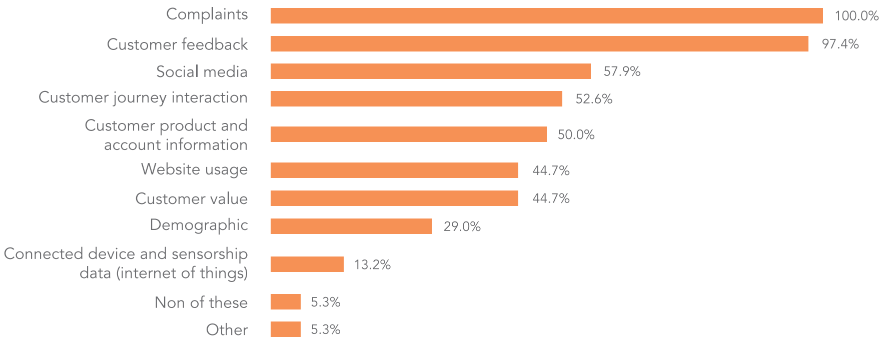


Figure 25: Customer data collected

All the companies surveyed collect customer complaints data to improve service offering, at 100%. The data also shows that 97,4% of companies collect customer feedback data while 57,9% do the same for social media. Overall, whatever the source, figure 25 shows that all the companies collect data to improve service offering.

3.13 Main factors driving your digital business transformation

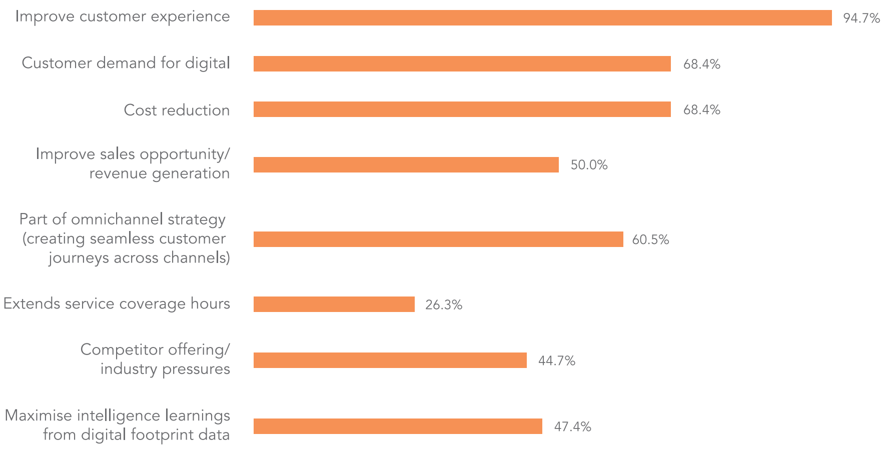


Figure 26: Main factors affecting digital business

CX is the main driver of digital business transformation, at 94,7%. With an increased number of applications and social media platforms, customer demand for digital also becomes prevalent, at 68,4%. In the transformation to digital, Cost reduction is also a factor, at 68,4%. Of the companies surveyed, 60,5% believe that digital business transformation is part of omnichannel strategy. 44,7% indicated that the transformation is because of competitor offering/industry while 47,4% deem transformation as maximization of intelligence learnings from digital footprint data.

3.14 Social media tools used to service clients

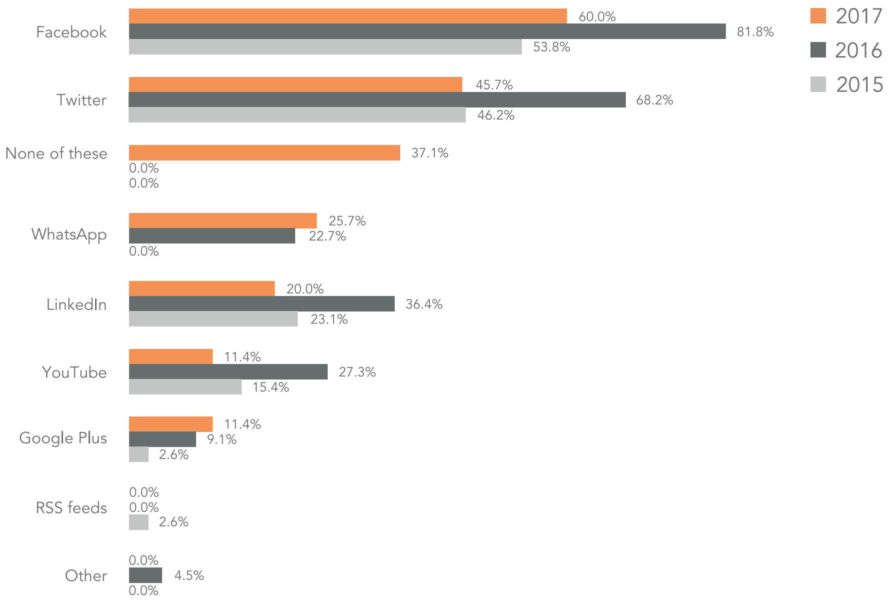


Figure 27: Social media usage.

The use of social media to service customers has generally reduced, with the use of twitter dramatically decreasing from 68,2% in 2016 to 45,7% in 2017. Interestingly, Whatsapp is gaining traction as a customer service channel. 37,1% of companies surveyed indicated that they do not use any of the platforms to service customers.

3.15 Reasons for using social media

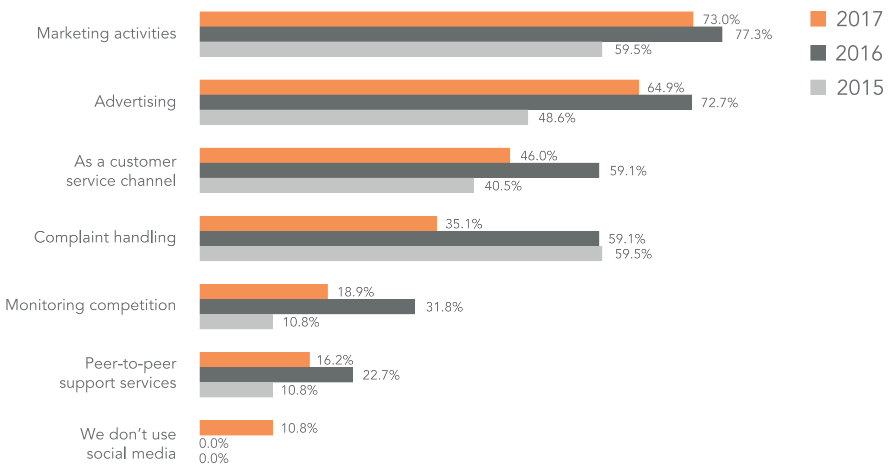


Figure 28: Reasons for using social media

The data in figure 28 above shows that the top three uses of social media are marketing, advertising and customer service, 73%, 64,9% and 46,0% respectively. Only 35,1% of companies use social media for complaint handling. All the reasons for use of social media have witnessed dramatic decreases. The dramatic decreases may have resulted from 10,8% of companies not using social media at all.

BPESA

Business Process
Enabling
South Africa

Connecting Industry
Connecting People

4. HUMAN RESOURCES: KEY FINDINGS

ANNUAL ATTRITION RATE

	Outsource international	Outsource domestic	Captive international	Captive domestic
Inbound customer service	18,3%	21,4%	31,2%	22,8%
Debt collection	0,9%	10,2%	-	2,7%
Outbound sales	19,0%	26,8%	30,5%	9,4%
Inbound sales	8,3%	22,7%	21,3%	20,4%
Legal Process Outsourcing (LPO)	1,4%	-	-	0,8%
Shared Services	-	-	28,2%	19,7%
Finance & Accounting	-	-	13,2%	8,7%
Knowledge Process Outsourcing	-	-	-	-
Other back office processing	5,0%	-	11,5%	7,7%

ANNUAL ABSENTEEISM RATE

	Outsource international	Outsource domestic	Captive international	Captive domestic
Inbound customer service	7,0%	3,5%	6,3%	6,1%
Debt collection	1,3%	3,5%	-	1,7%
Outbound sales	2,1%	5,0%	2,3%	3,3%
Inbound sales	3,2%	5,0%	-	4,2%
Legal Process Outsourcing (LPO)	0,6%	-	-	-
Shared Services	-	0,4%	-	4,3%
Other back office processing	2,0%	-	-	2,8%

BREAKDOWN OF AGENT WORKFORCE

	2015	2016	2017
Full time permanent	91,7%	80,2%	75,9%
Full time contracted	2,2%	13,6%	15,1%
Part time contracted	0,2%	1,7%	8,6%
Part time permanent	5,9%	4,5%	0,4%

AGE DISTRIBUTION

	Domestic operations 2015	Domestic operations 2016	Domestic operations 2017	International operations 2015	International operations 2016	International operations 2017
26 - 30	33,9%	25,0%	57,1%	47,9%	75,0%	18,8%
18 - 25	60,7%	62,5%	35,7%	42,6%	12,5%	79,4%
31 - 40	5,4%	12,5%	7,1%	9,5%	12,5%	1,9%

4.1 Employment status

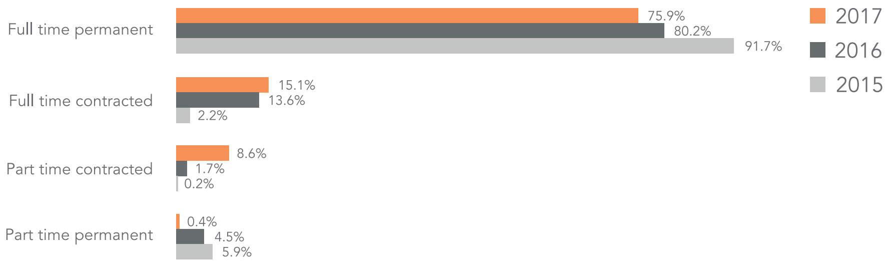


Figure 29: Employment status

There have been dramatic shifts in the employment status of agents, with full time permanent agents reducing from 80,2% in 2016 to 75,9% in 2017, a 4,3% decrease. The shift may have been caused by an increase in full time contracted agents and part time contracted agents from 13,6% in 2016 to 15,1% in 2017 and from 1,7% in 2016 to 8,6% in 2017 respectively. The part time permanent agents have also decreased from 4,5% in 2016 to 0,4% in 2017. It is important to note that in figure 29 above, companies have introduced flexible working and various measures to accommodate and deal with demands of the millennial, so the dramatic increase of part time contracted agents might have resulted from this development.

4.2 Breakdown of agent workforce by age group in domestic markets

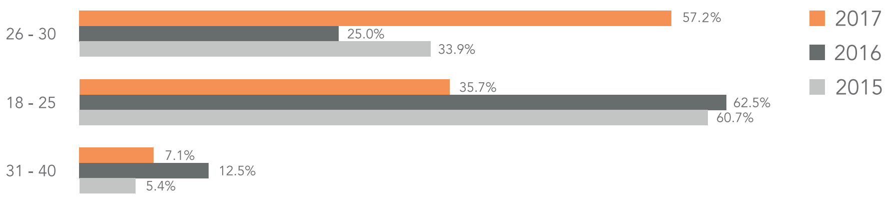


Figure 30: Breakdown of agents by age group in domestic operations

The data shows that the 18-25 age group decreased from 62,5% to 35,7%, a decrease of 26,8%. Similarly, there has been a dramatic increase of 32,1% of agents in the age group 26 – 30, from 25% in 2016 to 57,2% in 2017. The increase of agents in the age group 26 – 30 may be attributed to the mature South African BPO domestic market.

4.2.1 Breakdown of agent workforce by age group in international markets

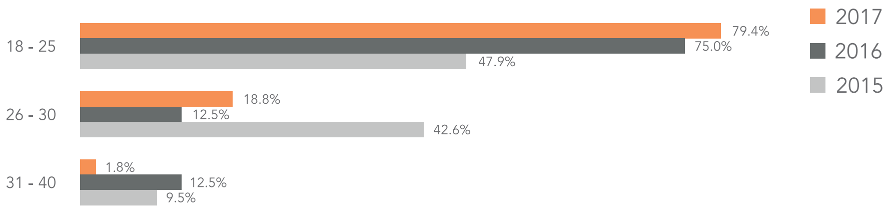


Figure 31: Breakdown of agents by age group in international operations

The age group distribution for international operations presents a different situation to that of the domestic market. The majority of agents fall in the age group 18 – 25, at 79,4%, a 4,4% increase from 75% in 2016 to 79,4% in 2017. Since 2015, the 18 – 25 age group has been on the rise in international companies, from 47,9% to 79,4%. The 26 – 30 age group has slightly increased from 12,5% in 2016 to 18,8% in 2017. The 31 -30 age group only accounts for only 1,8%, a 10,6% decrease from 12,5% in 2016 to 1,9% in 2017.

4.3 Average entry level monthly salary for agents

CAPTIVE DOMESTIC											
Province	ZAR Minimum average salary cost	GBP total without benefits	USD total without benefits	EURO total without benefits	ZAR Medical Aid	ZAR Pension (5%)	ZAR Bonus (10%)	ZAR total costs	GBP total with benefits	USD total with benefits	EURO with benefits
Gauteng	11,720	623	820	698	988	586	1,172	14,466	769	1,012	861
Western Cape	9,398	500	657	559	988	470	940	11,796	627	825	702
KwaZulu-Natal	6,625	352	463	394	792	331	663	8,411	447	588	501

Figure 32: Entry level salary information, captive domestic

CAPTIVE INTERNATIONAL											
Province	ZAR Minimum average salary cost	GBP total without benefits	USD total without benefits	EURO total without benefits	ZAR Medical Aid	ZAR Pension (5%)	ZAR Bonus (10%)	ZAR total costs with benefits	GBP total with benefits	USD total with benefits	EURO with benefits
Gauteng	12,367	658	865	736	1,525	618	1,237	15,747	838	1,101	937
Western Cape	8,480	451	593	505	792	424	848	10,544	561	737	628
KwaZulu-Natal	-	-	-	-	-	-	-	-	-	-	-

Figure 33: Entry level salary information, captive international

OUTSOURCE DOMESTIC											
Province	ZAR Minimum average salary cost	GBP total without benefits	USD total without benefits	EURO total without benefits	ZAR Medical Aid	ZAR Pension (5%)	ZAR Bonus (10%)	ZAR total costs	GBP total with benefits	USD total with benefits	EURO with benefits
Gauteng	7,285	388	509	434	792	364	729	9,170	488	641	546
Western Cape	5,433	289	380	323	792	272	543	7,039	374	492	419
KwaZulu-Natal	4,264	227	298	254	792	213	426	5,696	303	398	339

Figure 34: Entry level salary information, outsource domestic

Outsource international											
Province	ZAR Minimum average salary cost	GBP total without benefits	USD total without benefits	EURO total without benefits	ZAR Medical Aid	ZAR Pension (5%)	ZAR Bonus (10%)	ZAR total costs	GBP total with benefits	USD total with benefits	EURO with benefits
Gauteng	7,457	397	521	444	792	373	746	9,368	498	655	558
Western Cape	6,694	356	468	398	792	335	669	8,490	452	594	505
KwaZulu-Natal	3,617	192	253	215	792	181	362	4,951	263	346	295

Figure 35: Entry level salary information, outsource international

Salaries in Gauteng are generally higher in comparison to the Western Cape and KwaZulu-Natal. The difference in salary scales can be attributed to the type of work and industries serviced. Back office functions and financial services generally offer higher remuneration benefits with the majority of this type of work done in Gauteng.

In terms of service functions, inbound customer service offers a higher base entry level salary with outbound work typically driven by commission. Gauteng's service offering is built around a mature financial services market which is reflected across the various operational salaries for both the domestic and international markets and is a contributing factor to higher remuneration opportunities in this region.

The captive market, both domestically and internationally, offers higher remuneration benefits in comparison to the outsourcer market. On average, salaries in the domestic and international captive market are R 9,248 and R 10,424, respectively in comparison to salaries in the outsource domestic and international market which are of R 5,661 and R 5,923, respectively.

Lower remuneration packages in KwaZulu-Natal could be attributed to the nature of work done in this region. The majority of its service functions are related to inbound sales where commission/incentives are far more influential than in the inbound customer service environment.

In addition to basic salaries, other expenses can be incurred through benefits such as medical aid, retirement fund, transport, and bonuses, which may increase depending on the type of work serviced. Benefits are not mandatory and are only paid by some operators. Bonus structures are most prevalent in outbound sales environments which are predominantly in KwaZulu-Natal.

4.4 Annual attrition rate among agents

Gauteng	Outsource international	Outsource domestic	Captive international	Captive domestic	Provincial annual attrition rate
Inbound customer service	14,8%	25,3%	38,0%	34,6%	23,4%
Debt collection	-	-	-	-	-
Outbound sales	8,7%	38,5%	53,0%	47,7%	28,4%
Inbound sales	1,5%	28,3%	37,0%	33,3%	18,4%
Legal Process Outsourcing (LPO)	3,9%	-	-	-	1,5%
Shared Services	0,1%	-	49,0%	44,0%	14,3%
Finance & Accounting	-	-	-	20,6%	6,7%
Knowledge Process Outsourcing	-	-	-	-	-
Other back office processing	8,3%	-	-	17,9%	9,0%

Figure 36: Attrition rate by operation type by function in Gauteng

In Gauteng, the highest attrition rate was recorded in the outbound sales function and in the captive market. There is no direct explanation why attrition rate is higher among captives, higher attrition rate would normally be expected in the outsourcer market but data available seems to suggest that since we have a huge captive market in Gauteng, we would naturally expect higher attrition in captives in that region.

Western Cape	Outsource international	Outsource domestic	Captive international	Captive domestic	Provincial annual attrition rate
Inbound customer service	18,2%	31,5%	22,0%	14,5%	18,8%
Debt collection	1,6%	30,6%	-	4,7%	6,4%
Outbound sales	21,2%	21,2%	-	11,6%	17,6%
Inbound sales	9,0%	35,0%	-	11,3%	13,0%
Legal Process Outsourcing (LPO)	0,1%	-	-	1,4%	0,5%
Shared Services	-	-	-	2,6%	0,9%
Finance & Accounting	-	-	-	0,4%	0,1%
Knowledge Process Outsourcing	-	-	-	-	-
Other back office processing	7,2%	-	-	0,4%	3,9%

Figure 37: Attrition rate by operation type by function in Western Cape

In contrast to the attrition picture in Gauteng, the Western Cape recorded higher attrition rates among outsourcers, specifically the domestic market with debt collection and inbound sales at 30,6% and 35% respectively. In the province, the captive market has low attrition rates across all the functions. Inbound customer service recorded the highest attrition rate in the province.

KwaZulu-Natal	Outsource international	Outsource domestic	Captive international	Captive domestic	Provincial annual attrition rate
Inbound customer service	30,6%	4,1%	-	-	17,5%
Debt collection	-	7,0%	-	-	3,4%
Outbound sales	42,0%	19,1%	-	-	31,1%
Inbound sales	28,5%	-	-	-	14,5%
Legal Process Outsourcing (LPO)	-	-	-	-	-
Shared Services	-	-	-	-	-
Other back office processing	10,2%	-	-	-	-

Figure 38: Attrition rate by operation type by function in KwaZulu-Natal

In KwaZulu-Natal, data available shows that higher attrition rates were among international outsourcers

National	Outsource international	Outsource domestic	Captive international	Captive domestic
Inbound customer service	18,3%	21,4%	31,2%	22,8%
Debt collection	0,9%	10,2%	-	2,7%
Outbound sales	19,0%	26,8%	30,5%	9,4%
Inbound sales	8,3%	22,7%	21,3%	20,4%
Legal Process Outsourcing (LPO)	1,4%	-	-	0,8%
Shared Services	-	-	28,2%	19,7%
Finance & Accounting	-	-	13,2%	8,7%
Knowledge Process Outsourcing	-	-	-	-
Other back office processing	5,0%	-	11,5%	7,7%

Figure 39: Attrition rate by operation type by function in South Africa

In the South African BPO sector, attrition rate is highest in inbound customer service and outbound sales functions in both captive and outsourcer markets.

4.5 Annual absenteeism rate for agents

Gauteng	Outsource international	Outsource domestic	Captive international	Captive domestic	Provincial
Inbound customer service	11,7%	5,4%	6,7%	2,7%	8,3%
Debt collection	-	-	-	-	-
Outbound sales	3,3%	8,1%	4,0%	1,0%	4,3%
Inbound sales	2,4%	4,0%	4,4%	1,0%	3,3%
Legal Process Outsourcing (LPO)	1,6%	-	-	-	0,7%
Shared Services	0,1%	-	6,8%	-	2,5%
Other back office processing	2,1%	-	6,4%	0,8%	3,4%

Figure 40: Absenteeism rate by operation type by function in Gauteng

The outsource international inbound customer service function has the highest absenteeism rate in Gauteng, at 11,7%, followed by outbound sales in outsource domestic, at 8,1%. Inbound customer service function recorded the highest attrition rate at 8,3% in the province.

Western Cape	Outsource international	Outsource domestic	Captive international	Captive domestic	Provincial
Inbound customer service	4,6%	3,0%	5,8%	5,6%	4,6%
Debt collection	2,6%	3,0%	-	3,4%	2,5%
Outbound sales	-	3,0%	-	3,3%	2,9%
Inbound sales	3,3%	-	-	4,9%	3,1%
Shared Services	-	2,0%	-	1,4%	0,5%
Other back office processing	1,5%	-	-	-	0,7%

Figure 41: Absenteeism rate by operation type by function in the Western Cape

Limited data available for captive market in Western Cape shows that absenteeism is highest in the inbound customer service function, with a provincial average of 4,6%. Generally, absenteeism is lower in the Western Cape compared to other regions.

KwaZulu-Natal	Outsource international	Outsource domestic	Captive international	Captive domestic	Provincial
Inbound customer service	4,4%	3,0%	-	-	3,9%
Debt collection	-	11,0%	-	-	3,8%
Outbound sales	6,4%	12,0%	-	-	8,3%
Inbound sales	4,8%	-	-	-	3,2%
Other back office processing	3,3%	-	-	-	2,2%

Figure 42: Absenteeism rate by operation type by function in KwaZulu-Natal

Debt collection and outbound sales functions in outsource domestic market recorded the higher absenteeism rates, at 11% and 12% respectively. In the province, outbound sales function had the highest absenteeism rate at 8,3%.

National	Outsource international	Outsource domestic	Captive international	Captive domestic
Inbound customer service	7,0%	3,5%	6,3%	6,1%
Debt collection	1,3%	3,5%	-	1,7%
Outbound sales	2,1%	5,0%	2,3%	3,3%
Inbound sales	3,2%	5,0%	-	4,2%
Legal Process Outsourcing (LPO)	0,6%	-	-	-
Shared Services	-	0,4%	-	4,3%
Other back office processing	2,0%	-	-	2,8%

Figure 43: Absenteeism rate by operation type by function in South Africa

Nationally, inbound customer service in outsource international markets account for the highest absenteeism rate in South Africa.

4.6 Availability of staff transport for late shift work in 2016

DOES YOUR COMPANY OFFER TRANSPORT FOR LATE SHIFT WORK?	2016	2017
Yes	46,0%	51,9%
No	54,0%	48,1%
TOTAL	**100,0%**	**100,0%**

Figure 44: Staff transport

4.6.1 Transport provider

WHO PAYS FOR THE TRANSPORT?	2015	2016	2017
Employer	67,0%	44,0%	25,0%
Both staff and employer	29,4%	50,0%	25,0%
Staff	5,9%	6,0%	12,5%
Not applicable	-	-	37,5%
TOTAL			

Figure 45: Transport for late shift work

More than 50% of companies provide staff transport for their employees. Of the 51,9% that provide transport only 25% cover full transport cost while 50% share the costs with their employees.

12,5% of companies that do provide staff transport do not contribute to the transport cost, with staff expected to cover the full cost for transport. 37,5% of companies surveyed indicated that it is not applicable.

INVESTING IN SOUTH AFRICA

Introduction

As with other young and developing countries, South Africa welcomes foreign investment for its continued growth, and the Government therefore has a traditionally open policy with regards to foreign investors. The principal attractions for foreign investors to South Africa include the following:

- It has a democratically elected government and a constitution based on democratic values, social justice and fundamental human rights;
- It is endowed with an immense store of natural mineral resources, and is a significant producer of precious metals and other valuable minerals;
- Its people possess sufficient amounts of disposable income with high demands for consumer goods;
- Being at the southern tip of Africa, it is ideally located for exports to and imports from any part of the world;
- It has a highly developed infrastructure and communications network, and prices of most commodities are low.

Other considerations for foreign investors include:

- The relatively weak currency: the Rand ("ZAR") offers excellent investment opportunities to investors and more so for manufacturing concerns with a strong export base; and
- There is a climate for innovation in the business community, both in the creation of export channels and the manufacture of capital goods by means of self-developed technology.

General information

Area and population

South Africa forms the southern-most part of the African continent. Its surface area is 1,220,031 sq. km (471,445 sq. miles). The country is roughly five times the size of the United Kingdom and is larger than the combined areas of France, Germany and Italy.

South Africa was admitted to the BRIC group of countries of Brazil, Russia, India and China (now called BRICS) in 2011.

For 2018, Statistics South Africa estimated the mid-year population at 57.73 million consisting of 80,9% Black African, 8,8% Coloured, 2,5% Indian/Asian and 7,8% White. Approximately 51% of the total population is female.

Language

South Africa is a multi-lingual country. There are eleven official languages including English, Afrikaans, isiNdebele, isiXhosa, isiZulu, Sepedi, Sesotho, Setswana, Siswati, Tshivenda and Xitsonga.

Currency

The currency unit for South Africa is the Rand.

Banking and Finance

Banking is sophisticated and very tightly controlled by legislation to provide maximum protection to depositors. The Registrar of Financial Institutions polices the system under the Banks Act.

The South African Reserve Bank ("SARB") is the central bank. Amongst its powers, it controls the currency, holds the gold bullion, issues bank notes and coinage, lays down guidelines for monetary and credit policy and exercises exchange control.

The financial institutions consist mainly of three types of banking institutions, namely commercial banks, general banks and merchant banks. The major banks are, in no particular order: ABSA Bank Limited, First National Bank Limited, Nedbank Limited and Standard Bank Limited.

Economic Growth and Key Strategies

Inflation

The SARB inflation target is a range between 3 to 6% for the year-on-year increase in the headline CPI on a continuous basis. The recorded headline inflation for the past 10 years is set out below:

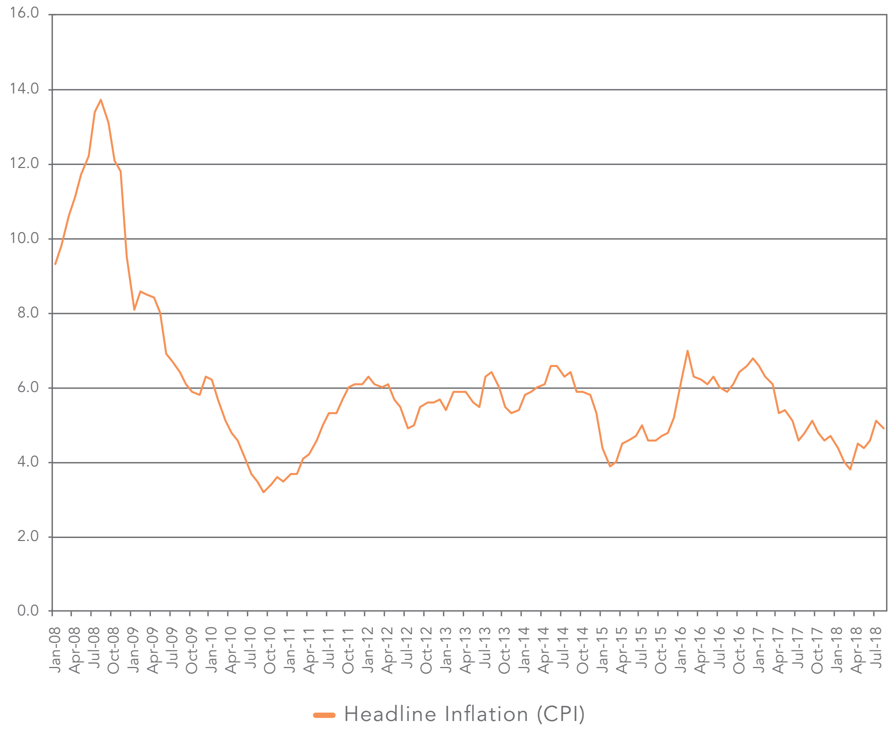


Figure 46: Headline inflation rates

Source: Statistics South Africa

GDP Size and Growth

GDP Annual Growth Rate in South Africa is reported by Statistics South Africa. The table below depicts the GDP Annual Growth Rate (year-on-year) over a period from 2008 1st quarter to 2018 2nd quarter:

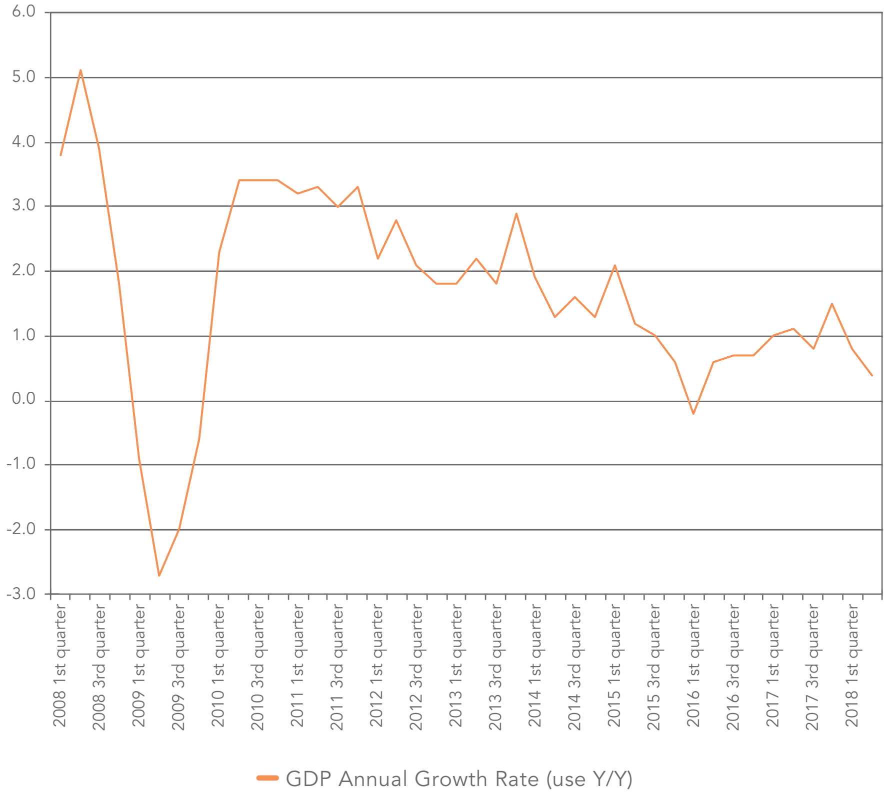


Figure 47: GDP annual growth rate

Source: Statistics South Africa

Interest rates

The prime interest rate is the benchmark interest rate in South Africa and is reported by the SARB. The prime interest rate in South Africa averaged 12,54% from 1994 until August 2018, reaching an all-time high of 25,5% in August of 1998. Interest rates decisions are taken by the SARB's Monetary Policy Committee ("MPC"). Over the past ten years, the prime interest rate has remained stable, with an average of 10,23% for the period from January 2008 to June 2018

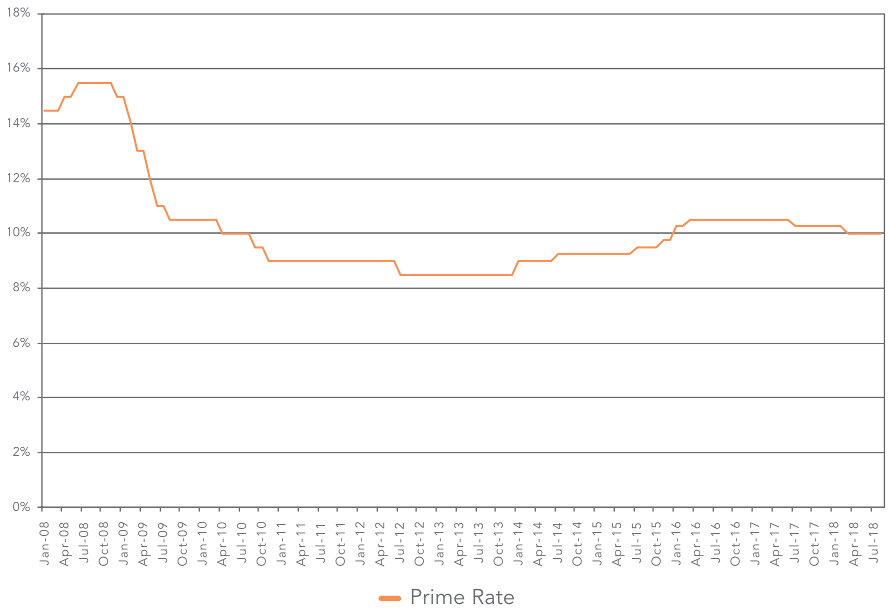
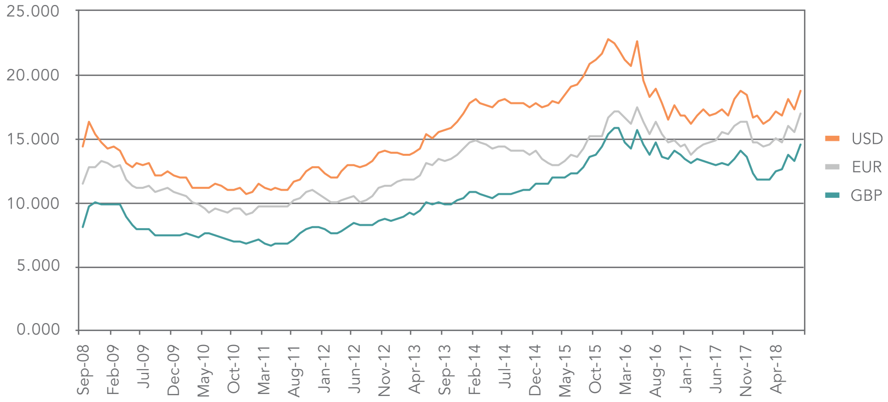


Figure 48: Inflation

Source: South African Reserve Bank

Currency

The graph below contain the exchanges rates of the ZAR against currencies such as the Euro ("EUR"), British Pound ("GBP") and US Dollar ("USD"):



The graph below contains the exchanges rates of the ZAR against the Indian Rupee ("INR") and Philippine Peso ("PHP"):

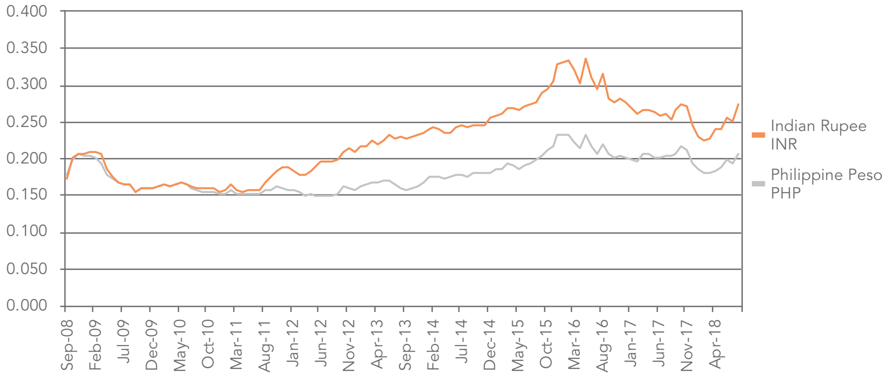


Figure 49: Rand performance against Indian Rupee, Philippines Peso, Brazilian Real, Russian Ruble and Chinese Yuan

Regulation of foreign investment

Control is exercised through the Financial Surveillance Department ("FinSurv") of the SARB and through Authorised Dealers in foreign exchange at commercial and merchant banks.

Over recent years there has been significant relaxation of these controls.

Non-residents temporarily in South Africa have practically no limitations on remitting earnings and savings, provided that they make the prescribed declarations. Any dividends, royalties and interest paid from current earnings may be freely remitted, provided that the Authorised Dealer making the payment can confirm that the income is rightly payable to the non-resident.

When purchasing shares in a South African company, a non-resident or emigrant must have the share certificate issued to them endorsed as 'non-resident owned' within 30 days of those shares being issued. If this is not done, the South African company will be prevented from remitting any income or capital to the non-resident shareholder.

Any loan funding introduced into South Africa will also require pre-approval from the resident's Authorised Dealer before the funds can be received. Should this not be reported correctly, repatriation of funds will not be possible until this has been regularised.

A South African company, foundation, trust or partnership, where 75% or more of the capital, assets, earnings, voting securities, voting power or power of control vests in or is controlled directly or indirectly by non-residents is defined as an 'affected person'. Depending on the purpose for which the finance is intended, the affected person may require authorisation from the Authorised Dealer approving the finance.
An Authorised Dealer may grant or authorise local financial assistance to an affected person without prior approval where the transaction does not relate to the acquisition of residential property or to financial transactions.

Where non-residents or emigrants wish to invest in a bona fide foreign direct investment in South Africa, they may do so without restriction unless the funds are required for financial transactions or the acquisition of residential or commercial property in South Africa. In this case, a 1:1 ratio will apply and permission will need to be sought from their Authorised Dealer.

All dividends from realised/earned profits may be remitted to non-resident shareholders against production of a board resolution. The declaration of a dividend in specie or a special dividend requires pre-approval from FinSurv.

Where affected persons avail themselves of local borrowing facilities, the Authorised Dealer may allow the remittance of dividends/profit distributions, provided that the affected person is not in an over-borrowed position and the Authorised Dealer has confirmed that the recipient of the income is a non-resident entitled to such income.

Where local financial assistance exceeds the percentage permissible, FinSurv consent must be obtained.

Tax incentives

Government incentives to promote secondary industry, exports, foreign investment, black economic empowerment and employment are mainly in the form of either cash grants or tax concessions. Examples of some available tax concessions (incentives) include:

Employment Tax Incentive ("ETI")

The ETI is a two year incentive aimed at encouraging employers to hire young and less experienced work-seekers, and was implemented with effect from 1 January 2014. It reduces the effective cost to employers of hiring young South Africans aged 18 to 29, earning less than R6,000 per month, through a deduction against the monthly employees' tax liability payable to the South African Revenue Service ("SARS") in respect of qualifying employees. The incentive will currently end on 28 February 2019, however it is proposed that it be extended to 28 February 2024.

Other tax incentives
Some other tax incentives available include (but are not limited to):

- a preferential corporate tax rate for micro or small business corporations;
- special deductions for qualifying research and development activities;
- accelerated capital allowances for small business corporations;
- urban development and infrastructure development allowances; and
- learnership allowances.

Types of investment vehicles

Business can be transacted through various types of companies (including branches of external companies), partnerships, trusts, sole proprietorships and joint ventures.

Companies

All types of companies are subject to the Companies Act, 2008. Companies are classified as profit or non-profit companies. The four types of profit companies are:

- Public companies – identified by the words "Limited" or "Ltd" behind its name;
- Private companies – identified by the words "Proprietary Limited" or "(Pty) Ltd" behind its name;
- Personal liability companies; and
- State-owned companies.

The corporate income tax rate applicable to profit companies is 28%.

Branches of external companies

A branch of a foreign company has to be registered as an external company if it is to conduct business in South Africa. A branch is not a separate legal entity and could be considered a South African 'office' or 'division' within the foreign company. Registration as an external company with the Companies and Intellectual Property Commission ("CIPC") is required.

The corporate tax rate applicable to branches is 28%. South Africa does not levy branch remittance tax.

Partnerships

A partnership is a contractual agreement between parties. The parties may be individuals or corporate entities. This structure provides for great flexibility as to its nature and formation, however, generally partners are jointly and severally liable for the debts of the partnership (although the partnership agreement may provide for the limited liability of a partner). For income tax purposes, the partnership itself is ignored and is treated in a "look through" basis. Partners are taxed separately at the rates applicable to individuals (maximum 45%). A partnership may be liable to register for value-added tax ("VAT") in its own right.

Trusts

South Africa recognises various forms of trusts, such as family trusts (inter vivos and mortis causa), business trusts, unit trusts, indemnity and pension funds.

The general rule is that trusts are taxed at the rate of 45% on income and 18% on capital gains.

Sole proprietorships

Operated by a single individual, the liability of the owner is unlimited. The owner is taxed at the rates applicable to individuals (maximum 45%).

Joint ventures

A joint venture is a contractual agreement between business entities. The business entities will be taxed separately at the rate applicable to such entity. As with partnerships, a joint venture is ignored for income tax purposes. However, it may be liable to register for VAT in its own right.

Setting up and running business organisations

General

Every company, including an external company, must have a registered address in South Africa. It may choose any month-end to close its financial year. Proper financial records must be kept. The Companies Act prescribes in which cases the annual financial statements are subject to an audit. Financial statements must be prepared annually, within six months after year-end.

The powers and duties of officials regarding meetings, running a company, representation of a company, etc. are prescribed by the Companies Act.

Companies

A public company must have at least two directors and a private company one director. Directors need not be resident in South Africa. Every company must appoint a South African resident to be its public officer, who will accept responsibility for all the company's tax affairs.

External companies (branches)

Every external company must appoint a South African resident to assume responsibility for accepting service notices (both tax and otherwise) on the company.

An external company must lodge its annual financial statements, including foreign head office assets and results, on an annual basis with CIPC for public inspection. Exception may be applied for where such disclosure would be harmful.

An external company cannot usually obtain government contracts, as a South African company is required. The legal liabilities of an external company are not limited to its local assets.

Trusts

All trusts in South Africa must comply with the Trust Property Control Act, but there are no statutory requirements for their creation.

Debt/equity ratio

There are no minimum or maximum debt/equity ratios for either SA companies or external companies doing business in SA.

A business may be financed by equity capital or by debt capital or a combination of debt and equity and is generally said to be "thinly capitalised" when its equity capital is small in comparison to its debt capital.

The South African income tax legislation in so far as it relates to thin capitalisation and transfer pricing was recently substantially amended (refer to thin capitalisation and transfer pricing under the "Company, Social Security and Other Business Taxes" Section). The previously acceptable 'safe harbour' ratio of 3:1 was also done away with as part of these amendments, and can no longer be applied.

Broad-Based Black Economic Empowerment and Affirmative Action

Broad-Based Black Economic Empowerment ("B-BBEE") is a programme which promotes the accelerated integration of black people into the South African economy. In terms of Section 10 of the Broad-Based Black Economic Empowerment Act, only organs of state and public entities are compelled to take into account any relevant code of good practice issued in terms of the aforementioned Act. Currently, compliance is voluntary in the private sector, however due to the Preferential Procurement being one of the B-BBEE scorecard elements, companies are indirectly compelled to become B-BBEE compliant.

Labour law

All employment contracts must comply with the Basic Conditions of Employment Act. The Labour Relations Act contains restrictive provisions for both the employer and employee regarding unfair labour practices and unfair labour dismissals. The Commission for Conciliation, Mediation and Arbitration ("CCMA") arbitrates collective bargaining and settles disputes between trade unions, employees and employers. The Labour Court is the final body to hear all disputes, which are not able to be settled by the CCMA.

Company, social security and other business taxes

The source of income tax law in South Africa is the Income Tax Act. Compliance with South African tax legislation is regulated by SARS. South Africa has concluded more than 80 double taxation agreements at present.

Taxes in general

Income tax is imposed on a taxpayer's taxable income, which consist of business/trading income, taxable passive income and capital gains, less tax-deductible expenditure.

The major forms of taxes are as follows:

- Capital gains tax: 80% (40% in the case of individuals and trusts) of realised capital gains are included in taxable income and taxed at the normal income tax rates;
- Normal income tax: levied at a fixed rate of 28% on most corporate entities and external branches;
- Value-added tax: levied at 15%;
- Transfer duty: applies to the transfer of immovable property based on a sliding scale;
- Donations tax: levied at 20%, payable on donations, disposals of assets for inadequate consideration and surrendering of rights. This tax is not applicable to public companies and non-residents.
- Estate duty: levied at 20%, on the dutiable amount of the estate.

Resident companies

A resident company is a company incorporated, established or formed in South Africa or which has its place of effective management in South Africa. It could therefore commonly include foreign-owned subsidiaries.

A resident company is taxed on its worldwide income.

A resident company can also make application for headquarter company ("HQ Co") status in a tax year. A number of requirements need to be met annually in order to qualify. The HQ Co regime provides a number of tax benefits, including:

- Dividends paid by a HQ Co are exempt from Dividends Withholding Tax;
- Foreign dividends received by a HQ Co are exempt from income tax;
- Any capital gain of loss arising on the disposal by a HQ Co of a qualifying investment must be disregarded;
- Certain interest paid to non-residents by a HQ Co will be exempt from Interest Withholding Tax;
- Exemption from profit attribution under South Africa's controlled foreign company rules; and
- Exemption from South Africa's transfer pricing regulations relating to financial assistance and intellectual property.

Dates of financial and tax year ends

The company's financial year-end is also its tax year-end. Companies are required to file their income tax returns annually, within 12 months of the company's financial year-end.

Corporate entities are required to pay provisional tax. Provisional tax is an advance payment of a company's normal tax liability. Provisional tax is paid twice a year with a voluntary third ('top-up') payment. First and second provisional payments must be made and the related returns submitted six months before year-end, and at year-end, respectively.

Dividends Withholding Tax ("DWT")

South African dividends paid to both residents and non-residents are subject to a final withholding tax at a rate of 15% (subject to the provisions of any applicable tax treaty). Certain exemptions apply to this tax, including dividends paid to another South African resident company.

Interest Withholding Tax ("IWT")

Interest paid to non-residents, to the extent that the amount is regarded as having been received or accrued from a source in South Africa, will be subject to a final withholding tax at a rate of 15% (subject to the provisions of any applicable tax treaties). Certain exemptions apply to this tax, including payments of interest by any bank; national, provincial or local government; or in respect of listed debt.

Royalties Withholding Tax ("RWT")

Royalties paid to non-residents, to the extent that the amount is regarded as having been received or accrued from a source in South Africa, are subject to a final withholding tax at a rate of 15% (subject to the provisions of any applicable tax treaty).

Other withholding taxes

Any person who purchases immovable property situated in South Africa from a non-resident, must withhold from the purchase price paid an amount equal to:

- 7,5% if the non-resident is an individual;
- 10% if the non-resident is a company; and
- 15% if the non-resident is a trust.

A final withholding tax of 15% is withheld on gross payments to non-resident entertainers and sportspersons who earn income in South Africa.

Employees Tax: Pay As You Earn ("PAYE")

Employees' tax is withheld by an employer from an employee's remuneration. The amount of employees' tax is calculated in accordance with tax tables issued by SARS and is paid to SARS by the employer. Directors of companies and members of close corporations are also regarded as employees for this purpose.

Skills Development Levy ("SDL")

SDL is a payroll tax on employers with annual payroll costs above ZAR 500,000 and is based on 1% of payroll. The levy entitles employers to claim the cost of training employees from relevant Sector Education and Training Academies ("SETA"), in certain instances.

Unemployment Insurance Fund ("UIF")

UIF is a social security tax on employers and employees, with both contributing the equivalent of 1% each of an employee's gross income (up to a capped amount) to the UIF.

Transfer pricing

Transfer pricing legislation requires a South African taxpayer to transact at arm's length with connected persons outside South Africa. Transfer pricing documentation, the annual submission of master file and local file, as well as country-by-country reporting may be mandatory, depending on the activities and size of a company or group of companies.

Thin capitalisation

Thin capitalisation provisions limit the deduction of interest payable by South African companies on debt provided by non-resident connected persons, to the extent that such debt is not provided on arm's length terms. The key test in this instance is to assess the commercial terms and conditions of the debt arrangement to one concluded between independent parties.

Value added tax (VAT)

VAT is an indirect tax levied at 15% on the supply of goods or services made by a vendor in the course or furtherance of an enterprise, as well as on the import by any person of goods and services.

VAT levied on the supply of goods and services is known as output tax. VAT paid on the acquisition of goods and services is known as input tax. VAT paid to or refunded by SARS each period is calculated as output VAT less input VAT.

A vendor making standard or zero-rated supplies of more than R1 million in any 12-month period is obliged to register for VAT with SARS. Vendors making taxable supplies between R50k and R1 million in a 12-month period may elect to register voluntarily as a VAT vendor.

VAT returns must be submitted to SARS every two months, unless a vendor's taxable supplies exceed R30 million per annum, in which case a monthly return must be submitted.

For a more comprehensive overview, kindly visit our website and download our Business and Taxation Guide via the below link:
https://www.mazars.co.za/Home/Our-expertise/Tax/Doing-Business-in-South-Africa

Government incentives

The dti Business Process Services (BPS) incentive

The dti offers a base incentive which is calculated on projected offshore jobs created based on a tapering scale and it is awarded on actual offshore jobs created as per the definition of full-time equivalents. The base incentive offers a differential two-tier structured incentive for non-complex and complex jobs based on a fully loaded operating cost per job and is paid for a period of five years (60 months) from the date at which offshore jobs are created.

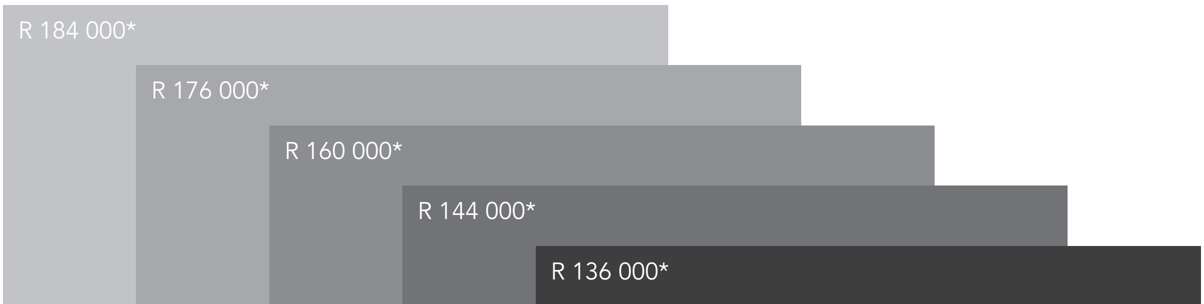
The base incentive will be determined at application stage depending on the fully loaded operating costs. The base incentives for non-complex and complex jobs are as follow:

Non-complex Jobs

NUMBER OF OFFSHORE JOBS	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Up to 400	R 32 000	R 24 000	R 24 000	R 24 000	R 20 000	R 20 000	R 20 000	R 16 000	R 16 000

Figure 50: The dti BPM incentive, noncomplex job breakdown

Complex Jobs



NUMBER OF OFFSHORE JOBS	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Up to 200	R 40 000	R 40 000	R 40 000	R 32 000	R 32 000	R 32 000	R 24 000	R 24 000	R 24 000

Figure 51: The dti BPM incentive, complex job breakdown

"Non-complex jobs" are jobs where the fully loaded operating cost is less than or equal to R 300, 000 per annum with wages contributing at least 65% of the operating cost base for a steady state of operation.

"Complex jobs" are jobs where the fully loaded operating cost is greater than R 300, 000 per annum per job with wages contributing at least 65% of the operating cost base for a steady state of operation.

To be eligible for the incentive, international organisations are required to reach a level 4 B-BBEE status. This typically requires organisations to achieve a score of 80 or more points on the B-BBEE Generic Scorecard. This can be achieved by transferring a significant proportion of ownership and/or management control to local black ownership.

The award of points within the scorecard is shown in Figure 52

Exhibit V-4

ELEMENT	WEIGHTING (POINTS)
Ownership	25
Management Control	15
Skills Development	20
Enterprise & Supplier Development	40
Socio-Economic Development	5

Figure 52: B-BBEE generic score card

This may inhibit the ability of captives of multinationals to access the BPO Incentives directly since they may not wish to set up local captives with third-party ownership.

In terms of outsourcers, the new BPO incentive scheme will potentially hand a cost advantage to local suppliers with a strong commitment to Black ownership and control.

For a full breakdown of the incentive, visit www.bpesa.org.za/BPOincentive/

SOUTH AFRICAN TELECOMMUNICATION LANDSCAPE

South Africa's telecommunications infrastructure is considered one of the most advanced on the African continent, in terms of technology deployed and services provided, with a network that is 99,9% digital and which includes the latest in fixed-line, wireless and satellite communication.

There are currently two landline telecommunications service providers operating in South Africa: Telkom and Liquid Telecoms.

There are four licensed mobile service providers in South Africa: MTN, Vodacom (majority owned by UK's Vodafone), Cell C (75% owned by Saudi Oger, an international telecommunications holdings firm) and Telkom Mobile, a subsidiary of Telkom. Mobile penetration is estimated at 146 %.

WiFi is becoming an increasingly popular connectivity alternative to the dominant mobile providers, with AlwaysOn the largest WiFi provider in the country, offering carrier grade connectivity at far more affordable prices than mobile offerings and with a hot spot footprint of over 2,000 locations.

The number of South Africans using mobile and smartphones has increased significantly. According to Wearesocial, the increasing use of smartphones has resulted in the growth of internet users with active internet user penetration, now estimated at 46%. Social media is always growing in South Africa with active accounts of around 11,8 million, which is around 22% penetration. South Africa also has a robust internet provider market which is evident in the size of the ISPA's (Internet Service Provider Association) member list. In August 2015, the association had 173 registered members.

Within one year (January 2014 to January 2015), overall internet connectivity in South Africa grew 24%, outpacing the rate of global internet growth by around 3%. About 61% of South Africa's web pages are viewed from mobile phones, confirming that mobile is the dominant medium of communication in the country.

Infrastructure

As a result of liberalisation measures as well as the significant number of international submarine fibre optic cables landing in South Africa, the cost of telecommunications has reduced considerably in recent years and this downward trend is expected to continue.

As of July 2015, South Africa's undersea cable capacity was 87,54 terabits per second provided by 10 providers: Seacom, EASSy, TEAMs, WACS, MainOne, GLO1, ACE, SAex, WASACE, and BRICS

Mobile service provider Vodacom was the first company to launch LTE in 2012. Since then MTN and Telkom have also launched LTE networks, and in 2015 Cell entered the race, announcing its plans to invest in a next generation broadband network.

Broadband

"South Africa Connect" is the government's national broadband policy and associated strategy and plan. The vision for broadband in South Africa is a seamless information infrastructure by 2030 that will underpin a dynamic and connected vibrant information society and a knowledge economy that is more inclusive, equitable and prosperous. Targets set for 2030 include a 100% penetration at 10MBPO and 80% penetration at 100MBPO.

South Africa's ambitious broadband roll out plan was given a boost in February 2015, when, after a slowish start it was announced in the 2015 budget speech that a large sum had been allocated to connect more than 1,000 government buildings and 900 schools in the next three years was welcomed by the industry. This is one of many government initiatives in its national strategy to improve national broadband penetration.

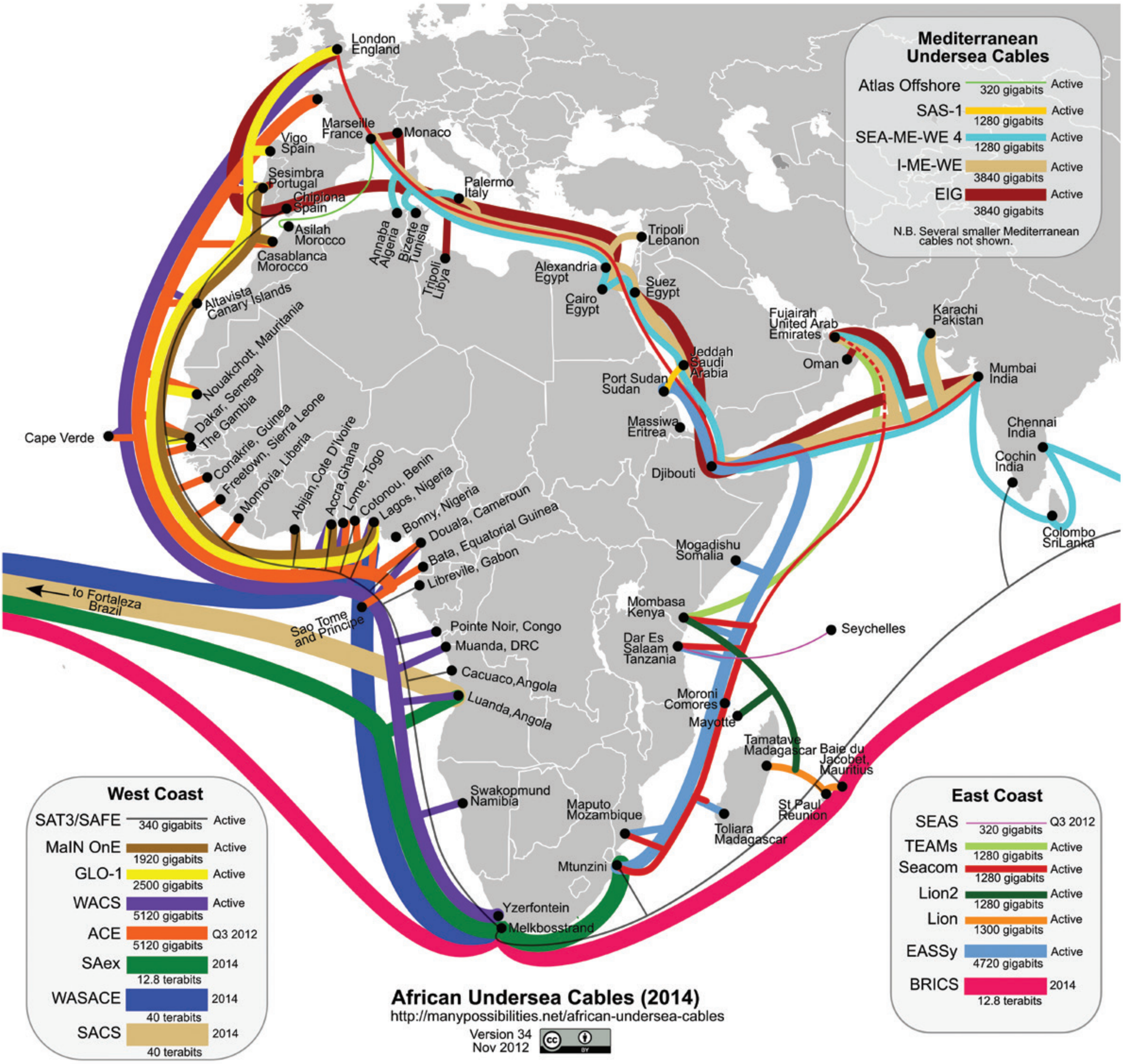


Figure 53: African undersea cables

PROPERTY COSTING OVERVIEW

Offices in SA are generally referenced as either "Premium" grade (P), "A" grade (A), "B" Grade (B). These can be (currently) explained as follows:

- Premium Grade (P) - New development, state of the art architecture, high rise or secure office park environment, good parking ratio, superior finishes, security and location
- A Grade (A) - Modern office building, high rise or office park environment with good parking ratio, superior finishes and good security.
- B Grade (B) - Older properties with dated architecture and finishes often in need of updating. Low parking ratio usually 1 bay per 100 m² or less

The office rentals applicable to the above building grades are as follows:

Western Cape/ Cape Town

P Grade rentals between R185 – R250/m² per month

A Grade rentals between R120 – R185/m²per month

B Grade rentals between R95 – R130/m² per month

KZN/Durban

P Grade rentals between R170 - R200/m² per month

A Grade rentals between R120 – R160/m² per month

B Grade rentals between R80 – R120/m² per month

Gauteng/Johannesburg

P Grade rentals between R180 - R210/m² per month

A Grade rentals between R125 - R190/m² per month

B Grade rentals between R85 - R125/m² per month

Escalation on rentals

8% to 9% per annum

Parking Bays

Cape Town: R1, 100 to R1, 500 per month/reserved single basement bay

Durban: R800 to R1, 000 per month/reserved single basement bay

Johannesburg: R700 to R 1, 100 per month/reserved basement bay

Guide to cost: Electricity

R20 to R30/m² for general office consumption costs

Guide to cost: Water

Under normal conditions around R2/m² would be a fair budget amount for all three centres.

Drought conditions in Cape Town make this very difficult to estimate as consumption has reduced therefore reducing costs to tenants.

Should a drought levy be introduced then tenants will have to contribute, however, at this time no levy has been charged.

NOTE: All the above figures exclude VAT at 14%.

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APPENDIX 1

Glossary of Terms

Absenteeism: Refers to the average number of days absent from work as a percentage of the total number of days available for work. The total number of days available for work excludes public or bank holidays as well as scheduled annual leave.

Agent: A contact centre agent is a person who handles customer service interactions via various channels such as telephone (inbound and email), email, web and social media engagement.

Annual Attrition: [Voluntary resigns of full-time employees in a calendar year/ (opening headcount at the begining of the year + closing headcount at the end of the year/2)]*100.

APAC: Refers to countries in the Asian Pacific region.

BPESA: Business Process Enabling South Africa is the official industry body for the BPO/BPO sector in South Africa.

BPO: Business Process Management is a field in operations management that focuses on improving corporate performance by managing and optimising a company's business processes. It can therefore be described as a "process optimization process."

Captive: A contact or BPO centre that is owned and managed by the organisation, for which the services are provided. It is also referred to as in-house contact centres.

CBD: Central Business District.

Department of trade and industry incentive scheme: It is a system of subsiding foreign business in order to attract investment through the BPO industry.

EMEA: Refers to countries in the European, Middle Eastern, and Africa region.

FTE: Full-time Equivalent is a measure of work effort equal to an average workload of 37,5 hours per person per week.

Impact Sourcing: Is the socially responsive arm of business which purposefully participates in building an inclusive global economy, gaining business efficiencies while changing people's lives. Impact Sourcing represents an opportunity to reach an untapped talent pool for companies interested in increasing their business efficiency, while also having a social impact on their communities.

Inbound: Communications traffic that originates from customers and is received by agents in a BPO centre.

IVR: Interactive Voice Response is a technology that allows a computer to interact with humans through the use of voice and DTMF tones input via keypad.

Jackson Reforms: Regulatory reforms arising out of the Jackson Review that regulate the fees lawyers may charge for legal work done, and allowing alternative business structures (ABS) to undertake work previously reserved for lawyers. These reforms severely affected the profitability of certain categories of legal work e.g. Personal injury claims.

KPI: Key Performance Indicator is a business model used to measure an individual's or a company's performance.

Matric Certificate: Highest school leaving qualification in South Africa, also referred to as a Grade 12 qualification.

Metrics: Standards of measurement used to assess efficiency, performance, progress, or quality of a plan, process, or product.

NA: Refers to countries in the North American region.

Net Promoter Score: It is a quality indicator which rates how customers market a company to their friends, associates, etc. The scoring system is based on how likely one would recommend a company to a colleague or friend. The recommendation is on a 0-10 scale where respondents are classified on three different levels, 0-6 – Detractors, 7-8 – Passives, 9-10 – Promoters.

Offshore: In the context of BPO, offshore refers to business processes that are handled outside of the company's home jurisdiction.

Omni channel: It is an integration of multiple channels to offer seamless customer experiences.

Onshore: In the context of BPO, onshore refers to business processes that are performed within the company's home jurisdiction.

Outbound: Communication traffic that originates from agents to customers in a BPO operation. It is also called centres that handle services such as direct sales call.

Outsource: In the context of BPO, outsource is the management of business processes by a third party organisation rather than by employees of the company that owns the business process. Outsourced processes are normally managed by means of a contract and Service Level Agreement.

Smartphone application: A software application developed specifically for use on a mobile device rather than on desktop or laptop computers.

Social Media: Online communication channels dedicated to community-based input, interaction, content-sharing and collaboration. Websites and applications dedicated to forums, microblogging, social networking , social bookmarking, social curation, and wikis are examples of social media.

Team Leader: A contact centre team leader actively enforces the operation’s goals, policies and procedures. He/she also implements standards in the company’s training and development, supports agents, handles escalations and works in conjunction with administration.

Tertiary Education: Education undertaken at a university or college level following the completion of high school (secondary education).

Web chat: An online communication channel that allows users to interact in real time using easily accessible web interfaces.

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