2014
KEY INDICATOR REPORT

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BPeSA Western Cape is the regional association for companies operating in the Business Process Service and Outsourcing Industry in the Western Cape. It operates as a specialist investment promotion agency for Business Process Outsourcing (including contact centres) as well as a trade association and networking body. BPeSA Western Cape creates an enabling environment for its members to network, share knowledge and collectively contribute to ensuring a vibrant industry.

Contents

ACKNOWLEDGEMENTS

BPeSA Western Cape would like to thank all the companies involved in this year's Key Indicator Report.

We acknowledge the main contributors to the 2014 report:

- Dimension Data for contributing to the survey framework and providing key insights into the findings for this year's report using comparisons from the Dimension Data Contact Centre Benchmarking Report. For more information on the Dimension Data Report visit www.dimensiondata.com/microsites/ccbenchmarking
- Mazars (BPeSA Auditors) for verifying the information and providing information on the Investing in South Africa section of this year's report
- Wesgro for providing copyrighted images of the Western Cape
- See full list of contributors to this year's report on page 57-58

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"There is only one boss: the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."

Sam Walton

Foreword by Minister of Economic Opportunities in the Western Cape

Alan Winde

Once again, I would like to present you with the 2014 BPeSA Western Cape Key Indicator Report, the official research report for the Business Process Outsourcing and Offshoring (BPO & Offshoring)/contact centre industry in the Western Cape.

2013 was another great year for the industry with the arrival of international BPO, the Webhelp Group, building on the list of global outsourcers already operating out of South Africa. This was in addition to large scale expansion from the majority of our international outsourcers.

As with previous years, there has been a number of standout moments, with the winning of the European Outsourcing Association (EOA) Offshoring Destination of the Year Award a definite highlight. This Award, as with the National Outsourcing Association (NOA) Offshoring Destination of the Year Award in 2012, has affirmed both the Western Cape and South Africa's position as one of the best BPO & O locations in the world.

In the Western Cape, our number one objective is economic growth and job creation. The BPO & Offshoring industry is one of our most important growth areas, delivering a massive job creation boost among the youth, the demographic with the highest unemployment rate.

This year's report will once again provide in-depth analysis of the factors that have helped make South Africa a customer service location of choice, while also highlighting key investment related metrics.

To all our operators both locally and internationally, I would like to issue my sincere thanks for your continued support of this great industry; I look forward to working closely with all of you in 2014 and beyond.

Welcome to the Western Cape.

Foreword by CEO of BPeSA Western Cape

Gareth Pritchard

The BPO/contact centre industry continues to go from strength to strength, serving as a major job creator for both the province and the country.

In total, it is estimated that the Western Cape region is now responsible for approximately 41,000 jobs, contributing in the region of R9 billion to the Western Cape's annual GDP. 3,400 jobs were generated in the last year through foreign direct investment alone.

The job growth within the offshore sector has once again been driven by investment from leading international brands such as Amazon, Asda, British Gas, EE, Lufthansa, 02, Shell, Shop Direct, Swiss International, along with a growing list of global outsourcers.

For their role in developing the industry, I would like to thank all our stakeholders: the Provincial Government of the Western Cape, the City of Cape Town, the private sector and most importantly the operational staff who have made the Western Cape a customer service location of choice. In particular, I would like to take this opportunity to thank the BPeSA Board Members whose collaborative spirit is the force behind the success in the industry. On a national level, we would like to acknowledge the Department of Trade & Industry (dti) for their commitment to the sector and for their work in developing the national incentive scheme. I would also like to acknowledge all those organisations involved in helping BPeSA build a sustainable skills pipeline for the industry.

With an influx of foreign direct investment in recent years, we realise the importance of having a large skills base to match the demands of the industry. In response to this, we are in the process of implementing a skills strategy which will look to train more than 10,000 agents and 1,600 team leaders over the next three years.

I hope that you enjoy reading the report and that the information provided will help you in making informed business decisions.

Executive Summary

The BPO/contact centre industry has grown by approximately 8% over the last year increasing from 38,000 to 41,000 jobs and generating in the region of R9 billion to the provincial GDP.

INDUSTRY ANALYSIS: KEY FINDINGS

- The outsourcing sector constitutes 50% of the market, a 6% increase from 2013, with the captive market also contributing 50%
- The financial services sector accounts for the highest proportion of agents in the industry at 41.7%, a 0.5% increase from 2013 with retail at 14.9%, a decrease of 10% and telecommunications at 12.5%, a 2.7% increase from 2013
- The telecommunications sector is responsible for the majority of international outsource business with 37.3% of the market, a 23.2% increase from 2013
- The UK market is responsible for 63.3% of offshore business in the Western Cape, a 1.9% increase from 2013
- 88.2% of offshore work in the Western Cape is done in English, a 6.2% increase from 2013

OPERATIONS: KEY FINDINGS

- Omni-channel usage such as social media, web chat, speech self service and smart phone applications have all experienced significant growth in 2014
- Customer satisfaction and customer complaint levels continue to be critical factors for measuring the effectiveness of a BPO/contact centre operation, showcasing a shift from traditional metrics such as average handling time or average wait time
- Side-by-side coaching is seen as critical for operators assessing the quality of their agents' communication, with 96.8% of companies making use of this strategy, a 10.7% increase from 2013
- A number of initiatives are being undertaken to develop skills within the BPO/contact centre environment. The most prominent of these is the up-skilling of staff to work across multiple query types

HUMAN RESOURCES: KEY FINDINGS

- The BPO/contact centre industry serves as a sustainable source of employment for the province, with 86.2% of agents being employed on a permanent basis, a 4.7% increase from 2013
- The influx of new companies has had an adverse effect on attrition, up from 13.1% in 2013 to 31.4% in 2014, while there has been a 0.6% decrease in absenteeism from 9.3% to 8.7%
- 52% of agents in the industry are located on the Cape Flats, 11% less than the previous year

Executive Summary *continued*

SOUTH AFRICAN/WESTERN CAPE BPO&O VALUE PROPOSITION

In 2012, South Africa was acknowledged as the Offshoring Destination of the Year by the NOA - UK. This was reaffirmed in 2013 when the country won the EOA – Offshoring Destination of the Year.

NOA Awards: Now in its tenth year, the NOA Awards rewards innovation and pioneering best practice by suppliers, users and advisors. The winners represent the length and breadth of the outsourcing industry, from banking to telecoms, small companies to large, individuals and major corporates. The NOAAs are completely independent, and as such are highly respected and coveted within the industry.

EOA Awards: The European Outsourcing Association Awards bring together some of Europe's leading outsourcing suppliers, end users and support service providers. They reward and celebrate best practice, and the efforts of companies as well as individuals who have demonstrated excellence in the outsourcing world.

Recent global acknowledgement coupled with an influx of new investment, has been driven by a strong national value proposition which is discussed below.

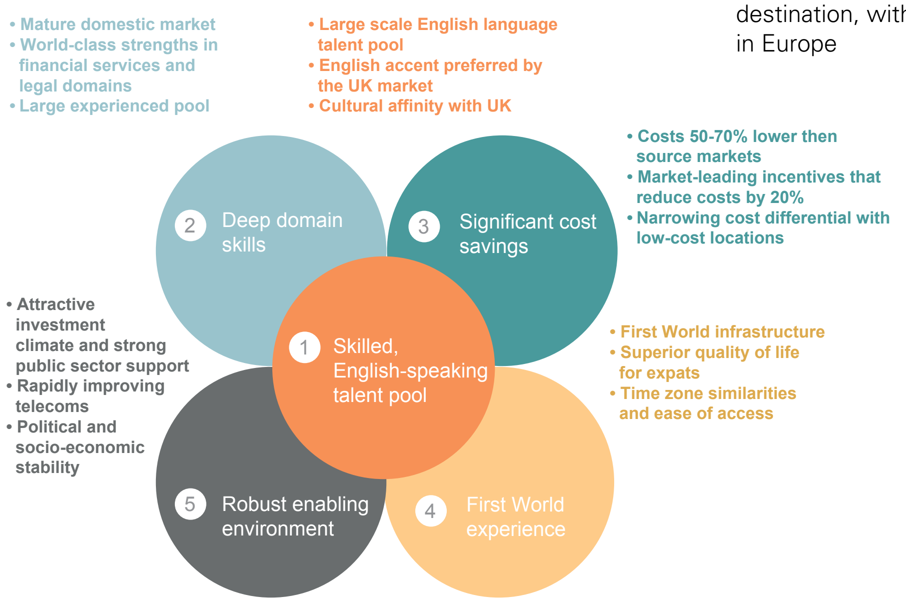

Figure 1: SA Value Proposition as defined by Industry Stakeholders - Everest Consultancy 2013

Large skilled English speaking pool/Cultural affinity

- According to the South African Department of Education, the Western Cape produced approximately 40,000 successful matriculants in 2013 with a pass rate of 85.1%, 7.1% ahead of the national standard of 78.2%
- South Africa is well known for its cultural similarities with the UK, Australian and US markets, making it an ideal customer service destination for English interaction
- The Western Cape is home to three of the country's top universities, the University of Cape Town, the University of Stellenbosch and the University of the Western Cape. The University of Cape Town Graduate School of Business consistently features in the Financial Times Top 100 MBA programmes

Deep domain skills

- South Africa's tertiary education system produces a large number of qualified actuaries (three times as many as India and the Philippines combined), chartered accountants and other specialists each year, many of whom come from the Western Cape
- South Africa's data protection laws, products and certifications are world renowned and have similarities with those used in the UK and EU. According to the World Economic Forum, South Africa is ranked 1st in the world for strength of auditing and reporting standards
- The Western Cape is gaining recognition as an internationally renowned Legal Process Outsourcing (LPO) destination, with strong legal skills similar to those found in Europe

Cost savings

- South Africa offers major cost savings to source destinations such as the UK of 50 - 70%. The national incentive scheme provided by the dti pays investors up to R88,000 (£5,000) for each job created and maintained over a three year period. This incentive scheme serves to further cut the cost of doing business in South Africa
- The dti incentive scheme is currently being updated and a new incentive will be launched during 2014
- The Western Cape offers a region specific incentive that provides all new Western Cape investors with free telecommunications services for the first six months of operation

First world experience

- The Western Cape's infrastructure is world class, from roads and power through to education, health care and entertainment, making it an easy place to conduct business
- The province is well positioned to service the European market in terms of similar time zones. It is also strategically located to provide 24/7 customer support services for US and Australian companies
- In addition to time zone benefits, international flights terminate at Cape Town at convenient times, allowing maximum productivity. Cape Town is currently one of British Airways' top 10 travel routes
- In 2012 and 2013, The Daily Telegraph survey (17,000 readers) ranked Cape Town as 'the best city' in the world. Cape Town was also named 'the best city' to visit by the New York Times in a 2014 survey

Robust enabling environment

- The government in the Western Cape has highlighted the BPO/contact centre industry as a focus area for investment and has committed its full support to growing the industry
- Between 2003 and 2012, telecommunication costs dropped significantly, falling by approximately 90%. This coincided with the arrival of a number of undersea cables which have improved the speed and quality of connectivity from South Africa to the rest of the world
- Below is a table highlighting the various cables that have come to South Africa since 2009 and their impact on telecommunications capacity within South Africa

	Seacom	EASSy	TEAMs	WACS	MainOne	GLO1	ACE	SAex	WASACE	BRICS
Cost (millions of USD)	650	265	130	600	240	800	700	500		
Length (km)	13,700	10,000	4,500	14,000	7,000	9,500	14,000	9,000	9,000	34,000
Capacity	1.28 Tb/s	4.72 Tb/s	1.28 Tb/s	5.12 Tb/s	1.92 Tb/s	2.5 Tb/s	5.12 Tb/s	12.8 Tb/s	40 Tb/s	12.8 Tb/s
Completion	Q3 2009	Q3 2010	Q3 2009	Q3 2011	Q2 2010	Q3 2010	Q2 2012	Q2 2013	2014	2014

http://manypossibilities.net/african-undersea-cables/

Figure 2: Telecommunication cables in South Africa

Dimension Data Industry Analysis

Contact centres are not dying; rather, they're changing form.
We are fast advancing towards a new service climate. The South African business process outsourcing industry should prepare for a new age of customer resolution centres. An age where the only time customers will want to make direct contact with an organisation is when something's gone wrong and they have exhausted other real-time options to resolve it.

Results from Dimension Data's 2013/14 Global Contact Centre Benchmarking Report reveal that for Generation Y – that is individuals born between 1980 and 2000 – the phone is now the third choice of engagement for South African consumers, after email and social media. Globally, the phone is the fourth choice and the preference gaps for Generation X (individuals born between 1961 and 1979) between phone, messaging, and social media are also narrowing.

To multi-channel and beyond...
The way customers want to interact with their service providers is evolving, providing early insights for contact centres and a catalyst for how they will need to adapt. Plans for managing non-voice channels are surging. Smartphone application deployments are scheduled by 34.7% of South African organisations over the next two years and, as predicted in our 2012/13 Benchmarking Report, web chat deployments have grown substantially – 39.8% of South African contact centres can now offer, or are implementing, a web chat solution.

It is customers, enabled by new-found mobility and smart devices, who are driving the decline in 'voice-only' contact centres – down to 69.2% in South Africa and already at 59.2% globally, from 67.9% just one year ago.

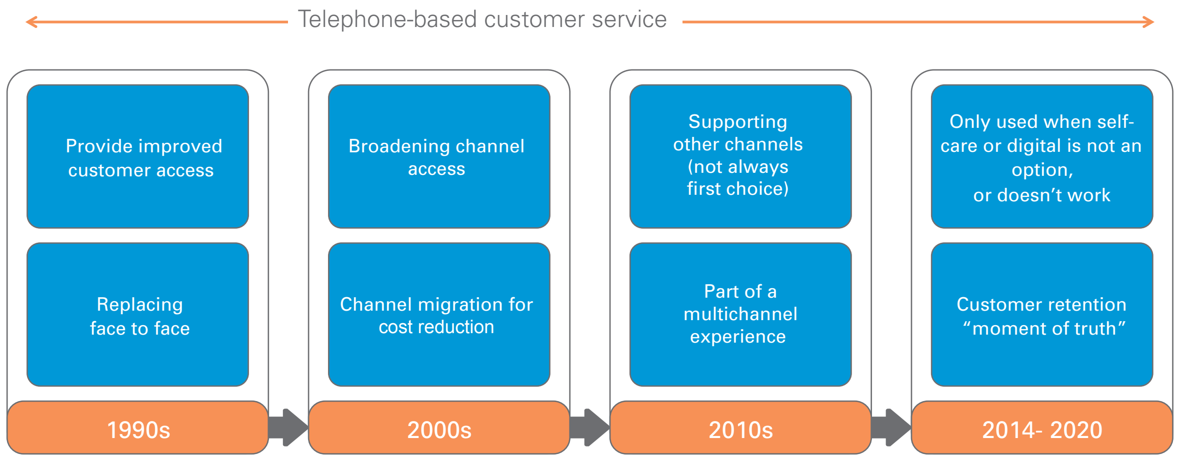

Figure 3: The dominance of voice is over

The Omni-channel age has arrived
If the contact centre and its leaders hope to stay relevant, they need to widen their attention coverage, stop thinking about phone calls and start thinking about all contact channels, and shift their focus from the success or failure of isolated customer interactions to that of integrated customer journeys.

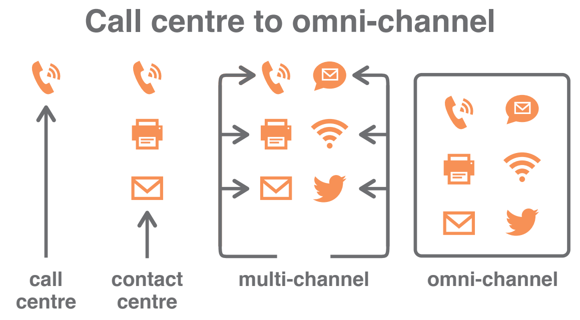

Figure 4: Call centre to omni-channel

Organisations have built a wealth of channel strategies and management infrastructures to support them. However, most have not joined up those channels. Omni-channel environments will enable customers to move effortlessly from one channel to another using a range of devices. The channels should be connected in such a way that conversations and transactions started on one channel can be continued on another.

Growing complexity
The evolution to multi-channel presents a phenomenal opportunity to reduce operating costs while increasing the effectiveness of the contact centre and ultimately enhancing its most important asset – employees – through better engagement.

The good news is that the expanding roles of contact centre agents are becoming more interesting, even though they're tougher to perform. More than a fifth (20.2%) of South African contact centre advisers are now handling transactions across a variety of emerging channels, such as SMS, social media, and web chat.

To keep pace, organisations will need to reinvent their operating models and adopt a different approach to people management, all the way from how they recruit and train new employees, to how employees are remunerated, measured, managed, and incentivised. Furthermore, rather than running isolated contact centres, contact centre management will be responsible for a disparate network of skilled people and technical resources that facilitate customer journeys over multiple channels.

There is no doubt that managers who do not swiftly plan for increased contact centre agent competency, and develop skills across multiple channels and disciplines, will fail.

Technology: are hosted cloud solutions a game changer?
Unfortunately, as contact centres have been challenged by the race to meet customer demand for new channels and not be left lagging behind their competitors, they have sometimes implemented the fastest and lowest-cost solutions. The true cost of this approach has now begun to bite.

The vast majority of contact centres do not believe their existing IT systems will meet their future needs – and the landscape is changing very quickly.

Contact centres across the globe have realised that they must simplify their technology systems and share a common, multi-channel customer interaction platform across the organisation.

Given the complexity of many legacy contact centre environments, it is no shock to find that integration, lack of flexibility, and expensive upgrades are the top three most common problem areas hindering IT development.

However, it may be that hosted cloud solutions can provide some hope and alternative buying options to IT architecture designs. Of those organisations already using hosted technology services, 65.2% agree that it has provided access to new or enhanced functionality, 64.8% state that it has provided improved flexibility and, in an industry of unrealised return on investment, 76% agree that it has helped reduce cost-to-serve.

Never before have there been so many challenges thrown at contact centres. At the same time, there have never been so many opportunities for organisations to directly engage in rich and personal interactions with their customers. Technology is playing a greater role in that than ever.

Developing global markets and growing populations are creating an ever-increasing demand for new products and services. Add to this the proliferation of smart devices and mobile applications, and it is not difficult to see a fresh service landscape emerging in a more dramatic way than we have seen over the last 20 to 25 years.

This is an opportunity for the contact centre to take a leading role and revitalise a stagnant approach to customer experience management. It is an opportunity to place the contact centre at the heart of the business.

For more information on the Dimension Data Global Contact Centre Benchmarking Report visit http://www.dimensiondata.com/microsites/ccbenchmarking

Moving up the value chain

As the BPO/contact centre industry in South Africa matures, the natural progression is to look at other more complex back office functions to compliment the very strong base of English customer care services currently offered.

This year's Key Indicator Report will examine the role of legal process outsourcing and shared services as well as its potential impact on the industry both at a local and international level in 2014 and beyond.

Legal Process Outsourcing Overview

Legal Process Outsourcing (LPO) is a sub-sector of Business Process Outsourcing (BPO) and refers to the outsourcing of particular legal processes to a third party provider. As with all BPO lines of service, the legal processes outsourced range from low-level repetitive tasks to highly complex technical tasks. The value of the legal services market has grown to such an extent that 'Research and Markets' has added a Legal Services: Global Industry Guide to their market research. They also predict that the legal services market will grow to US$ 726,820,300 in 2014, an increase of 39% since 2009.

However, the legal services market is facing the same pressures like other industries and the unbundling of traditional lawyer-reserved work has created more scope and value. This has changed the landscape of traditional legal services. Legal practitioners and corporates are being forced to make use of legal and legal related services using new and cost-effective approaches. Outsourcing of legal processes to third party specialist providers, particularly to low-cost locations, is a growing trend. This has been accelerated by legislative reforms in the United Kingdom and increasing inroads into commoditisation of legal process in the United States.

South Africa is fast emerging as a quality destination for managed services and legal processing services in particular. The fundamental legal and regulatory framework in South Africa compliments the outsourcer (i.e. UK and USA) market, which builds on an already hospitable and robust BPO environment. In addition, South Africa offers high quality legal skills together with good English language affinity and cultural fit – at cost competitive rates. These qualities have proved to be attractive to A-grade legal firms and corporates alike who have set up captive operations or contracted third party LPO operators in South Africa.

The outsourcing of legal processes to South Africa is in itself an emerging trend. Legal processes that have been successfully outsourced to South Africa include:

- Discovery/Document review (e-discovery)
- Mergers & Acquisitions (Due diligence document review)
- Contract Management (volume/indexing)
- Legal research
- Government/regulatory filings (IP, securities)
- Standardised document drafting

There is a healthy supply of law graduates with relevant legal skills in South Africa. The Law Society of South Africa reports that on average each year some 3,800 students graduate, and there are just over 7,000 1st time legal registrations. There is an over-supply of legal skills with only about 2,000 attorneys admitted annually into formal practice. These numbers do not take into account the significant pool of paralegal skills, i.e. skills that do not hold a degree but have other certifications or in-depth experience in legal processes. In addition, many skills required in legal processing operations require a skills set readily available in related services including management, finance and administration. As a result there is no shortage of readily available and suitably skilled resources.

South Africa's competitors in this market are the same as those in the BPO market, as well as so-called 'on-shore' or 'near-shore' locations, where the cost of legal skills has dropped significantly and the risk is perceived as more palatable for potential investors.

Location	Legal graduate numbers	Cost of graduate per annum
England and Wales	18,000	£40,000
India	80,000	£10,000
South Africa	3,800	£ 12,000
Philippines	5,000	£ 8,000
Ireland	3,500	£ 30,000
Scotland	3,100	£ 36,000

Figure 5: Cost and supply of legal graduates

South Arica compares favourably to its competitors in terms of resources. However additional advantages such as compatible legal frameworks, effective regulatory and compliance environment, position the country as a strategic location for LPO.

First movers into South Africa include multinational corporates, their legal service providers, multinational law firms and corporate legal departments. Recently, Hogan Lovells has merged with a South African law firm to take advantage of the South African value proposition. Other law firms with international affiliation include: Norton Rose Fulbright, Cliffe Dekker Hofmeyr (DLA Piper Group) and Bowman Gilfillan. World class LPO providers have also established a presence here and include: Integreon, Exigent, BPO Global and Cognia Law.

Shared Services

Shared Services is a model whereby various back office functions and processes such as IT, Finance & Accounting, HR, and Procurement are moved into a central environment to position the organisation for future growth, improve service delivery and realise cost benefits.

Shared Services signifies the first step in moving towards Global Business Services, where services are delivered on a global scale by organisations – using centres of expertise through both captive shared service and outsourcing environments.

Global Pulse Survey

KPMG conducts a global quarterly survey aimed at the Shared Services and Outsourcing Advisory practice, as well leading global business, IT, and cloud service providers. In addition to the global survey, KPMG South Africa conducts an annual survey to obtain a local view of key market trends and observations in the market. The insert below is derived from the 2013 South African Pulse Survey.

KPMG polled its South African advisors on what the functional areas where buyers have already deployed shared services operations, and in which areas they plan to expand efforts over the next 12 months. Shared services demand and planned investment levels by functional areas (see figure 6) are similar to those exhibited for outsourcing.

Figure 6: Advisors: Shared Services deployments by function

Over the past three years, there has been an increase in interest shown by organisations in the use and expansion of shared services operations to support various back-office functions and processes in areas such as IT, Finance & Accounting, HR, and Procurement. Interest has also increased with respect to, front-office activities such as analytics, sales and marketing support. While some have viewed shared services as a precursor to outsourcing, there is a range of scenarios and situations where buyers see shared services as complementary or preferable to the use of outsourcing. In some cases, this is because of the nature of the work being performed, and in others it is more simply because buyers feel they can perform the work better or cheaper than an outsourcer.

The top functional area cited by 68% of advisors, for existing shared services deployments is in IT operations. This is followed by finance and accounting and human resources, both at 58%. Based on KPMG observers in this market, these three functions have always been the top three in terms of shared services uptake. Growth expectations are generally aligned with existing functional investments, with the exception of sourcing and procurement functions – which 63% of advisors identified as being targeted for growth over the next 12 months. Sourcing and procurement were also identified for strong shared services growth in the annual KPMG Global Pulse Survey.

Organisations should perform thorough assessments to determine which of the preferred delivery model mixes should be a given functional area. Furthermore they should develop a sound means to measure the performance and success of each model. The trend towards increased interest in the use of shared services in conjunction with, or in lieu of, traditional outsourcing has increased over the past year since KPMG last polled on the topic via the survey.

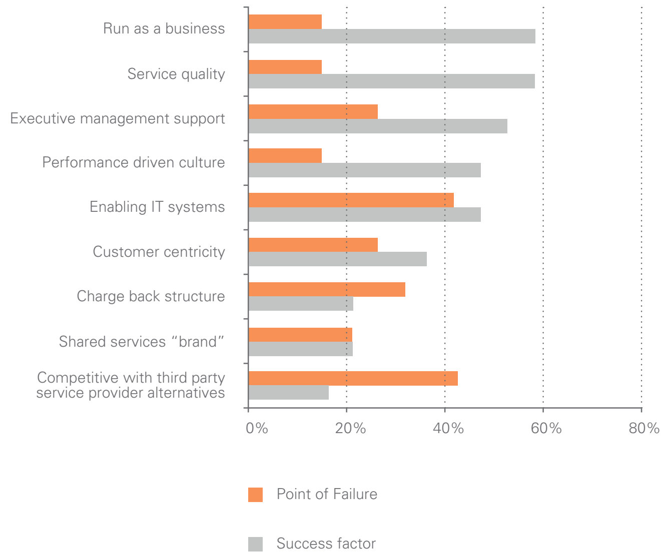

Figure 7 Advisors: Shared Services: Success factor & points of failure

These findings highlight that South African organisations are expanding the use of shared services across a broad range of functional areas. Even areas with limited investments, such as research and development, are expected to see an increased usage going forward. This, coupled with combined usage of multiple geographic delivery footprints, highlights the increasingly complex global service delivery models that organisations are building.

KPMG next polled South African advisories on the key success factors and the most common points of failure in shared services efforts.

- Running shared service operations "as a business" and service quality are identified as the top two shared services success factors, both were selected by 58% of advisors. KPMG observations in the market do support the importance of providing quality services without being a drain on resources. Executive management support, the top cited success factor in the global pulse survey, is ranked a close third in the South African poll. The top success factors in the global survey mirror those highlighted by the South African advisors.
- The top cited point of failure is the inability of the shared services operations to remain competitive with third party service provider alternatives, followed closely by the inadequacy of enabling IT systems. Both these were selected by just over 40% of advisors

The top cited point of failure is the inability of the shared services operations to remain competitive with third party service provider alternatives, followed closely by the inadequacy of enabling IT systems. Both these were selected by just over 40% of advisors.

Industry Analysis

INDUSTRY ANALYSIS: KEY FINDINGS

- The outsourcing sector constitutes 50% of the market, a 6% increase from 2013, with the captive market also contributing 50%
- The financial services sector accounts for the highest proportion of agents in the industry at 41.7%, a 0.5% increase from 2013 with retail at 14.9%, a decrease of 10% and telecommunications at 12.5%, a 2.7% increase from 2013
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- 88.2% of offshore work in the Western Cape is done in English, a 6.2% increase from 2013

1. INDUSTRY INTRODUCTION

The first contact centre in Cape Town was established in the mid 1980s, with a focus on customer service in the financial services sector. Since then the local industry has gone from strength to strength with companies such as Sanlam, Old Mutual, Metropolitan Health, Woolworths Financial Services, Discovery Health and The Foschini Group setting up captive operations in Cape Town.

In 1998, Lufthansa became the first offshore operation to outsource to Cape Town. Following their successful rollout, a number of global BPO operators have since chosen to set up in Cape Town. These include Capita, Merchants, Serco, Teleperformance, Webhelp and WNS. International brands such as Amazon, Asda, Bloomberg, British Gas, EE, iiNet, O2, Shell, Shop Direct and Swiss International have also chosen the Western Cape as a strategic customer service base.

1.1. Report background

In 2003, BPeSA Western Cape conducted its first study into the contact centre and BPO & O industry in the Western Cape. The 2014 report is the 8th official industry report and has been verified by Mazars.

1.2. Overview of the industry

- An estimated 3,400 jobs were created through offshore investment in 2014
- The BPO/contact centre industry in the Western Cape is responsible for approximately 41,000 jobs, of which an estimated 11,700 are generated through foreign direct investment

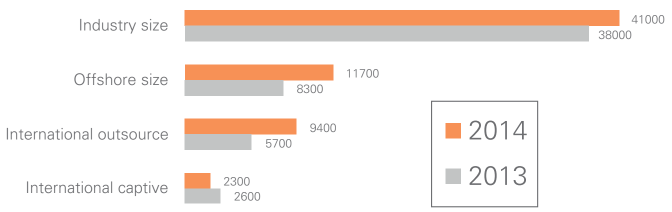


Figure 8: Industry overview

1.3. Aims of the research

- To provide a comprehensive overview of the BPO/contact centre industry's growth in the Western Cape
- To give an outline of BPO/contact centre metrics for the industry
- To be the centralised source of data and information for the industry

1.4 Methodology

- The first phase of the research process used data from the BPeSA Quarterly Barometer Report and findings from previous reports
- In the second phase of the process, an online questionnaire was sent to the respondents
- The third phase involved telephonic interviews on issues that were not sufficiently covered in the questionnaire

1.4.1 Sampling

The population targeted for the survey was made up of 126 contact centres in the Western Cape, with an estimated total agent head count of 41,000. The sample comprised 41 companies that make up 80% of the market. The response rate was 78%.

2.1 Type of operation

The outsourcing market constitutes 50% of the industry, a 6% increase from 2013, with the captive market contributing the remaining 50%.

The growth in the outsource market reflects a global trend to outsource and is underpinned by the arrival of new offshore outsourcing companies.

Figure 9: Type of operation

2.2 Market breakdown

The BPO/contact centre industry continues to be dominated by a small group of companies, with 13 operators making up 50% of the industry, while the remaining 50% is accounted for by 113 companies.

2.3. Sector breakdown

Financial services continue to dominate the market at 41.7%, an increase of 0.5% from 2013. This is followed by retail at 14.9%, a 10% decrease from 2013, which is mainly due to the relocation of a major retailer, while telecommunications increased by 2.7% from 9.8% to 12.5% in 2014. The research also shows that a high proportion of financial service business is driven by the domestic captive market, where financial services accounts for 79.8% of all business.

Within the international outsourcer market, telecommunications is the largest sector with 37.3% of the market share, a 23.2% increase from 2013, followed by retail at 17.2%, a 13.8% decrease from 2013.

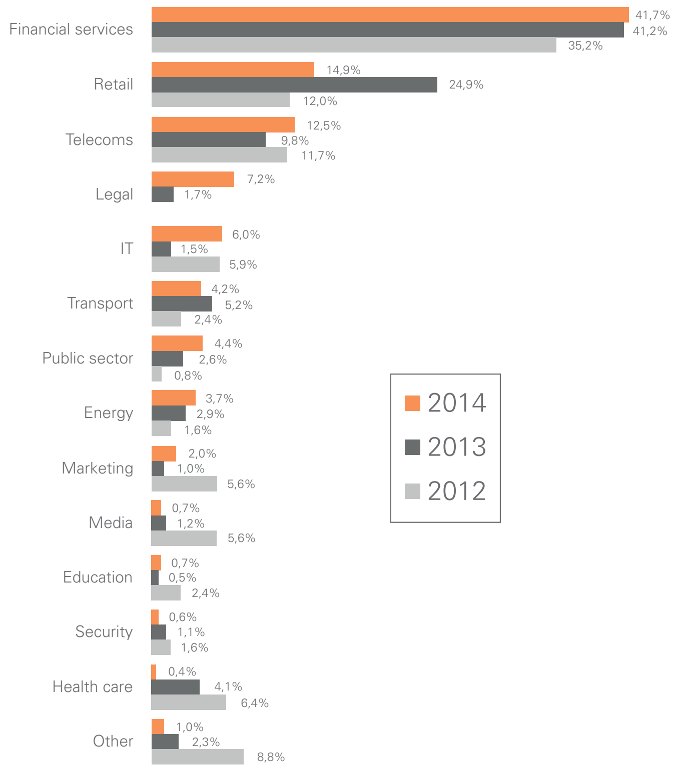


Figure 10: Overall sector breakdown

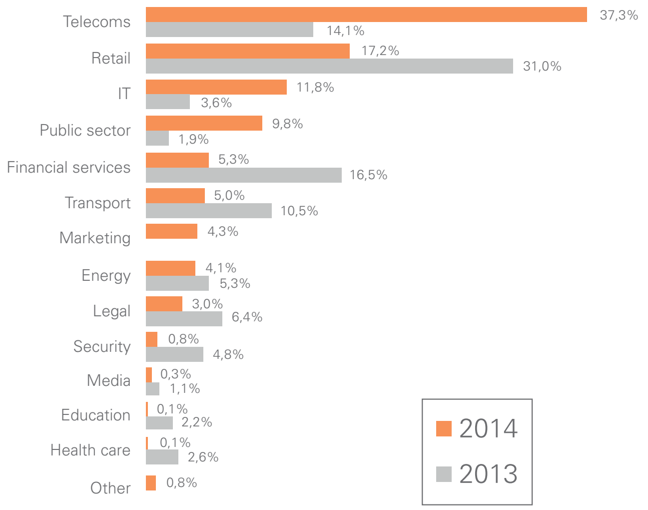


Figure 11: International outsourcer sector breakdown

2.4 Service function breakdown

63% of companies are involved in inbound customer service work; this is followed by back office at 13.8% and debt collection at 9.1%. This distribution could be attributed to the size of the customer service landscape in the international outsourcer market.

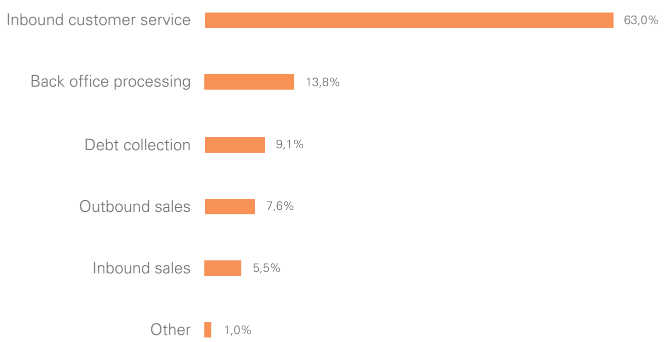


Figure 12: Service function breakdown

2.5 International markets serviced

The UK is the major source of offshore business in the Western Cape with 63.3% of the market share, a 1.9% increase from 2013. This is followed by the US at 11.5% (up from 8% in 2013), Australia 9.4%, Germany 4.9%, France 1.9% and Netherlands 1.1%. The remaining 7.9% is divided among China, Italy, Greece, Denmark, Japan, Luxemburg, Portugal, Russia, Spain and Switzerland.

In total 84.2% of offshore business in the Western Cape services English speaking locations.

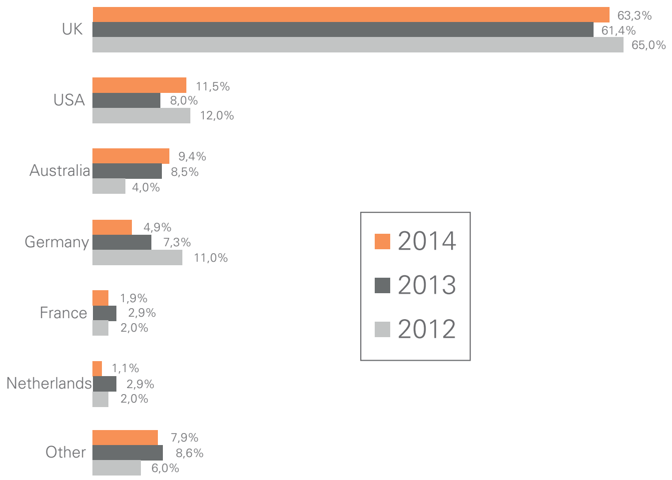


Figure 13: Breakdown of international markets serviced

2.6 Languages used to service international business

The offshore market in the Western Cape continues to be dominated by English voice services which account for 88.2% of all international business interactions, a 6.2% increase from 2013. This is driven by a large base of UK companies with support from the US and Australian markets (see figure 13). Foreign languages are generally used as a secondary service offering in contact centres where English is the main language.

Within the Western Cape, Cape Town is home to a number of different nationalities, with pockets of German, French, Dutch, Spanish, Portuguese and Mandarin speakers. These capabilities allow the region to service multiple language requirements on a small scale.

The recently introduced immigration laws will make the flow of foreign speaking non South Africans much easier, thus making South Africa a potential hub for foreign language projects.

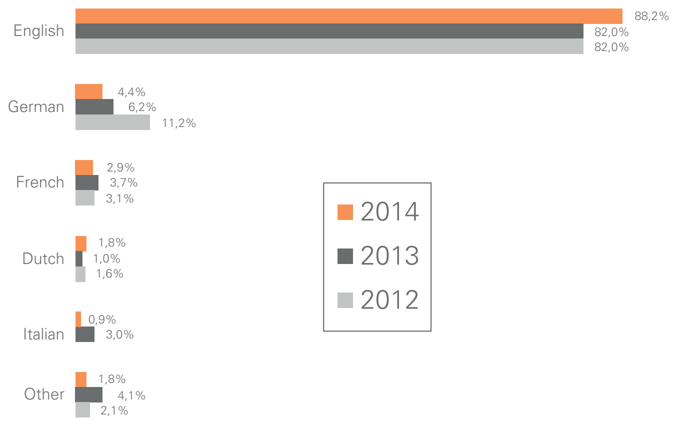


Figure 14: Languages used to service international business


LED TV

Operations

OPERATIONS: INDUSTRY FINDINGS

- Omni-channel usage such as social media, web chat, speech self service and smart phone applications have all experienced significant growth in 2014
- Customer satisfaction and customer complaint levels continue to be critical factors for measuring the effectiveness of a BPO/contact centre operation, showcasing a shift from traditional metrics such as average handling time or average wait time
- Side-by-side coaching is seen as critical for operators assessing the quality of their agents' communication, with 96.8% of companies making use of this strategy, a 10.7% increase from 2013
- A number of initiatives are being driven to develop skills within the BPO/contact centre environment. The most prominent of these is the up-skilling of staff to work across multiple query types

3.1 Distribution channel usage

All the respondents use telephony channels to service their customers. This may be driven by a large domestic customer base where telephone continues to be the most accessible channel of engagement for most customers.

As predicted in the 2013 report, omni-channel usage such as social media, web chat, speech self service and smart phone applications have all experienced significant growth. The scope of the work carried out by a contact centre agent continues to evolve, with a large percentage of agents having to deal with the complexities of servicing customers via multiple channels. This change has resulted in an increasing number of organisations training their staff to work across multiple query types.

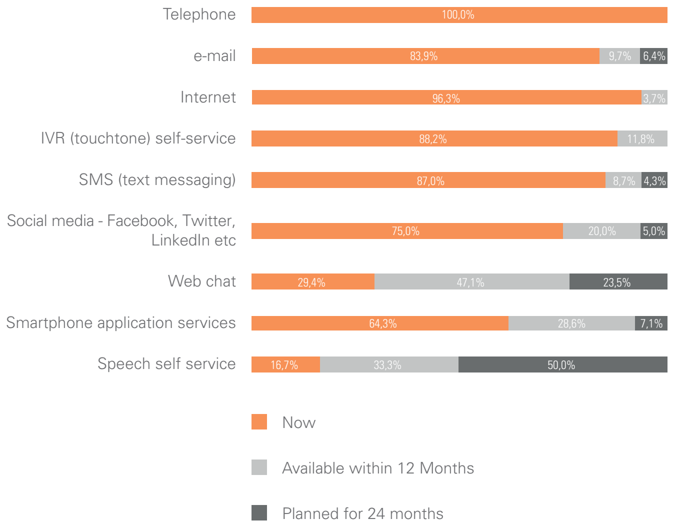


Figure 15: Distribution channel usage

3.1.1 International operator channel usage

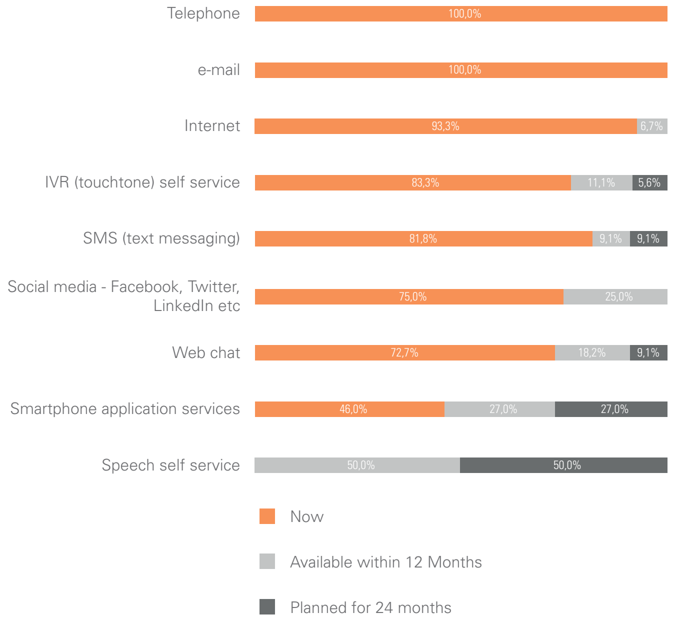


Figure 16: International operator channel usage

3.1.2 Domestic channel usage

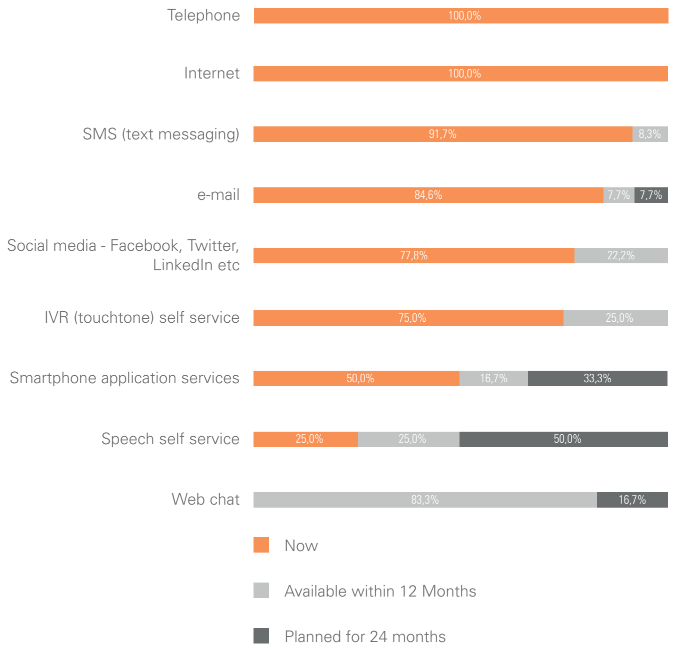


Figure 17: Domestic operator channel usage

From figures 16 and 17 it is evident that omni-channel usage is prevalent in both domestic and international operators, either being used now, available in 12 months or planned for 24 months. The challenge for both international and domestic operators is to ensure that employee skill development is geared towards multiple-channel deployment.

As some channels are available within 12 months or are planned for 24 months multi-channel management and strategy that were once optional are now fundamental.

3.1.3 Drivers of distribution channel choice

Findings from the 2014 report point to a shift in the engagement patterns of customers. Although customers continue to use traditional channels such as telephone and email, a change can be seen in the demand for omni-channel platforms with a noticeable increase in requests for social media (up from 31.6% in 2013 to 71.4% in 2014), IVR, web chat, smartphone application service and speech self service.

SMS technology has experienced significant growth among operators during 2014. This growth appears to be driven by the organisation's convenience at 64.7% an increase of 30.5% from 2013 compared to customer demand at 35.3%, a 9.4% decrease from 2013.

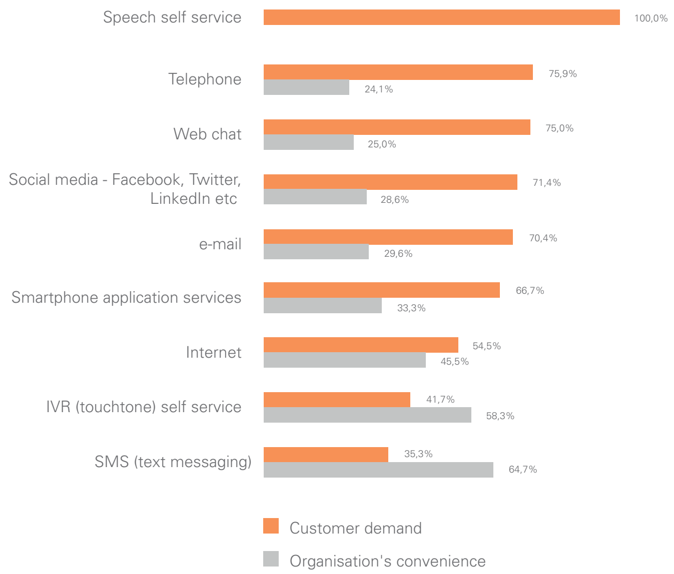


Figure 18: Drivers of distribution channel choice

Operations *continued*

3.1.4 Contacts handled by service channels

Despite this shift in consumer behaviour, the vast majority of queries are still handled by telephone at 65.4%, followed by email at 22.7% and web chat at 12.9%. Social media accounts for only 2.5% of contacts handled within the contact centre, still a relatively small percentage. This figure is similar with that of the Dimension Data Global Benchmarking 2013/2014 Report, where social media accounted for 1% of all global contacts. It is expected that social media will experience a notable increase in 2014, as operators respond to the growing consumer demand for the channel.

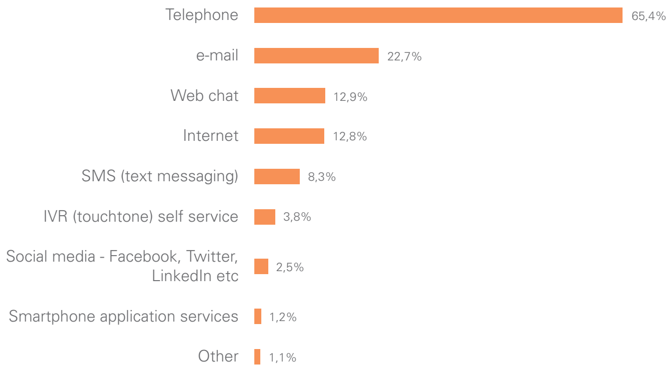


Figure 19: Contacts handled by service channels

3.2 Contact Center development strategy

Although customer satisfaction and staff satisfaction continue to be critical for companies crafting their contact centre development strategies, there has been a slight decrease of 9.4 % for customer satisfaction and 7.9% for staff satisfaction in 2014.

The 2014 findings, which are similar to those of 2013, highlight a commitment to workplace wellness with 84.4% of all respondents seeing staff satisfaction as a critical factor when developing a contact centre strategy.

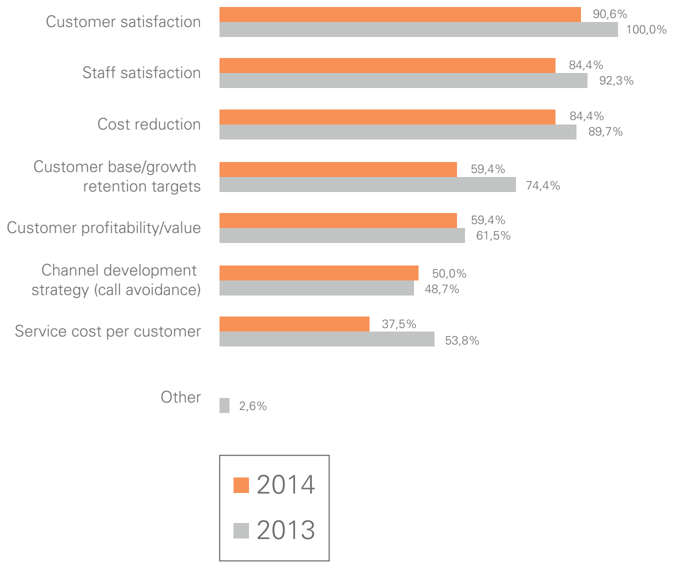


Figure 20: Contact centre development strategy

3.3 Measurement of contact centre effectiveness

The most prominent factor for measuring the effectiveness of a BPO/contact centre operation is customer satisfaction at 87.1% followed by customer complaint levels at 67.7%. This development highlights a commitment among the respondents to improving customer experience.

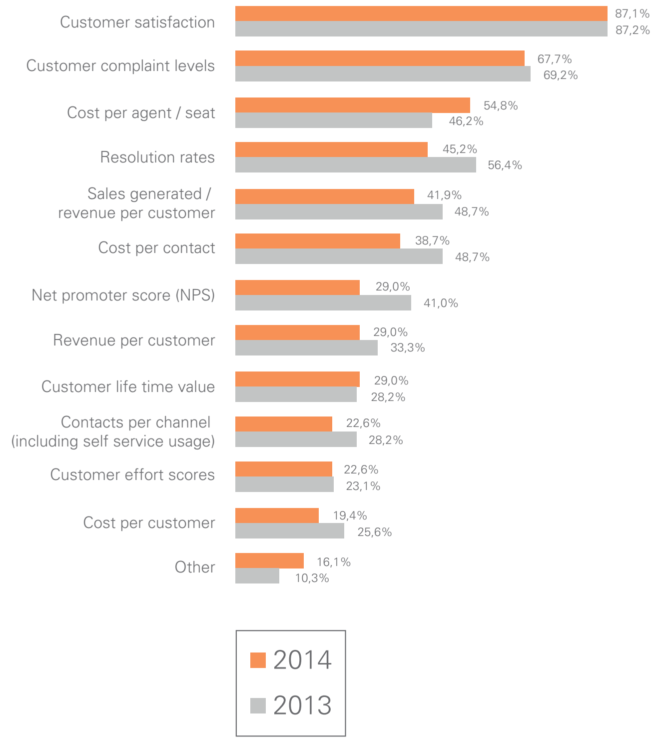


Figure 21: Measurement of contact centre effectiveness

3.4 Quality assessment of agents' communication

Side-by-side coaching is seen as the most effective strategy for operators assessing the quality of their agents' communication, with 96.8% of respondents making use of this channel, a 10.7% increase from 2013. This is followed by the use of recorded calls, down from 94.4% to 87.1% and use of customer feedback, down from 86.1% to 77.4%.

The use of side-by-side calls as the main factor for assessing agents' communication points to a commitment by operators to improving the efficiency of their organisation.

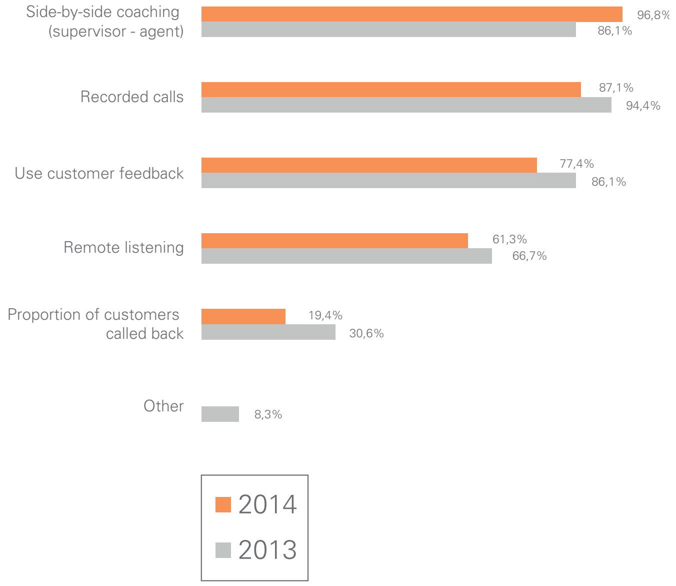


Figure 22: Quality assessment of agent's communication

3.5 Skills development

Due to the rise in omni-channel usage a number of new skills based initiatives are being introduced across the industry. These include the upskilling of staff to work across multiple query types at 88.9% of the respondents.

Figure 23: Skill development initiatives

3.6 Social media usage

67.9% of companies use social media for marketing purposes, followed by advertising at 46.4% with complaint handling at 39.3%. As the demand for social media continues to grow, organisations may start to develop social media strategies and detailed plans for dealing with negative coverage received via channels such as Facebook and Twitter.

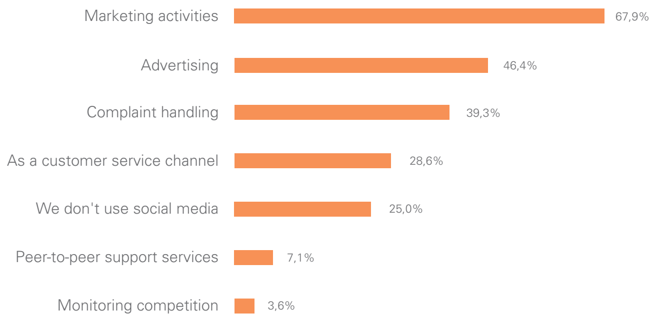


Figure 24: Social media usage

Human Resources

HUMAN RESOURCES: KEY FINDINGS

- The BPO/contact centre industry serves as a sustainable source of employment for the province with 86.2% of agents being employed on a permanent basis, up from 81.5%, a 4.7% increase from 2013
- The influx of new companies has had an adverse effect on attrition, up from 13.1% in 2013 to 31.4% in 2014, while there has been a 0.6% decrease in absenteeism from 9.3% to 8.7%
- 52% of agents in the industry are located on the Cape Flats, 11% less than the previous year

4.1 Employment type

The percentage of staff employed on a permanent basis has increased by 4.7% from 81.5% in 2013 to 86.2% in 2014. In total 96.3% of staff are employed in a permanent capacity, a 3.2% increase from 2013. Since 2012, the number of permanent employees (full time and part time) has increased year on year, making the industry an important job creator for the Western Cape.

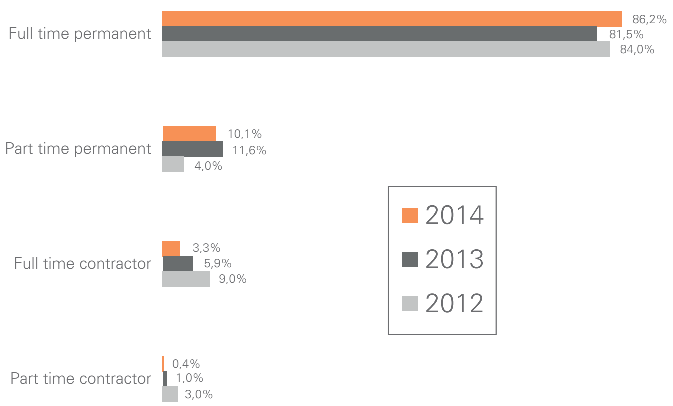


Figure 25: Employment type breakdown

4.2 Breakdown of agents by age group

58% of the agents in the industry fall in the 26 – 30 age group, followed by 40.5% in the 18 – 25 and 1.5% in the 31 – 40 age group. The 18 – 25 age group grew by 16.4% from 24.1% to 40.5% in 2014; a potential reason for this large shift could be attributed to the growth in the international outsourcer market, where the majority of agents are aged 18 – 25.

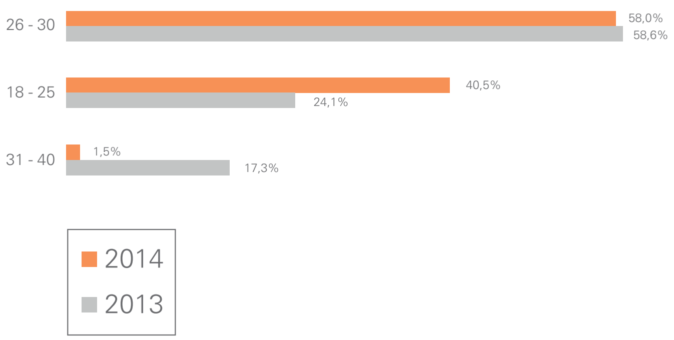


Figure 26: Breakdown of agents by age group

4.3 Salaries

Contact centre operators continue to adopt various remuneration strategies. These strategies are generally broken down into two main models. Figure 27 is based purely on entry level salaries paid, while figure 28 shows the potential total cost to company.

	Salary comparisons 2014 and 2013							
	2014	2013	2014	2013	2014	2013	2014	2013
	ZAR (Rand)	ZAR (Rand)	GBP (British Pound)	GBP (British Pound)	EUR (Euro)	EUR (Euro)	USD (US Dollar)	USD (US Dollar)
Captive domestic	5,918	5,260	374.75	395.74	443.56	486.68	592.21	628.06
Captive international	6,400	5,920	405.27	445.62	479.69	547.74	640.45	706.87
Outsource domestic	4,500	4,250	284.95	319.91	337.28	393.23	450.32	507.46
Outsource international	5,863	5,230	371.26	393.68	439.44	483.90	371.26	624.48

Figure 27: Average entry level salaries paid to agents

Agents working for international outsourcers receive an average entry level salary of R5,863 per month, an increase of 12.1% from 2013. International captives received the highest entry level salary of R6,400 per month, an 8.1% increase from 2013. Domestic outsourcers pay the lowest entry level salaries of R4,500, a R250 increase with domestic captives paying the second highest at R5,918, a 12.5% increase.

Despite an increase in salaries paid from 2013 to 2014, the cost of salaries paid by foreign based organisations in US dollars, Euros and the British Pounds has decreased significantly over the same period.

4.3.1 Total potential cost to company

Type of operation	ZAR minimum average total cost	ZAR Medical Aid	ZAR Pension contribution (5%)	ZAR Bonus 10%	ZAR total cost	GBP total cost	USD total cost
Outsource International	5,863	636	293	586	7,378	467.20	738.32
Outsource Domestic	4,500	636	225	450	5,811	367.97	581.51
Captive International	6,400	636	320	640	7,996	506.33	800.16
Captive Domestic	5,918	636	296	591	7,441	471.19	744.62

Figure 28: Total potential cost to company

In addition to basic salaries, further expenses can be incurred through benefits such as medical aid, retirement fund, transport and bonuses. The benefits shown in figure 28 are based on average figures but may change depending on the organisation. Benefits are not mandatory and are only paid by some operators.

Exchange rates used in figures 27 and 28 are based on averages for the 2013 and 2014 periods.

Human Resources *continued*

4.3.2 Rand's performance against British Pound, the Euro and the US Dollar

Figure 29 to 31 highlight the Rand's performance against the British Pound, the Euro and the US Dollar.

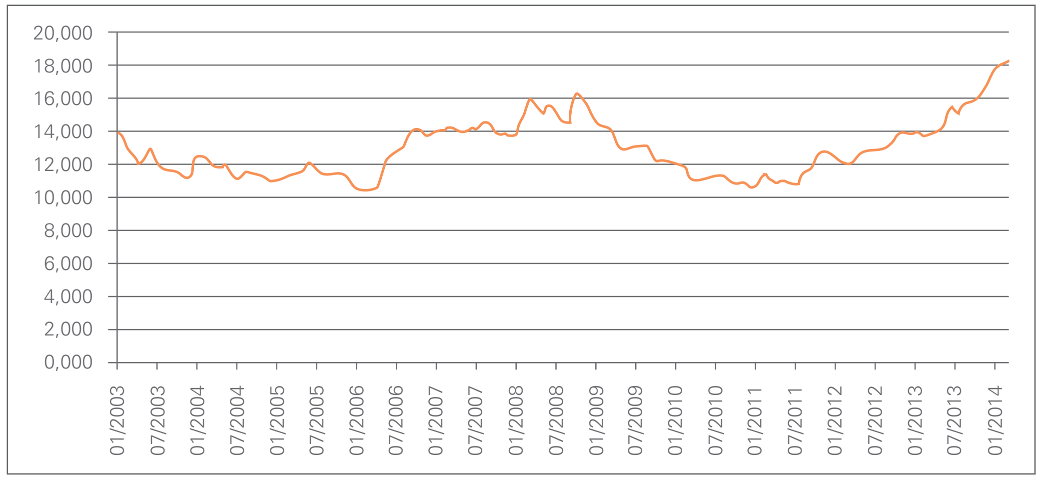


Figure 29: ZAR performance against GBP

Figure 30: ZAR performance against EUR

Figure 31: ZAR performance against USD

4.4 Annual attrition rate

The influx of new companies has had an adverse effect on attrition, up from 13.1% to 31.4%, while there has been a 0.6% decrease in absenteeism from 9.3% to 8.7%.

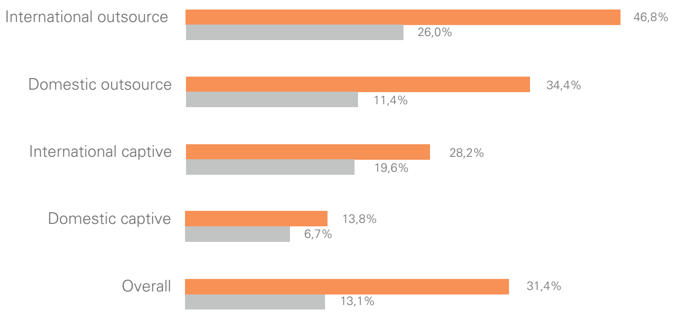


Figure 32: Agent attrition rate

4.5 Annual absenteeism rate

Absenteeism improved by 0.6 % from 9.3% in 2013 to 8.7% in 2014. Absenteeism was highest among domestic outsourcers at 13.4%, followed by captive domestic at 8.6%.

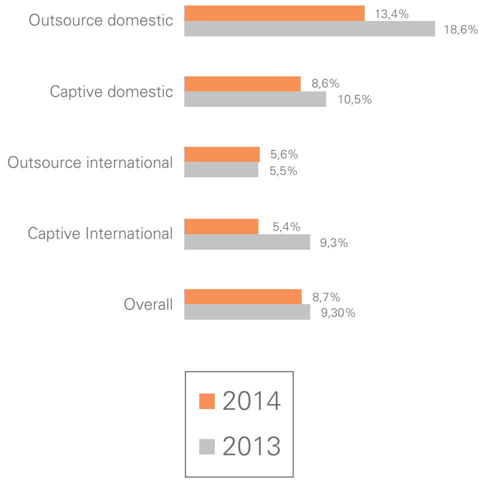


Figure 33: Agent absenteeism rate

4.6 Residential location of agents

There are more agents living in the Cape Flats than any other region in the Western Cape with 52%, 11% less than the previous year whereas the Northern Suburbs now represents 21%, 8% more than 2013.

A possible reason for the increase in the Northern Suburbs in 2014 could be attributed to a bigger sample of large domestic captives in this year's report, while the growth in the Southern Suburbs has been driven by the arrival of an international outsourcer to the region.

Despite a large portion of agents working in the CBD, a relatively small percentage of the workforce resides there. This could be due to the high living cost associated with the area.

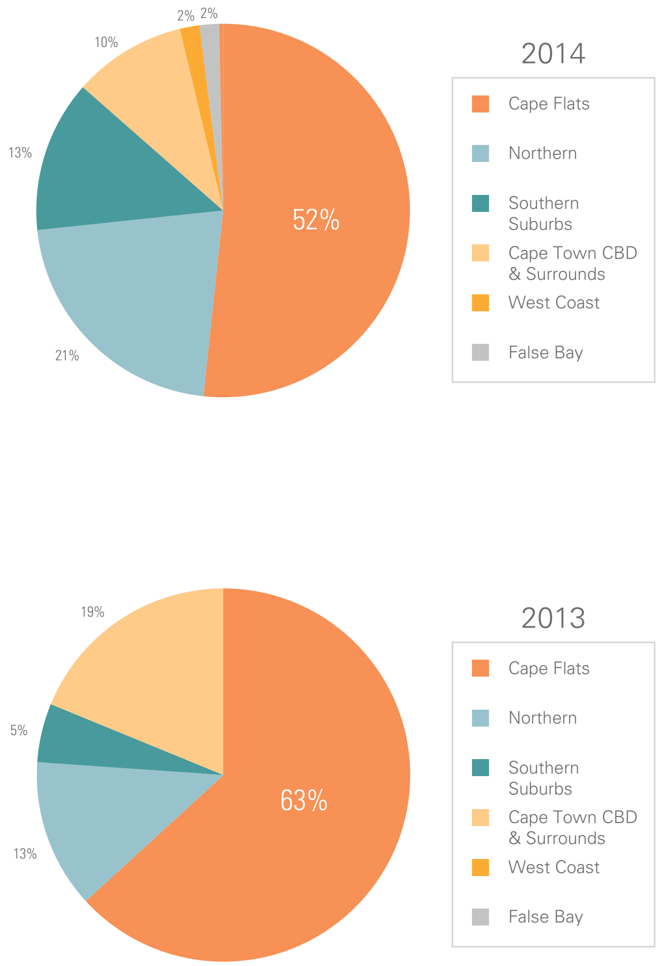


Figure 34: Agent residential location

4.7 Late shift transport

Out of the companies providing transport, 47% paid for their staff after a late shift (6pm - 6am), a 17% decrease from 2013. This was offset by an increase in the percentage of transport costs being shared by staff and employer, a 33% increase from 14% in 2013 to 47% in 2014. Overall, the number of agents required to pay for transport dropped by 16% from 22% to 6%.

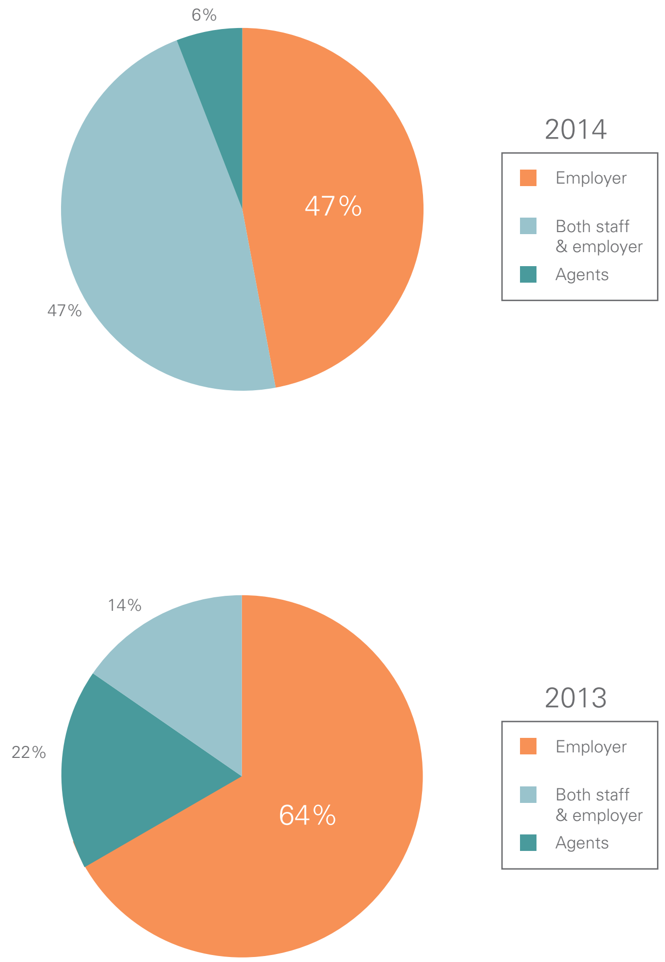


Figure 35: Agent late shift transport

4.8 Staff training days

Companies are investing more resources into training with agents receiving on average 19 days of training annually, with supervisors/team leaders receiving 18 days and management 16 days. The biggest increase among staff training took place at management level, where the number of training days increased from 9 to 16. This shows a commitment by organisations to staff development.

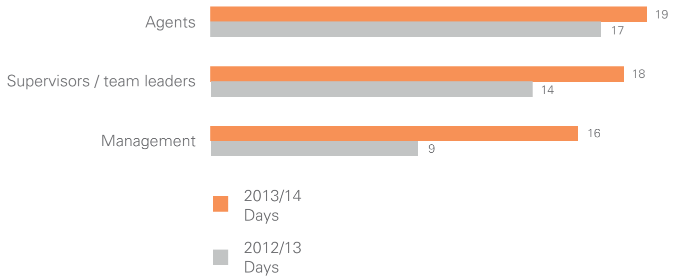


Figure 36: Length of training

4.9 International business operating hours

South Africa continues to service international markets outside of local 'traditional working hours' (8:00 – 18:00).

In the international outsourcer market the majority of organisations work according to the time zone requirements of their international clients, with 59.8% working 'irregular hours' a 31.4% increase from 2013. This could be attributed to a growing UK client base, where time differences between the two countries vary from 1 to 2 hours.

Captive operations serving the international market generally operate on a 24 hour basis. This accounts for 86.8% of all business, a 8.6% increase from 2013.

U.S. and Australian companies are increasingly using South Africa as a base for their 24/7 follow the sun customer service strategies.

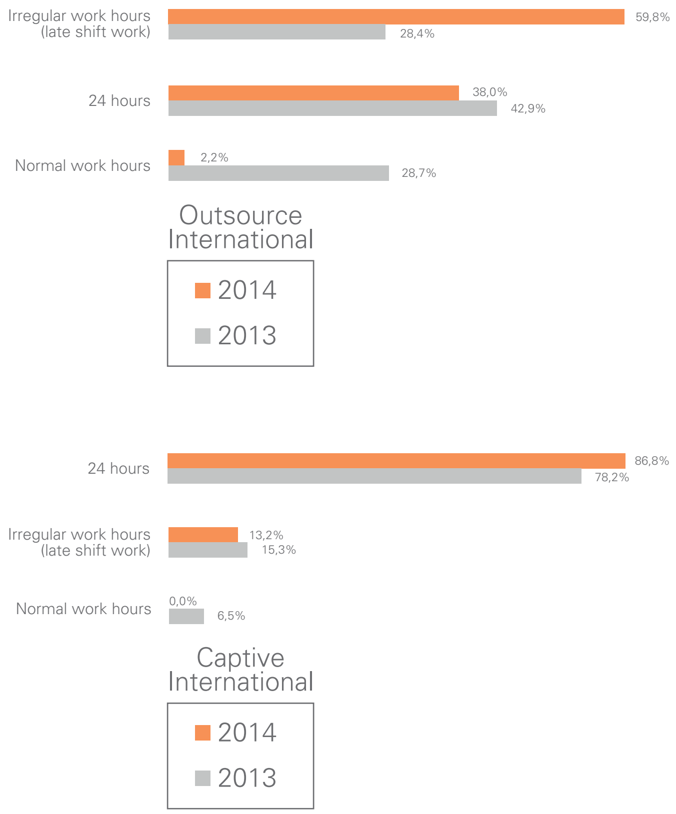


Figure 37: Operational hours

Location and density of international companies operating in the Western Cape

For details of agent residential location refer to Figure 4.6

Investing in South Africa

Investing in South Africa

Introduction
As one of the leading economies in Africa, with a well-developed infrastructure and established trade links with the rest of the continent, South Africa is a suitable base for generating investment and trade with the rest of Africa, particularly in the sub-Saharan region. The country accounts for approximately 40% of all industrial output, 25% of gross domestic product (GDP), over half of generated electricity and 45% of mineral production in Africa, whilst only representing 3% of the continent's surface area. The South African economy is predominantly based on free market principles, with some areas of state control.

Positioning and alliances
South Africa, due to its geographical location on the southern tip of Africa, is well positioned to provide easy access by land, sea and air to the rest of Africa via neighbouring countries, such as Namibia, Botswana, Zimbabwe, Mozambique, Lesotho and Swaziland.

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

South Africa forms part of the Southern African Development Community (SADC). SADC was established as a development coordinating conference (SADCC) in 1980 and transformed into a development community in 1992.

SADC is an inter-governmental organisation whose goal is to promote sustainable and equitable economic growth and socio-economic development through efficient productive systems, deeper co-operation and integration, good governance and durable peace and security among the fifteen Southern African Member States.

Figure 38: South African Member States of SADC; Source: http://www.sadc.int/member-states/

South African Government National Development Plan 2030 (NDP)
The NDP defines a desired destination and identifies the role that different sectors of society need to play in reaching that goal. The NDP aims to eliminate poverty and reduce inequality by 2030.

Progress since 1994
A detailed economic report on South Africa entitled, “Two Decades of Freedom” which was released by Goldman Sachs, benchmarked the economic progress of South Africa since the change in government in 1994.

According to their report, there have been a number of positives over this period:

- In 1994 total GDP was at $ 136 billion – now $ 400 billion
- Inflation for 14 years to 1994 averaged 14% per annum, while inflation from 1994 to 2012 averaged 6% per annum
- Gross gold and reserves were $ 3 billion, but are now $ 50 billion
- The JSE market capitalisation was $ 101 billion. Now touching $ 950 billion
- Social grants have increased from 2.4 million to 16.1 million recipients.

Inflation
The South African Reserve Bank’s (SARB) inflation target is between 3% and 6%. The recorded inflation for the past 2 years is set out below:

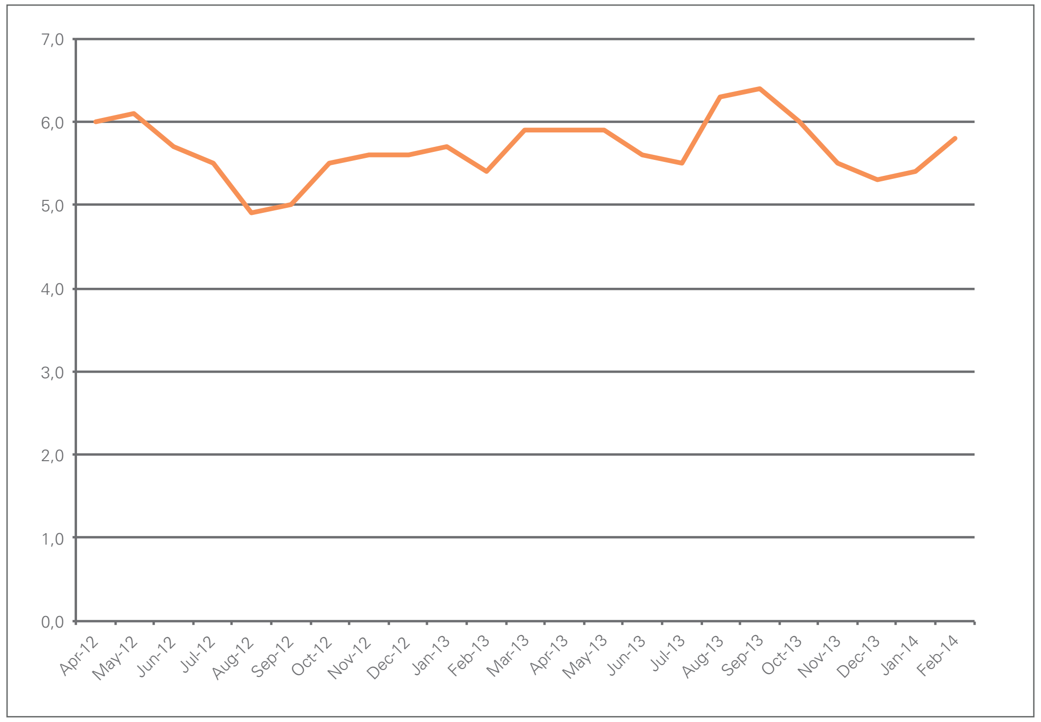


Figure 39: Change in consumer price index

GDP Size and Growth
GDP Annual Growth Rate in South Africa is reported by Statistics South Africa. GDP Annual Growth Rate in South Africa averaged 3.19% from 1994 until 2013.

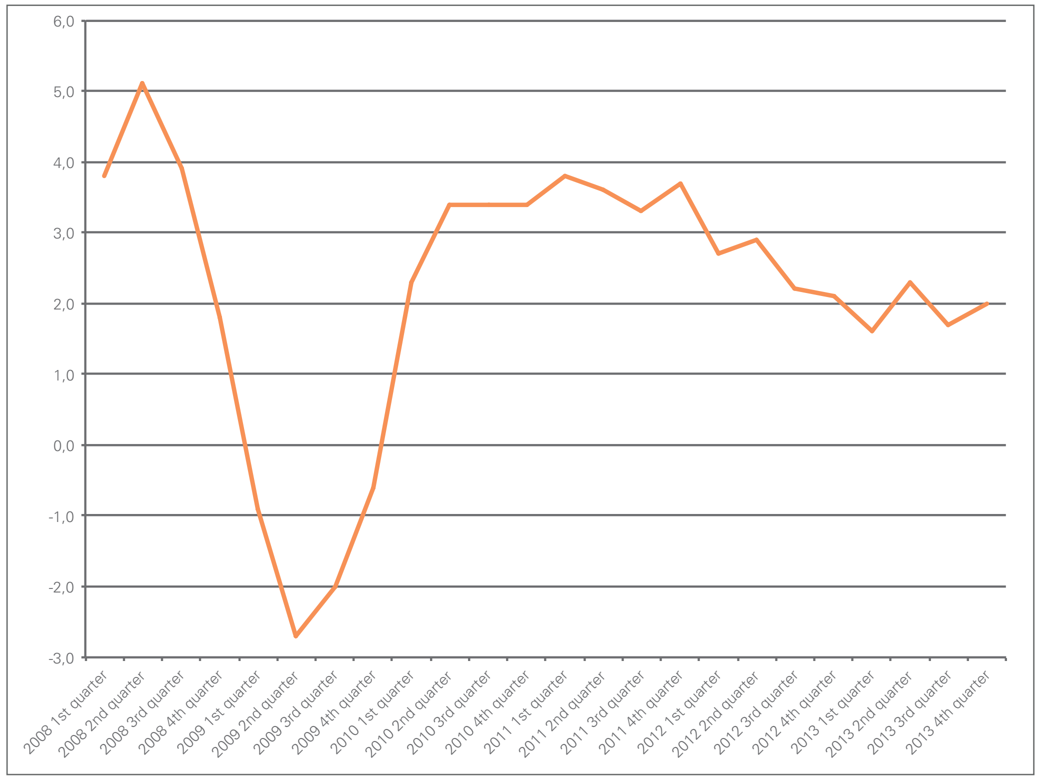


Figure 40: Change in gross domestic product

World Rankings

In the 2014 World Economic Forum's Global Competitiveness Index, South Africa was ranked as the 53rd most competitive country out of 148 surveyed, making it the second highest ranked country in Africa after Mauritius (45th) [Source: World Economic Forum, Latest publication date: September 2013].

The Doing Business ***Project*** provides objective measures of business regulations and their enforcement across 189 economies and selected cities at the subnational and regional level. In the 2014 Doing Business Report, South Africa obtained an overall ranking of 41st out of 189 economies.

Furthermore, South Africa ranked very favourably on specific areas such as ease of doing business, starting a business, getting credit and protecting investors, when compared to other BRICS countries and the Philippines.

Detailed below is an extract from the 2014 Doing Business Report, which lists the ranking obtained by the BRICS countries and the Philippines on specific areas:

Economy	Ease of Doing Business Rank	Starting a Business	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders
South Africa	41	64	28	10	24	106
Russian Federation	92	88	109	115	56	157
China	96	158	73	98	120	74
Philippines	108	170	86	128	131	42
Brazil	116	123	109	80	159	124
India	134	179	28	34	158	132

Figure 41: Doing business in South Africa, global comparison

Interest rates

The prime interest rate is the benchmark interest rate in South Africa and is reported by the South African Reserve Bank (SARB). The Prime Interest Rate in South Africa averaged 18.07% from 1994 until 2014, reaching an all-time high of 25.5% in June of 1998 and a record low of 5% in July of 2012. In South Africa, the interest rates decisions are taken by the South African Reserve Bank's Monetary Policy Committee (MPC).

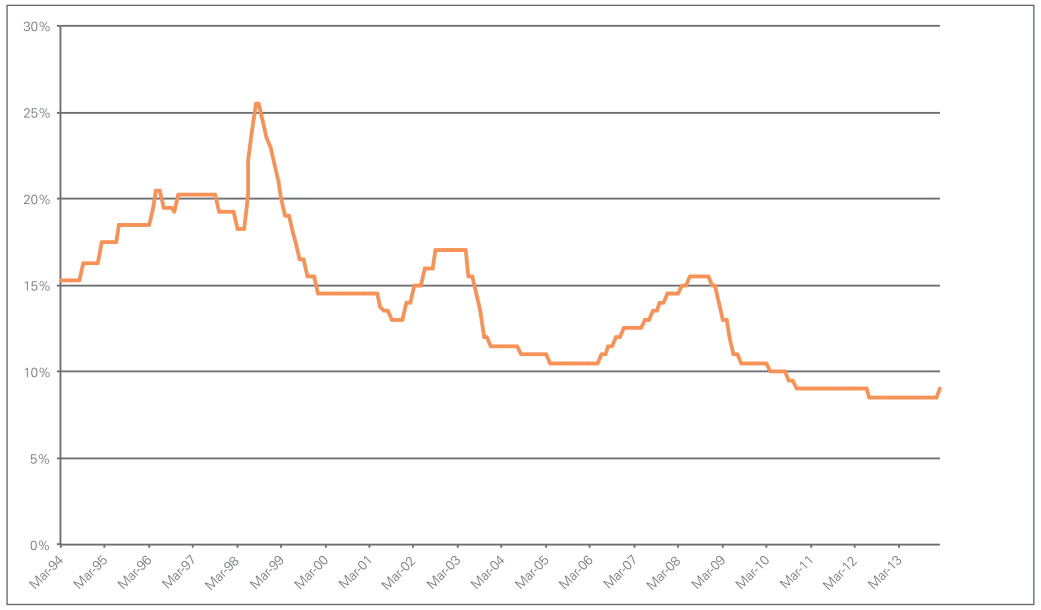


Figure 42: Change in prime interest rate

Figure 43 compares the exchange rates of the ZAR against Philippine Peso (PHP) and the Indian Rupee (INR).

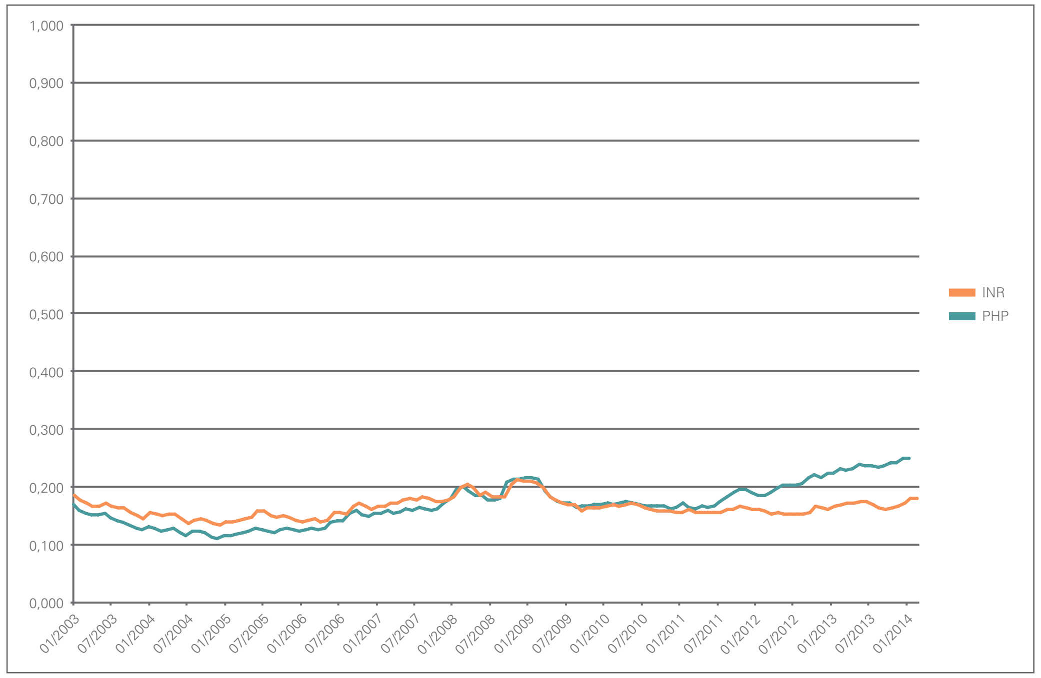


Figure 43: ZAR performance against PHP and INR

Foreign exchange control

Control is exercised through the Financial Surveillance Department ("FinSurv") of the South African Reserve Bank and through Authorised Dealers in foreign exchange at commercial and merchant banks. No South African resident company, close corporation or trust may acquire foreign assets or incur foreign liabilities without FinSurv approval. For purposes of the exchange control regulations, a non-resident is a natural person or legal entity whose normal place of residence, domicile or registration is outside the Common Monetary Area (CMA) – South Africa, Namibia, Swaziland and Lesotho.

Accounting principles/financial statements – IFRS

Financial statements must be prepared annually. Certain companies are required to have their financial statements audited and other companies must have their financial statements independently reviewed, in terms of the Companies Act of 2008.

Business entities

Companies are classified as profit or non-profit companies. The Companies Act of 2008 distinguishes between four types of profit companies:

- public company,
- private company,
- personal liability company and a
- state-owned company.

A branch of a foreign company is required to register as an external company with the Companies and Intellectual Property Commission (CIPC) and is not subject to Dividends Withholding Tax (DWT).

Companies may be formed or acquired in South Africa.

Taxation

The source of income tax law in South Africa is the Income Tax Act No.58 of 1962. Compliance with South Africa tax legislation is undertaken by the South African Revenue Services (SARS). South Africa has concluded more than 70 tax treaties at present.

Taxable income

Income tax is imposed on a taxpayer's profits, which consist of business/trading income, passive income and capital gains. Expenses incurred in the production of income may be deducted in computing taxable income.

Capital gains

66.6% (33.3% in the case of individuals) of capital gains are included in taxable income and taxed at the normal income tax rate. However, gains on the sale of substantial foreign shareholdings are exempt if certain conditions are satisfied.

Tax Rate

Companies are liable for income tax at a flat rate of 28% on taxable income. The rate on branches was reduced from 33% to 28% on 01 March 2012.

Tax Losses

Trading losses may be carried forward indefinitely. Assessed losses fall away if the company does not trade in a particular year of assessment.

Business Process Services Incentive (BPS)

The BPS, effective for the period 1 January 2011 to 31 March 2014, replaced the Business Process Outsourcing and Offshoring incentive which came to an end on 31 March 2011. The objective is to attract investment and create employment in South Africa through offshore activities. The "base" incentive offers a three-year operational expenditure (OPEX) grant. In addition to this grant a "graduated" bonus incentive is offered for greater job creation.

Employment Tax Incentive (ETI)

The ETI is an 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 cost to employers of hiring young South Africans aged 18 – 29, earning less than R6,000 per month, through a cost-sharing mechanism with government. Currently, excess amounts can be set off against future PAYE liabilities. To enhance this incentive, SARS is developing a mechanism to reimburse firms in instances where the incentive exceeds PAYE payable. The refund system will become effective during the fourth quarter of 2014.

Other Incentives

Other incentives include a preferential corporate tax rate for small business corporations; an R&D deduction; depreciation allowances; urban development and infrastructure development allowances; public private partnerships grants; environmental expenditure deductions; a carbon-reducing exemption; oil and gas income tax incentives; renewable energy related allowances and a film allowance.

Dividends Withholding Tax (DWT)

Dividends paid to individuals, trusts and foreign persons are subject to a 15% withholding tax (subject to the provisions of any applicable tax treaty e.g. UK – 5%, USA – 5%).

Withholding tax on Interest

With effect from 1 January 2015 interest paid to non-residents, to the extent that the amount is regarded as having been received or accrued from a source in the Republic, subject to certain exemptions (e.g. any bank, national, provincial or local government; or in respect of listed debt), will be subject to a final withholding tax at a rate of 15% (subject to the provisions of applicable tax treaties).

Withholding tax on Royalties

Royalties paid to non-residents, to the extent that the amount is regarded as having been received or accrued from a source in the Republic, are subject to a final withholding tax at a rate of 12% (15% with effect from 1 January 2015), subject to the provisions of applicable tax treaties.

Other withholding taxes

Any person who purchases immovable property in the Republic from a non-resident, must withhold from the amount that person must pay to the non-resident a withholding tax equal to:

a) 5% if the non-resident is an individual;

b) 7.5% if the non-resident is a company; and

c) 10% 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.

With effect from 1 January 2016 service fees paid to or for the benefit of any non-resident will be subject to a final withholding tax at a rate of 15%, but only to the extent that the amount is regarded as having been received by or accrued to that non-resident from a source within the Republic and subject to the provisions of applicable tax treaties. "Service fees" means any amount that is received or accrued in respect of technical, managerial and consultancy services but does not include services incidental to the imparting of or the undertaking to impart any scientific, technical, industrial or commercial knowledge or information, or the rendering of or the undertaking to render any assistance or service in connection with the application or utilisation of such knowledge or information.

Employees Tax: Pay As You Earn (PAYE)

Employees' tax is the tax 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 Unemployment Insurance Fund.

Transfer pricing

Transfer pricing legislation requires a South African taxpayer to follow arm's length principles in transactions with connected persons outside South Africa. Changes to the transfer pricing rules that apply as from 01 April 2012 shifts the responsibility for adjusting prices to arm's length from the tax authorities to the taxpayer.

Thin capitalisation

Thin capitalisation provisions limit the deduction of interest payable by South African companies on debt provided by a non-resident connected person in relation to the South African borrower or a non-resident connected person entitled to participate, directly or indirectly, in not less than 25% of the company's equity. As from 01 April 2012, the thin capitalisation rules merged into the general transfer pricing rules and the "safe-harbour" 3:1 ratio no longer applies. The main test for the thin capitalisation purposes is to assess the commercial terms and conditions of an agreement concluded between independent parties as compared to the terms and conditions concluded between a South African taxpayer and a non-resident connected person.

Controlled foreign companies (CFC)

Under the CFC rules, an amount equal to the net income earned by a CFC in relation to a South African resident is subject to tax in the hands of the South African resident unless an exemption applies. A CFC is a foreign company in which one or more South African residents hold, directly or indirectly, more than 50% of the participation or voting rights of the company. Tax paid in the foreign country may generally be offset against the South African tax payable.

Tax year-end

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

Provisional tax

Advance payments of tax must be made twice a year, based on estimates of the final tax amount, the first during the first six months of the company's financial year and the second before the end of the year. Where the provisional tax payments are less than the final tax liability, an additional payment of provisional tax must be made within six months after the end of the tax year. Penalties and interest are imposed for failure to comply. Where the taxable income is greater than R1 million, the second provisional tax estimate must be greater than 80% of the final tax payable. Any shortfall will be subject to a penalty.

Value added tax (VAT)

VAT is levied on the sale of goods and the provision of services at a standard rate of 14%; certain transactions are zero-rated or exempt. VAT vendors are entitled to input VAT credits of the VAT paid on the acquisition of goods or services for enterprise purposes.

A vendor making standard or zero-rated supplies of more than R 1 million per year is obliged to register. Vendors below the R1m threshold may elect to register as a VAT vendor voluntarily.

VAT returns must generally be submitted every two months, but businesses with an annual turnover in excess of ZAR 30 million must submit monthly returns. Returns must be submitted within 25 days after the end of the tax period. Full payment must accompany the return.

Black Economic Empowerment and Affirmative Action

Black Economic Empowerment (BEE) is a programme which promotes the accelerated integration of black people into the South African economy. Compliance is voluntary.

South Africa Telecommunications Overview

Landline, mobile, internet

South Africa's telecommunications infrastructure is considered the continent's most advanced in terms of technology deployed and services provided, with a network that is 99.9% digital and includes the latest in fixed-line, wireless and satellite communication.

There are currently two landline telecommunications service providers operating in South Africa, namely Telkom and Neotel. Neotel is majority-owned by India's Tata Communications, and was put up for sale in 2013. It is expected that Vodacom will purchase Neotel during 2014 should approval from the Competition Commission be granted. The landline market penetration in South Africa stood at around 7.8%* at the end of 2013.

There are four licensed mobile service providers operating in the country. 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 to be about 151% and it has been calculated that more people in South Africa use mobile phones than listen to the radio, watch TV, or use a personal computer.

Increasing mobile and smartphone usage has also lead to an increase in the number of South Africans using the Internet. This has resulted in an overall penetration rate of approximately 28% in 2013. 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, currently sitting at168 registered members of varying sizes.

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.

The country is also seeing the positive impact of regulatory changes. The opening of the telecommunications landscape has seen a number of new alternate providers joining the larger, established, telecommunications providers in supplying converged services to both the corporate and consumer markets.

At the end of 2013, South Africa's undersea cable capacity was 14.04 terabits per second which is expected to increase dramatically with the addition of new cables that are planned for this region. There are plans for a South Atlantic Express (SAex) cable that will link South Africa with Brazil at a speed of 12.8 terabits per second, which has been tabled for 2015. This would mean that Brazil, Russia, India and China (BRICS) may be connected with a 12.8 terabits per second link. If built, because there are no contracts agreed yet, these will complement the broadband cables already online in South Africa: the East African Submarine Cable System (EASSy), the West African Cable System (WACS) and Seacom. The new cable will assist with the reduction in cost of international capacity, however the impact on domestic pricing may not be all that significant.

LTE, the new generation wireless broadband technology, took root in the country during 2013, although Vodacom was the first to deploy LTE a year earlier in 2012. Vodacom, MTN and Telkom have all launched commercial LTE networks and more sites are expected to go live in 2014. Cell C is planning to prepare a large number of sites to be LTE ready but have said their focus is currently on HSPA as they await Government announcements around spectrum and licensing.

As the country is waiting for both the Department of Communications' Broadband Plan and ICASA's decision on spectrum, South Africa will not meet the 2015 deadline set by the International Telecommunication Union. Once the switch is made though, the narrower and more efficient spectrum range that becomes available will be ideal for fourth generation or LTE networks.

Broadband

"South Africa Connect" is the government's national broadband policy and associated strategy 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 10Mbps and 80% penetration at 100Mbps.

Connectivity

The state owned company Broadband Infraco's fibre optic national network currently comprises approximately 12,800 km of fibre. It has significant backhaul capacity between the three major metropolitan cities of Johannesburg, Cape Town and Durban, which it sells to telecoms operators and services providers. Broadband Infraco is currently updating the Limpopo/Mpumalanga segment of its network to similar capacities.

FibreCo Telecommunications, a partnership between Internet Solutions, Cell C and Convergence Partners, is building a 12,000km national open-access fibre optic broadband network. About 2,400km of the network is already live interconnecting Johannesburg, Bloemfontein, East London and Cape Town, as well as providing the shortest and fastest optical fibre connectivity between these cities.

In 2009 Vodacom, MTN and Neotel formed a consortium to build a national long-distance fibre optic network covering a distance of 5,000 km, connecting the major centres across South Africa.

* http://www.budde.com.au/Research/South-Africa-Telecoms-Mobile-Broadband-and-Forecasts.html?r=51#sthash.tnR8l95a.dpuf

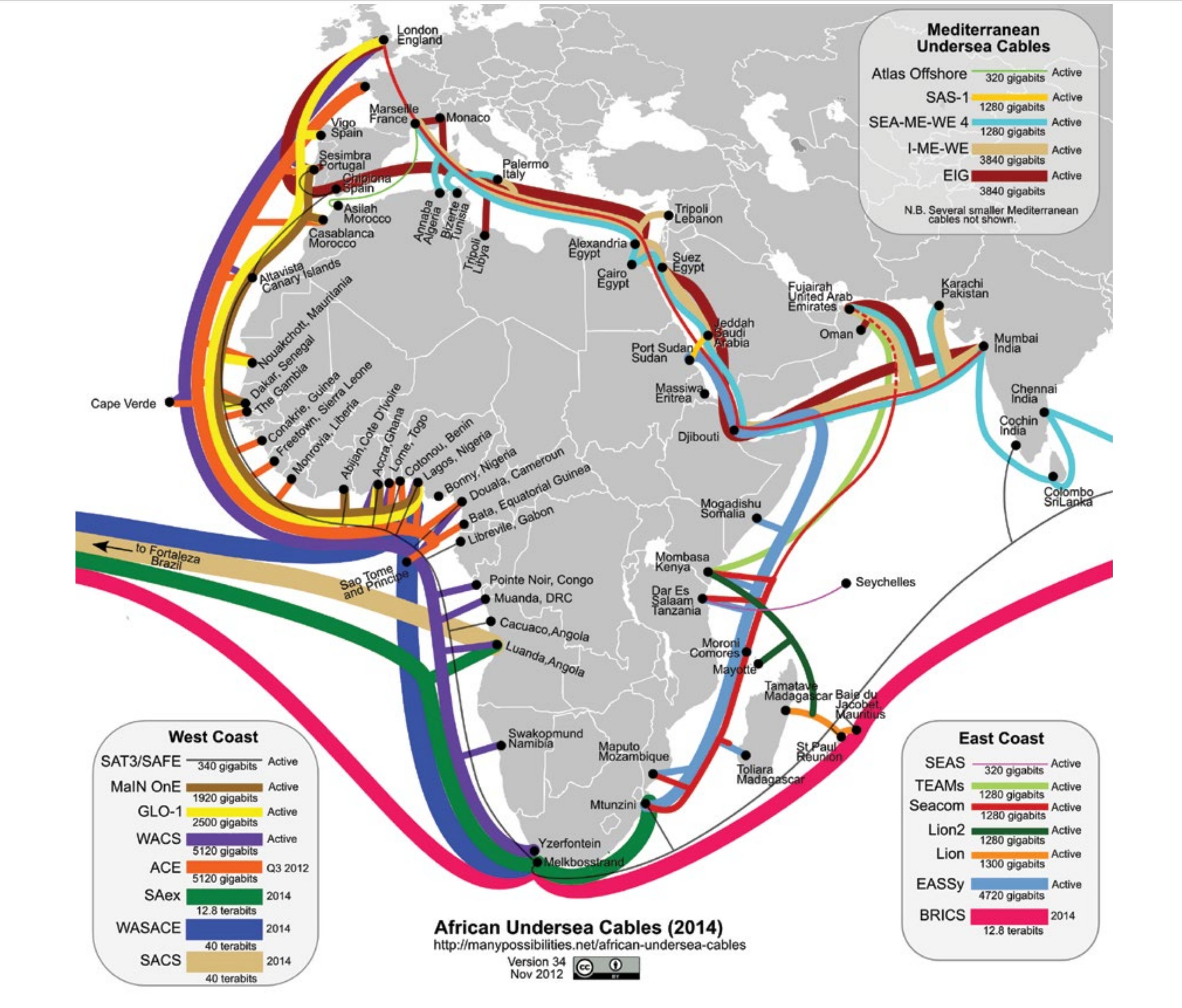
South African undersea cables history

The following article is sourced from www.mybroadband.com

The global Internet is powered by thousands of interconnected networks in countries around the globe, and for South Africans to connect to these networks undersea fibre optic cables are needed.

Short history of South Africa's submarine cable systems

The Internet started to enjoy widespread adoption in South Africa in the early nineties. Over the years the country's international cable infrastructure grew to accommodate this growth.



Source: http://manypossibilities.net/african-undersea-cables/

Figure 44: African undersea cables

South Africa is currently connected to the rest of the world through five submarine cables – WACS, Seacom, SAT-3, SAFE, and EASSy – offering multiple terabits of bandwidth.This was not always the case. From 1993 to 2002 South Africa was only served through the SAT-2 submarine cable.SAT-3/SAFE was launched in 2002, and this was the monopoly cable system until July 2009 when Seacom became operational.

Seacom's launch was followed by EASSy and WACS, which created a situation where South Africa went from an international bandwidth starved country to having more than enough capacity.

1993: SAT-2 submarine cable
The 9,500 km SAT-2 submarine fibre optic cable was launched in March 1993, and linked South Africa with Europe. It offered a peak capacity of 560 Mbps, and was run by Telkom in South Africa. It was decommissioned in January 2013.

2002: SAT-3/SAFE
The SAT-3/SAFE submarine cable system started to offer services in 2002. SAT-3 connects South Africa with Europe on the West Coast of Africa, while SAFE provides redundancy on the East Coast by connecting the country to Malaysia. When SAT-3/SAFE was launched in 2002 it offered a capacity of 20Gbps. Over the years many upgrades have taken place and it currently offers hundreds of gigabits per second.

2009: Seacom
Seacom was launched in July 2009, providing the only competition to Telkom's SAT-3/SAFE at the time. The 15,000km cable system runs on the East Coast of Africa, and connects South Africa to London. Seacom launched with design capacity of 1.28Tbps, and increased its capacity to 12Tbps in May 2014.

2010: EASSy
The Eastern African Submarine Cable System, better known as EASSy, went live in July 2010. The 10,000km EASSy cable system connects South Africa to Sudan. It initially offered a capacity of 1.4Tbps, but in 2014 the EASSy cable system will be upgraded to 10Tbps.

2012: WACS
The West Africa Cable System (WACS) was launched in May 2012 with a design capacity of 5.12Tbps, providing the country with another submarine cable system on the West Coast of Africa. The 17,200km WACS fibre optic submarine cable system spans the west coast of Africa, starting at Yzerfontein near Cape Town, South Africa and terminating in the United Kingdom.

All the cable systems working together
Most South African telecommunications operators and Internet Service Providers (ISPs) have capacity on multiple cables for redundancy.

Figure 44 provides an overview of the different cable systems currently in operation or planned for rollout in 2014.

Cape Town Property Overview

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

- AAA or Premium Grade (Class A) - Rentals between R140 – R200 /m² p/m, new development, state of the art architecture, high rise or secure office park environment, good parking ratio, superior finishes, security and location

- A Grade (Class B) - Rentals between R90 – R140/m² p/m, modern office building, high rise or office park environment but approximately 5 -10 years old, good parking ratio, superior finishes and good security.

- B Grade (Class C) - Rentals between R50 – R90/m² p/m, approximately 10 years plus with dated architecture and finishes often in need of updating. Low parking ratio usually 1 bay per 100 m² or less

Escalation on rentals
Range is between 8% and 9% per annum compounded

Lease agreements
Leases tend to range from 3 to 10 years for premises in existing buildings. Leases for new developments are 10 years plus.

Parking bays
- Cape Town CBD between R900 and R1,300 per month

- Decentralised between R750 and R1,000 per month

Guide to costs: electricity
- R15 to R20m² per month based on normal working hours

For a full breakdown of property information in South Africa visit – www.bpesawesterncape.co.za

Appendix 1

Definitions

A-Level – Is an examination common in the UK that is written at the end of a school career and studied over a two year period after completion (Form 4) which is equivalent to South African Grade 11. It is recognised as the standard for assessing the sustainability of applicants who apply for academic courses in English, Welsh and Northern Irish universities.

Agent: In the research, agent is used to refer to employees who handle various customer queries via telephone, email and social media engagement

Annual Attrition: An attrition rate, also known as a churn rate can be measured by how many employees leave a company over a one year period.

Absenteeism: Absenteeism means either habitual evasion of work, or wilful absence as in a strike action. It does not include involuntary or occasional absence due to valid causes, or reasons beyond one's control, such as accidents or sickness.

BPeSA Western Cape: The official industry body for the BPO and contact centre industry in the Western Cape.

BPO&O: Business Process Outsourcing & Offshoring, the movement of certain voice and non-voice business processes to countries where costs are lower, often in the developing world.

Captive: A contact or business process outsourcing centre owned and managed by the organisation for which the services are being provided.

CBD: Central Business District

Coaching: Practical workplace training, seen as an add-on to general training which takes place away from the customer.

FTE: Full time equivalent: A measure of work effort equal to an average workload of 37.5 hours per person per week.

Inbound: Communications traffic that originates from customers and is received by agents in a contact centre. It is also refering to centres that handle such work. An example would be technical support calls.

Department of trade and industry incentive scheme: Is a foreign investment focused initiative aimed at generating sustainable job investment in South Africa. The purpose of the scheme is to reduce the expenditure for foreign BPO investors, whilst rewarding long term job creation.

KPI: Key Performance Indicator, measures that are used to judge 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 by which efficiency, performance, progress, or quality of a plan, process, or product can be assessed.

Multi-channel: Refers to customer interaction containing various different conversations at different times using different channels in order to resolve a specific requirement. By way of example, a caller may dial the contact centre initially, receive an SMS confirmation, respond with a fax and then get a final email with the agreed information.

Net Promoter Score: Is a quality measure that rates how customers represent 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.

NQF: (The National Qualification Framework) sets the boundaries, principle and guidelines, which provide a vision, a philosophical base and an organisational structure, for the construction of a qualifications system. Detailed development and implementation is carried out within these boundaries. Examinations are set at different levels in this framework. One of these levels is considered to be equivalent to a Matric Pass.

Omni chanel: In an omni-channel contact centre environment, multiple channels operate in an integrated fashion so that customers can move seamlessly from one channel to another or even interact on several channels simultaneously

Onshore: In the context of BPO&O, refers to business processes that are performed within their home jurisdiction.

Offshore: In the context of BPO&O, refers to business processes that are handled outside of their home jurisdiction.

Outbound: Communications traffic that originates from agents in a contact centre and that is received by customers; also refers to centres that handle such work. An example would be a direct sales call.

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

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

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

Appendix 2

Contributing Companies

Mazars is an international, integrated and independent organisation, specialising in audit, accountancy, tax, legal and advisory services. Mazars can rely on the skills of 13,800 professionals in the 72 countries which make up its integrated partnership in Europe, Africa, the Middle East, Asia Pacific, North America, Latin America and the Caribbean. For more information, please visit our website www.mazars.co.za.

Founded in 1983, Dimension Data plc is an ICT services and solutions provider that uses its technology expertise, global service delivery capability, and entrepreneurial spirit to accelerate the business ambitions of its clients. Dimension Data is a member of the NTT Group.

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 152 countries and have 145 000 people working in member firms around the world. In our Management Consulting practise, we have a dedicated Shared Services and Outsourcing team who has assisted many clients with the conceptualisation, design and implementation of their sourcing initiatives.

The Department of Economic Development and Tourism's vision is a Western Cape that has a vibrant, innovative, and sustainable economy, characterised by growth, employment and equitable opportunities, and built on the full potential of all. The Department is required to provide a facilitative and leadership role to the Western Cape economy through the Department's understanding of the regional economy, its ability to identify economic opportunities and potential, and its contribution to government economic priorities.

The City of Cape Town is a local government with 221 councillors and 27 000 staff serving 3,7 million residents across a sprawling and diverse metro of 2 500 square kilometres. The Administration delivers services such as water, electricity, waste removal, sanitation, new infrastructure, roads, public spaces and more.

Quest Staffing Solutions is the leading white-collar recruitment company in South Africa and Africa. We have earned this position by setting and consistently achieving high standards in the recruitment, training and management of permanent and flexible staff for almost 40 years.

Appendix 2

Contributing Companies

Internet Solutions is a wholly owned subsidiary of Dimension Data. The company is Southern Africa's most established and experienced Internet Service Provider. Since 1993 Internet Solutions has been providing innovative end-to-end connectivity solutions and related services across the African continent.

Wesgro is the official Destination Marketing, Investment and Trade Promotion Agency for Cape Town and the Western Cape, promoting the region as a world-class leisure, events and business destination. We are the first point of contact for foreign buyers, local exporters and investors wanting to take advantage of the unlimited business potential here.

ChannelConsult is a specialist consulting practice focussing on Legal support and strategy in the BPO sector, with niche expertise in Legal Process Outsourcing. Channel Consult provides expert advice to private and public sector clients in Policy, Strategy and Implementation.

Cognia Law is a next-generation legal service outsourcing (LSO) provider to corporate law departments and law firms. Our global client base, consisting of in-house functions pushing to reduce legal spend and law firms seeking to optimize their operating structures, access our teams of expertly trained lawyers situated in Cape Town, South Africa for a range of support services.

Baker Street Properties is Cape Town's largest leading property broking company specialising in the sale and leasing of offices, retail and industrial property and land. With the collective years of individual experience, knowledge and skill amongst both the directors & staff, we are able to provide practical solutions for our clients not just in sales and leasing, but also in developments and investments.

Maxigroup is an independent specialist commercial property broking agency with extensive experience in corporate office leasing, sales and investment market within the greater Cape Town metropolis and has developed a special focus on the BPO industry being responsible for placing a range of BPO and captive contact centre facilities in size from 200 seats to 1500 seats

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