

Offshore Insights

Market Report Series

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RESEARCH SUMMARY:

Offshore and Nearshore ITO and BPO Salary Report

Global sourcing has become a key competitive necessity for major organizations. Even as other consideration factors become important determinants of a country's success in globalization, cost savings remains key. While a number of factors affect the cost savings potential of any given global sourcing arrangement, the cost of labor is among the most important. For that reason, we've undertaken – for the second year in a row – the challenge of analyzing salaries across different levels of experience for the most common established and emerging sourcing destinations.

This report analyzes ITO, voice-based BPO, and non-voice BPO salaries in each of 20 key services sourcing destinations – including the Czech Republic, Hungary, Ireland, Israel, Poland, Romania, Russia, Slovakia, South Africa, Canada, Brazil, Mexico, Costa Rica, China, India, Malaysia, the Philippines, Singapore, Thailand, and Vietnam – across three levels of experience. In specific we will analyze the micro and macro economic factors that impact salaries in offshore/nearshore locations and the relationship between salary growth and market size growth of ITO/BPO offshore. It also considers how ITO and BPO salaries in those countries are likely to change in the next five years.

Key issues

- How does wage rate differentials impact your services globalization strategy?
- What factors affect the cost of labor?
- What are the labor cost differences between key sourcing destinations?
- How may labor costs change in the next five years?

Introduction

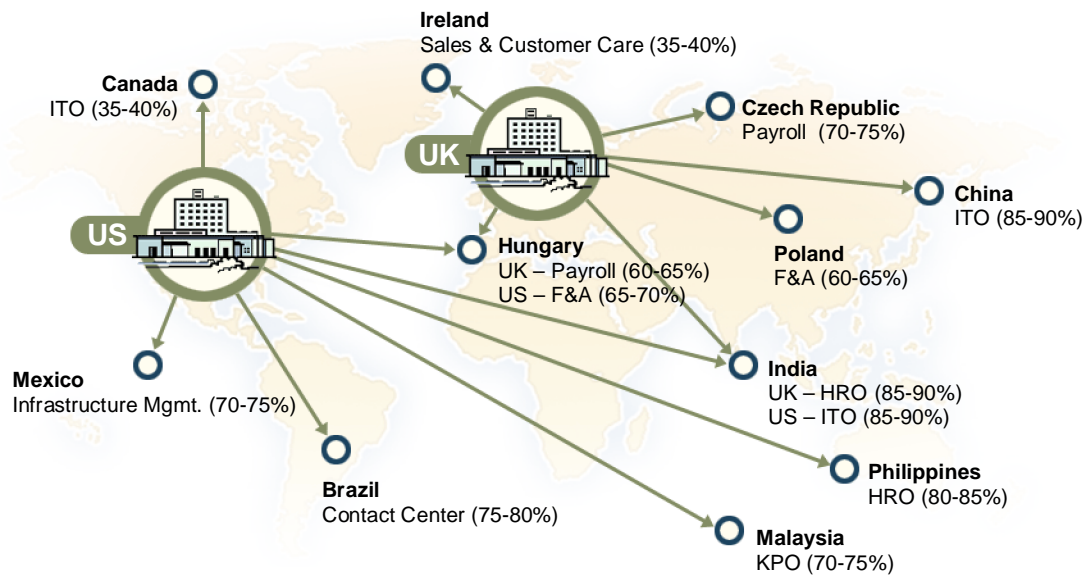
Until recently, it may have been enough for organizations to look at India, its service maturity, supplier competency, and cost-saving potential and say: "To India." Today, organizations have a more developed approach to services sourcing, an approach that centers around the portfolio concept, which has been expounded previously in our white papers. Salary information is important to the portfolio approach – as are all kinds of information about supplier countries – because that approach centers around maximizing the unique advantages that each destination offers, including – in many cases – cost advantages.

Today, the benefits of global sourcing include the ability to improve service levels, new

growth opportunities, and increased competitive advantage. But even as other consideration factors become important determinants of a country's success in globalization, cost savings remains key. And while a number of factors affect the cost savings potential of any given global sourcing arrangement, the cost of labor is among the most important.

A hypothetical example of a global company will explain the theory further. In the figure below, the company operates out of two key onshore destinations, US and the U.K. From each of these destinations IT and BPO related functions and processes are outsourced to several key outsourcing destinations within the company's portfolio. The following figure offers an introduction to the potential labor arbitrage that exists in the stated sourcing destinations.

Figure 1: Illustrative Example of Potential Wage Differential Across Locations



Source: neoIT

In the course of this report, we'll analyze ITO, voice-based BPO, and non-voice BPO salaries in each of 20 sourcing destinations across three levels of experience. We'll also consider how salaries are likely to change in the next five years.

Our Approach

We obtained our data for this study from survey of leading service providers in Tier-1, Tier-2, and Tier-3 cities in 20 sourcing destinations, including nine in the Europe, Middle East, and Africa region (the Czech Republic, Hungary, Ireland, Israel, Poland, Romania, Russia, Slovakia, and South Africa); four in the Americas region (Canada, Brazil, Mexico, and Costa Rica); and seven in the Asia Pacific region (China, India, Malaysia, the Philippines, Singapore, Thailand, and Vietnam). The research was supplemented with comprehensive secondary research and depth interviews with industry experts.

For each country, we analyzed salaries at three levels of experience: *entry level*, which includes employees with up to 2 years of relevant work experience; *team lead*, which includes employees with 3-6 years of relevant work experience; and *project manager*, which includes employees with 7-10 years of relevant work experience.

We consider the entire ITO industry – which includes application development and maintenance, systems integration, infrastructure management, IT consulting, etc. - as a whole but break down the BPO industry into two distinct segments: voice-based BPO – which includes call centers, contact centers, customer support, and sales - and non-voice BPO – which includes transaction processing, F&A, HR, Procurement, etc. (the distinction is important as voice-based BPO requires different skills, education, and experience than non-voice BPO and can therefore exhibit quite different salary ranges).

The lower and upper quartile of the survey data was eliminated when determining salary

ranges. This paper presents average salary data across a number of categories which are arithmetic midpoint of maximum and minimum salaries.

A study on global ITO/BPO salary levels factors in entire gamut of factors such as location, functionalities, company type, and company size among others. We've made best efforts to critically analyze all relevant aspects, despite facing some limitations in coverage and information availability.

The caveat to be kept in mind is that the report is not meant to provide wage-rate benchmarks that could be used for pricing models or other methods of financial decision-making. Instead, the aim of our analysis is to offer an understanding of wage rate differentials across sourcing destinations and provide indications on how those differentials are likely to change in the future.

Factors Influencing ITO and BPO Salaries

As we attempted to develop a highly inclusive analysis of wage rates in each country, we looked at various micro and macro factors that influence salary levels in any given location. A country's macroeconomic environment is the primary determinant of its wage rates. Additional relevant factors include each country's specific social, political, and cultural characteristics. The following table details the most important of those influential factors, as well as the impact they have on salaries and our predictions for their movement in the coming year.

Table 1: Factors Influencing ITO and BPO Salaries			
Factor	Sub-Factor	neoIT Assumptions	Impact on Salaries
Country-specific factors	Inflation	Rising inflation rates in all developing economies	Salaries grow at higher rates than inflation
	Exchange rates	No major changes in the short and midterm; the USD is expected to weaken in the long term.	Profitability pressures resulting from weakened dollar will drive salaries down.
	GDP/Economic growth	Stable growth in all developing economies; services' share in GDP expected to grow	As the economy grows, salaries increase
	Broad-based growth	Service providers will look to expand to smaller cities	Lower salaries in smaller towns will drive the industry's average salaries down
Industry- (IT/BPO) specific factors	Supply-demand equation of ITO/BPO professionals	Varies from country to country, depending on labor availability for the specific competency requirement	Resource abundance leads to slower salary growth while resource scarcity accelerates salary growth
	Country's competitive position in global ITO/BPO market	As offshore outsourcing matures, competitive activity will intensify between countries; pricing pressures will increase	Pricing pressures impact profitability and lead to slower salary growth
	Global companies setting base / expanding in country	Global service providers will set base/expand in offshore locations	Propensity of global companies to pay high salaries will result in increasing overall salary levels in the industry
	Process complexity	Firms will begin to move more complex processes to offshore locations	Industry average salaries will increase as more complex processes are globalized
	Captive operations	More and more captive centers will start operations	Captive units typically pay higher salaries than third-party service providers; average salaries will increase industry-wide
	Competitive scenario	Intense competitive activity in offshore/nearshore locations among and between pure offshore companies and global service	A drive to integrate the competitors' best resources results in accelerating growth of salaries
	Attrition	Attrition will rise in the more matured offshore locations	High rates of attrition will lead to rise in salaries

Source: neoIT

The presence of these factors and the relative influence that they have on the movement of salaries vary from country to country. Most of these factors are interrelated and thus the absolute impact of any single factor on salary movement in a particular country cannot be

assessed. Given our assumptions, the one factor that has the most bearing on ITO/BPO salaries in a given country is the supply of and demand for people possessing the required skill set.

Another example is an industry’s attrition rate is also an important determinant of salary growth; often, attrition rates increase because employees change jobs to find more lucrative employment. To combat rising attrition rates, all companies within a given industry will be pressured to increase salaries to attract new employees and retain current ones.

The complexity of services delivered and skill-set requirements of employees play a major role in the determination of salaries for ITO/BPO professionals. Both technological (which includes platforms, applications, and environment etc) and vertical domain competencies are integral to an employee’s skill set. While both of these competencies hold immense value from an outsourcing industry perspective, technological competency has much greater impact on salaries. Salaries of employees engaged in specialized technology solutions are much higher (at times more than double) than the industry average, while salaries of employees engaged in wide-spread and low-end technology solutions are much below industry average. The following figure distinguishes salary differences in relation to an employee’s level of technological skill.

Offshore and Nearshore ITO/BPO Salaries

The growth of global services sourcing is driven by several factors, but cost savings is the most significant. The potential to utilize the resources of developing, low-cost economies to substitute service delivery from developed, high-cost countries is the core of services globalization. While offshore outsourcing delivers the maximum cost savings for the client organization, nearshore outsourcing offers a combination of relatively smaller savings and features similar to the firm’s onshore operations. The trade-off between offshore and nearshore outsourcing thus depends not only on the cost savings from the wage rate differential but also on the specific objective of the outsourcing initiative. Driven by these and other country characteristics we see varying degree of maturity and activity in key services supply destinations.

As evident from Figure 3 (summarizes overall ITO and BPO average salaries and the services exports market size) and Figure 4 (that illustrates average salary levels by service category and experience level) , on whole, salaries are lower in offshore destinations – including China, Costa Rica, India, Israel, Malaysia, the Philippines, Russia, Singapore, South Africa, Thailand, and Vietnam – than in nearshore destinations – including Brazil, Canada, the Czech Republic, Hungary, Ireland, Mexico, Poland, Romania, and Slovakia.

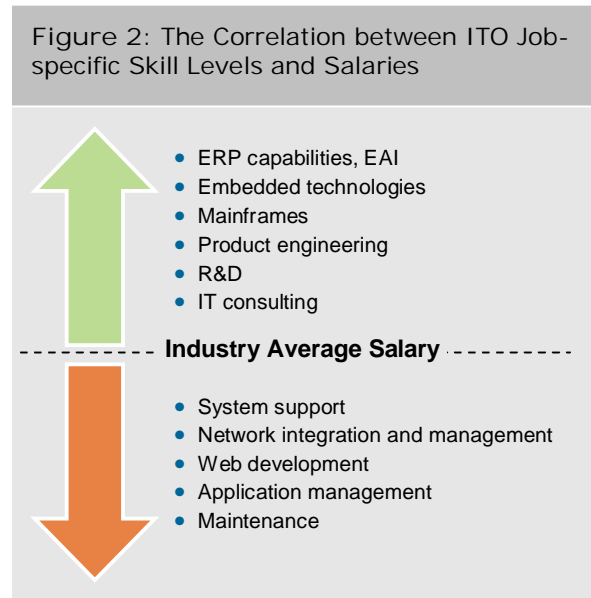
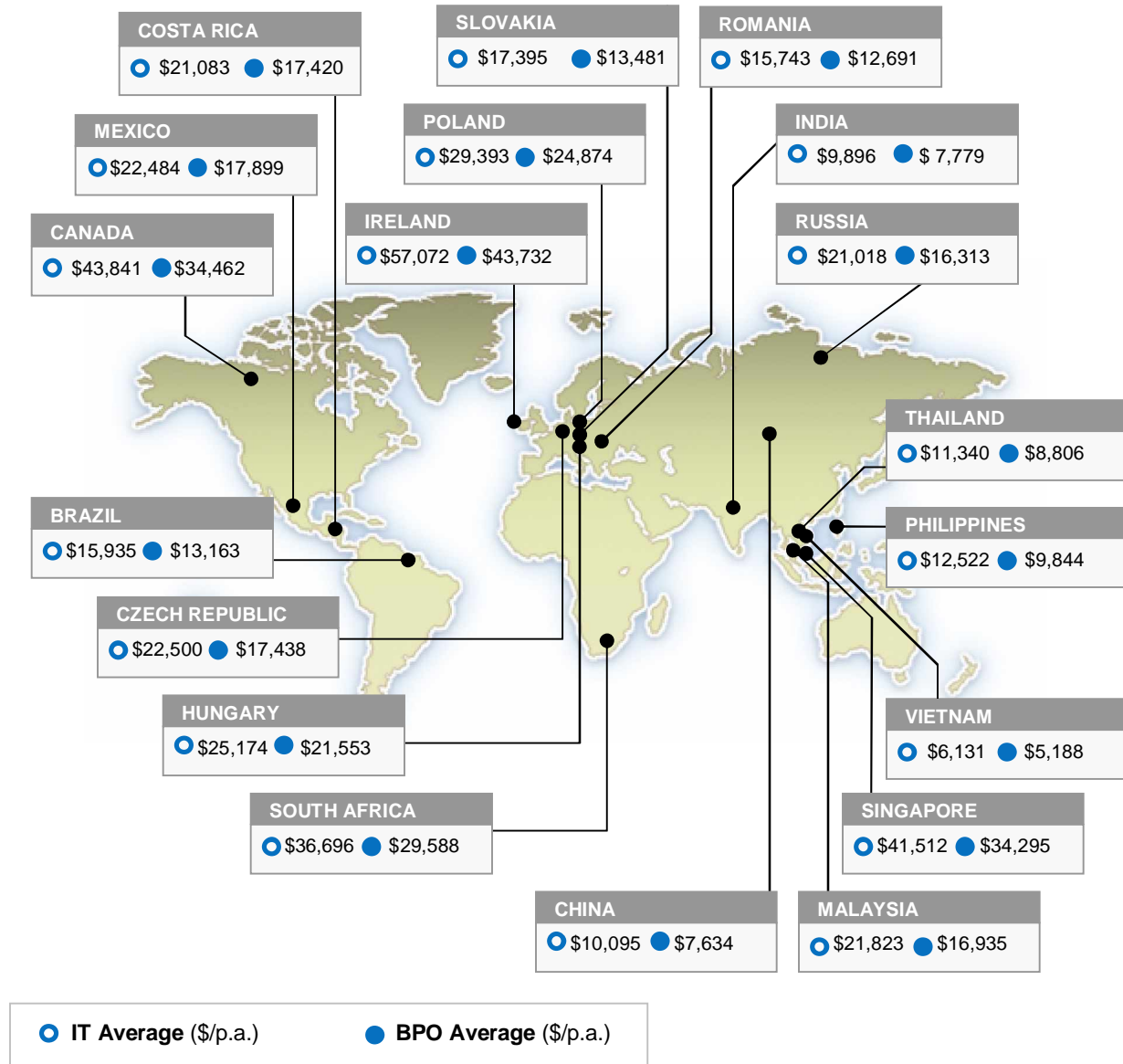
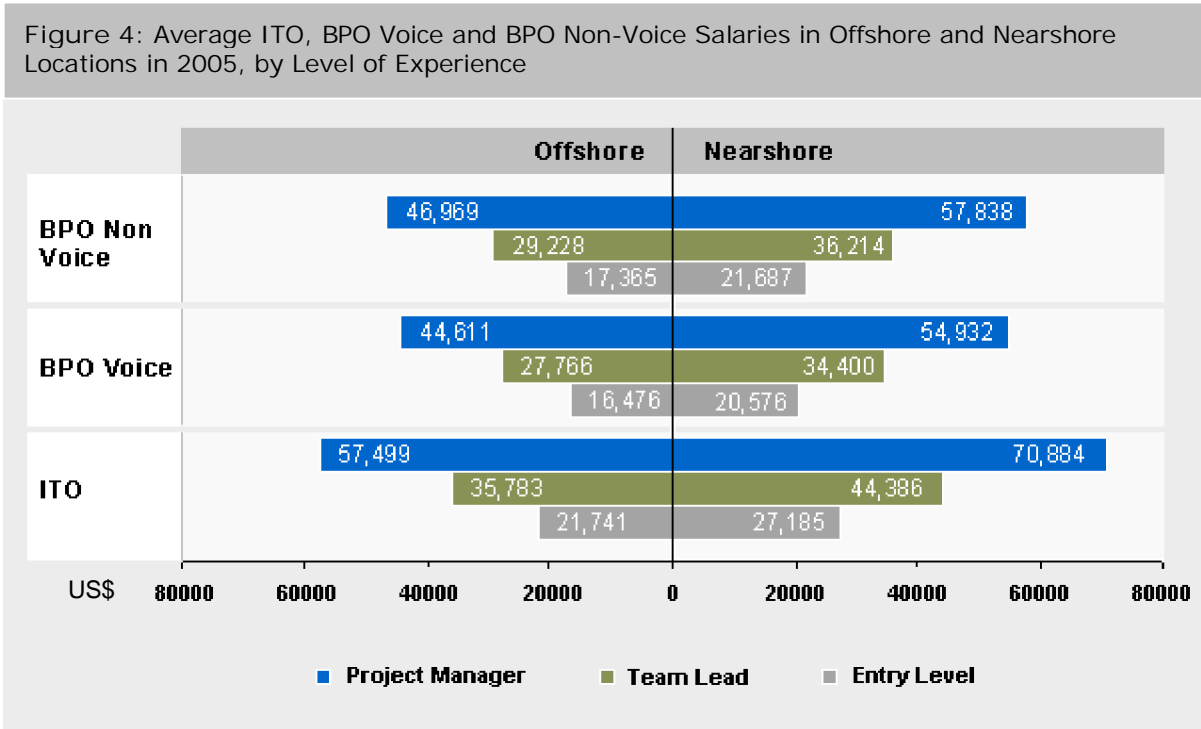


Figure 3: Average Salaries of Key Offshore Destinations (2005) – ITO & BPO



Source: neoIT



Source: neoIT

(Average salaries are arithmetic mid point of salary ranges across various experience levels and service categories. It should be noted that salary variances are significant even within each service category for a destination.)

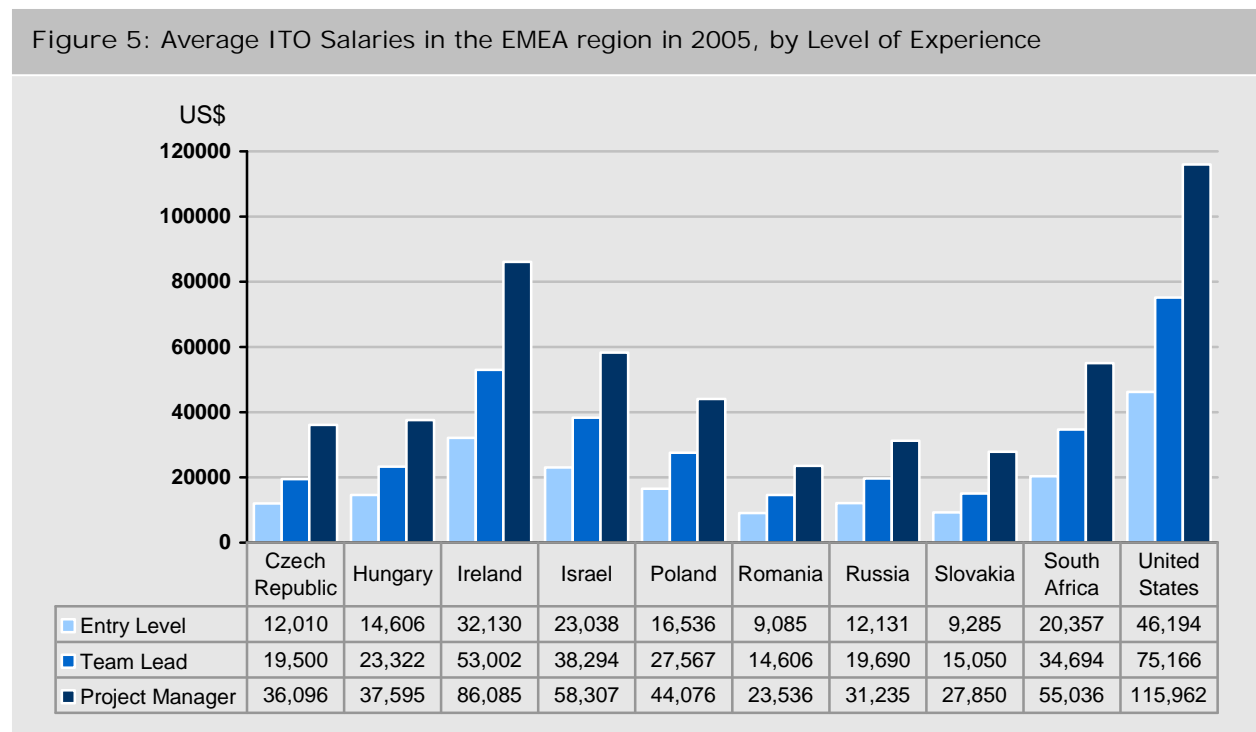
Salaries also differ markedly between regions. The following sections offer detailed analyses of salaries in each destination, grouped by region.

SALARIES IN THE EMEA REGION

The EMEA (Europe, Middle East, and Africa) region encompasses developed and developing nearshore and offshore locations. Ireland, for example, is a well-established nearshore destination for firms from the U.K., while the Central and Eastern European countries such as Hungary, the Czech Republic, Poland, Slovakia, and Romania are developing as attractive nearshore destinations for the

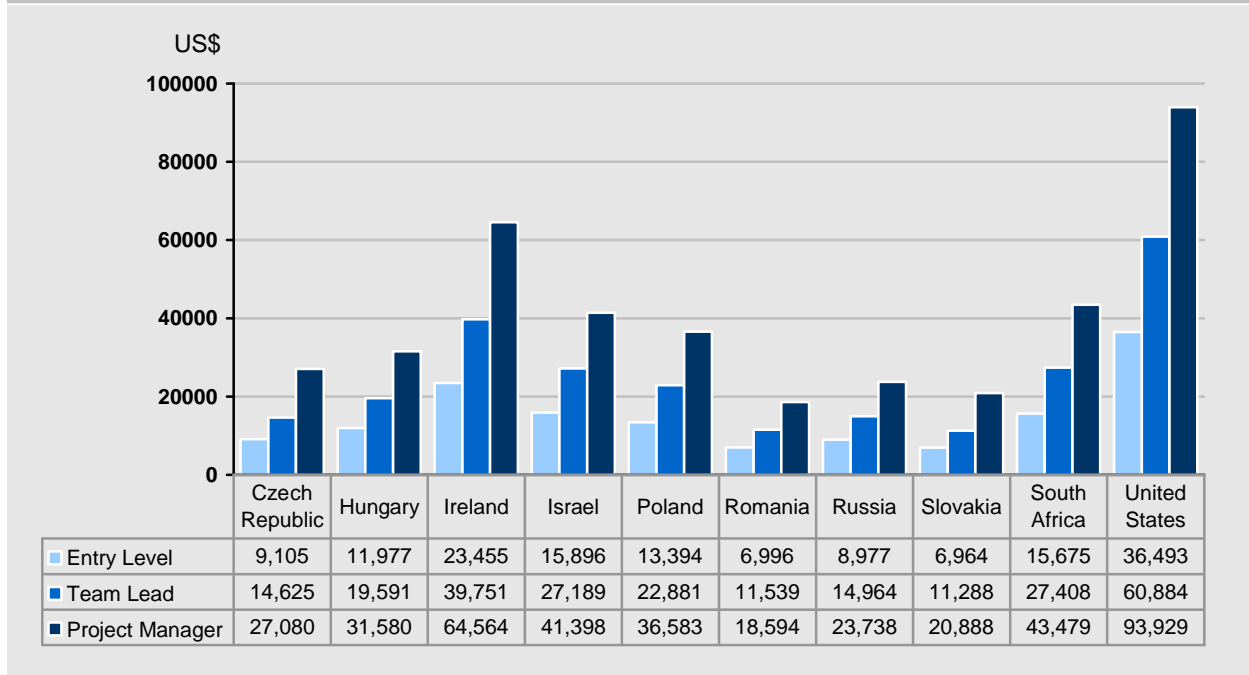
Western European block countries. We expect strong increases in salary levels over the next couple years would be within this group of rapidly emerging destinations. Overall, salaries in the EMEA region will grow 5% in the coming year (2.5% above inflation). The following figures highlight average salaries (in 2005) across three levels of experience for the ITO, voice-based BPO, and non-voice BPO industries.

Figure 5: Average ITO Salaries in the EMEA region in 2005, by Level of Experience



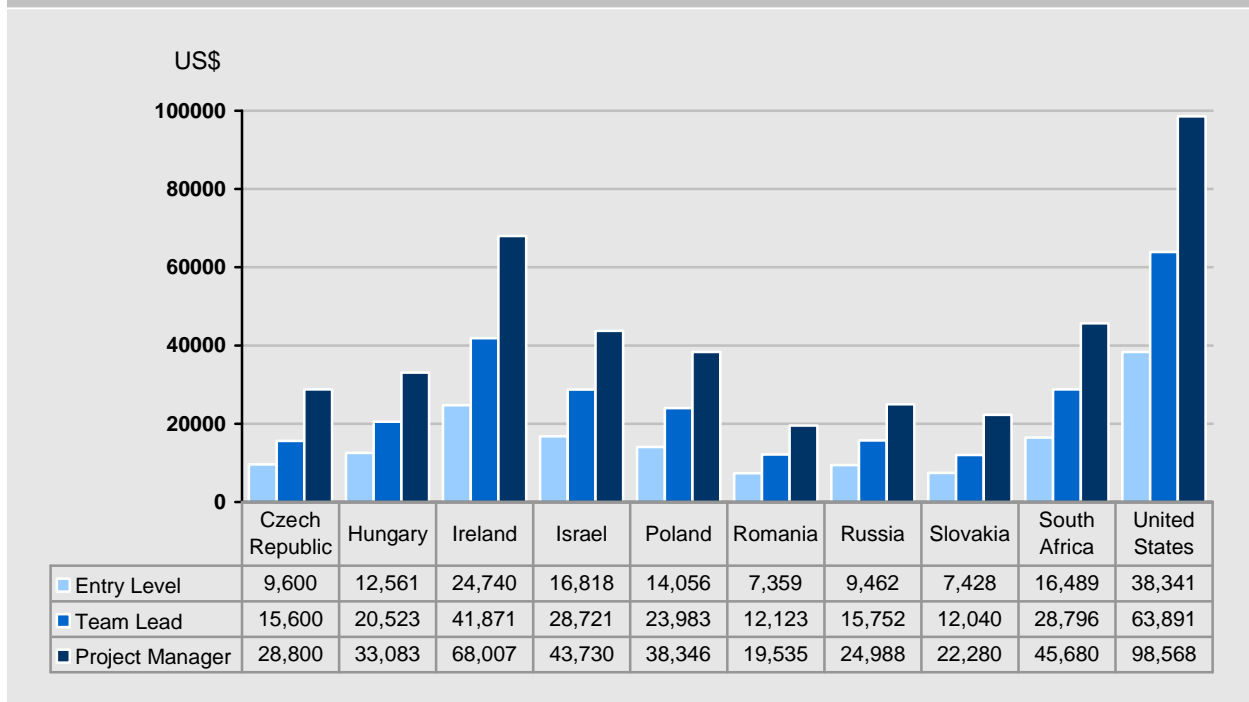
Source: neoIT

Figure 6: Average Voice BPO Salaries in the EMEA region in 2005, by Level of Experience



Source: neoIT

Figure 7: Average Non Voice BPO Salaries in the EMEA region in 2005, by Level of Experience



Source: neoIT

HUNGARY

Hungary continues to grow as an increasingly attractive nearshore ITO destination, and poised as viable alternative to more mature offshore destinations. Valued at \$75 million in 2005, the country's attractiveness stems in part from its low-cost labor: IT salaries in Budapest are approximately 68% lower than comparable salaries in the UK and the US. Among the Central and Eastern European countries, however, Hungary is relatively expensive: IT salaries in Hungary are 60% higher than in Romania; 45% higher than in Slovakia; and 12% higher than in the Czech Republic, on an average. Hungary has proven itself as one of the most attractive destinations for globally sourced business processes. Hungary's competitive BPO salaries make the country a low-cost destination for now. But interest in Hungary's BPO industry is outpacing the country's supply of labor resources, suggesting that salaries will continue to rise.

CZECH REPUBLIC

Salary growth in the Czech Republic has slowed significantly in the past years. In 2006, we predict an average rate of increase of 5%. As a result, IT specialists are increasingly hiring themselves out as consultants to the highest bidding company. In response, many companies have begun hiring relatively inexperienced employees – many recent college graduates – and training them to the company's unique specifications rather than seeking out more expensive experienced IT specialists.

The Czech Republic has demonstrated its ability to compete with more established nearshore destinations like Ireland for BPO work. With a wage rate differential of about 61% between the Czech Republic and Ireland, the Czech Republic can still offer cost-savings benefits that Ireland can't. BPO salaries have

increased only marginally in the last year, though there were more substantial increases in benefits structures for BPO employees in the Czech Republic. Moderately rising salary levels in the Czech Republic suggest that labor arbitrage will remain a significant benefit to companies that source there.

POLAND

Poland has a fairly well-established, well-recognized ITO industry, though it can still offer significant cost savings on salaries over onshore destinations for companies from the U.S. and the U.K. But Poland's entrance to the EU has made its labor force more mobile and a significant number of college graduates are leaving the country to find better-paying work in other EU nations – a trend which may lead to labor shortages and increasingly higher salaries in Poland.

We don't expect salaries in Poland's BPO industry to increase dramatically in the next year (we expect a growth rate of 3.1% with inflation at about 2.6%) though we do see signs of increasing upward movement of BPO salaries in Poland. One reason of that movement is the huge demand for highly skilled BPO employees and a relatively small relevantly labor pool. The same labor mobility factor that decreases the supply of ITO employees also plays into the decreasing supply of skilled English-speaking employees in the BPO industry. The BPO salaries in Poland are higher than in countries like Czech Republic but lower than in countries like Ireland. On an average, US companies can save close to 62% in salaries of BPO professionals across all experience levels.

ROMANIA

Romania's labor force is well-educated and highly skilled, in fact. IT salaries in Romania are the lowest among the EMEA countries. We predict that IT labor costs in Romania will remain lower than other EU destinations for the next 6-8 years. Currently, the average salary of an entry level programmer in Romania is 24% lower than in the Czech Republic and 38% lower than in Hungary. Romania retains its cost-competitiveness in the BPO industry as well; the average salary of an entry-level non-voice BPO employee in Romania is 48% lower than in Poland and 23% lower than in the Czech Republic. It also offers a cost savings of close to 81% when compared to the US in BPO salaries. Both voice and non-voice BPO salaries in Romania are comparable to BPO salaries in Slovakia.

SLOVAKIA

Average ITO salaries in Slovakia are comparable to – though slightly higher than – those in Romania. Across all ITO levels, salaries in Slovakia are on average 78% lower than in the U.S. As in the ITO industry, salaries in voice and non-voice BPO in Slovakia are comparable to those in Romania. In entry level non-voice BPO jobs, salaries in Slovakia are 41% lower than in Hungary and 23% lower than in the Czech Republic. We see evidence, however, that salary levels in Slovakia are rising toward levels comparable with the CEE nations.

SOUTH AFRICA

ITO salaries in South Africa are significantly higher at all experience levels than other emerging EMEA destinations. For entry-level ITO employees, for example, salaries in South Africa are 68% higher than in Russia and 23% higher than in Poland. Nevertheless ITO salaries across all experience levels in South Africa are 54% lower than in the US. South

Africa is also a relatively costly BPO destination, though average BPO salaries are still approximately 55% lower in South Africa than in the US. We expect salaries to level for experienced professionals as their salaries are tied directly to inflation, which is currently low in the country.

ISRAEL

Though salaries for IT professionals in Israel are 50% lower than in the U.S., they are relatively high compared to other offshore destinations (in India, for example, IT salaries are roughly 75% lower than in Israel). A significant contributor to Israel's high salary levels is its low rate of IT student graduation, which currently stands at 4,900 per year. The Israeli IT workers provide almost similar wage differential across all experience levels in percentage terms (~50%), as compared to US IT workers.

In case of BPO non-voice employees the wage differential to US companies are to the tune of 56% across all experience levels. The average pay increases across all sectors in Israel will be low at 2.5% (pay above inflation for the same will be at 0.7%).

IRELAND

The IT sector in Ireland saw an increase of 4.6% in 2005 and the projected increase for the year 2006 is a little lower at 4.0%. Salaries in Ireland's IT industry are relatively high, though the country represents the most mature nearshore destination in Europe. An entry level programmer earns close to \$32,130 compared to \$46,194 in the US. This signifies a wage differential of close to 30%. Non-voice BPO employees in Ireland earn 33% less than their compatriots in the U.S., Ireland's salary levels are comparable with the U.K.'s, though the country remains a popular nearshore destination.

RUSSIA

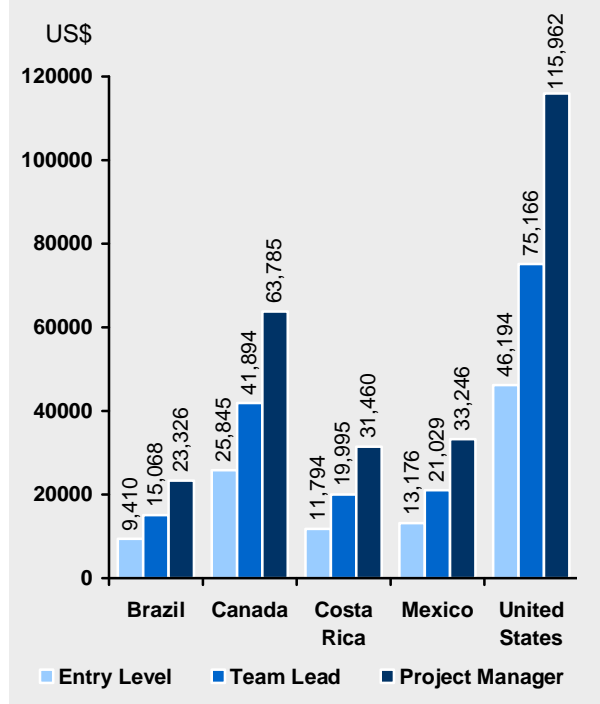
Russia’s ITO industry grew at 25% in 2005 over 2004. The average salary of an entry-level IT professional in Russia is 74% lower than in the U.S. and Russia has a highly educated, well-trained, experienced labor pool that rivals the U.S.’s in many cases. While Russian salaries across all experience levels for BPO employees are significantly lower than in the U.S. (about 75% lower). The phenomenon of “brain drain” strains the demand for skilled manpower and acts as drivers of rising salaries.

SALARIES IN THE AMERICAS

The Americas region largely encompasses nearshore destinations in Latin America as well as Canada. Canada is a highly developed nearshore destination with wage rates that are relatively high (though Canada still offers a cost-saving potential for U.S. firms). The other countries in the Americas cohort, in contrast, are still relatively low-cost emerging destinations (when compared to Canada) that offer a savings on salaries of about 70% over the U.S. Compared to salaries in the APAC region, salaries in Latin American ITO and BPO industries are relatively high, though they are roughly comparable to salary levels in

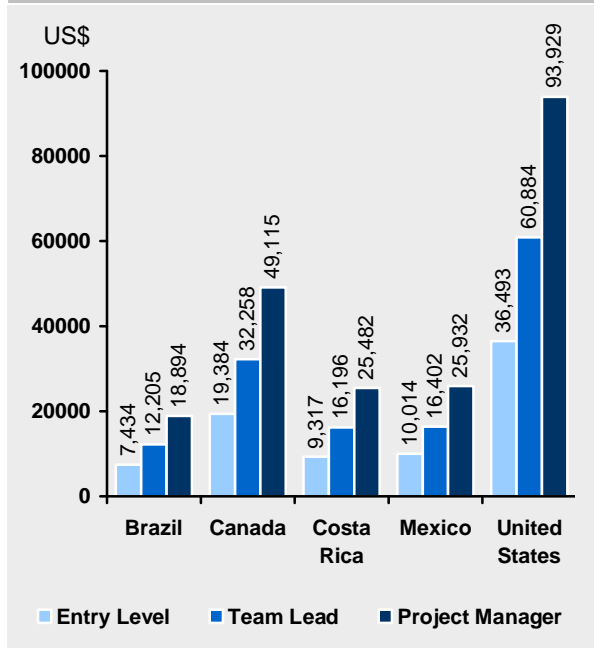
developing EMEA destinations. The following figures highlight average salaries across three levels of experience for the ITO, voice-based BPO, and non-voice BPO industries.

Figure 8: Average ITO Salaries in the Americas in 2005, by Level of Experience



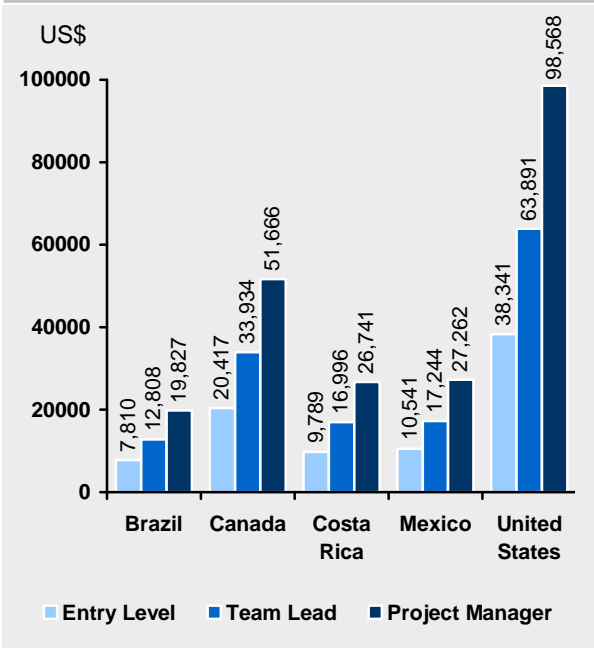
Source: neoIT

Figure 9: Average Voice BPO Salaries in the Americas in 2005, by Level of Experience



Source: neoIT

Figure 10: Average Non-Voice BPO Salaries in the Americas in 2005, by Level of Experience



Source: neoIT

CANADA

ITO salaries in Canada are quite high compared to other nearshore and offshore locations; though the country still offers cost-saving potential through lower real estate and favorable exchange rates for U.S. firms (the average salary for a project manager-level professional is 45% lower in Canada than in the U.S.). A shortage of IT graduates may move salaries in Canada upward in the future; but the growth for last year ITO salaries was modest (between 2 and 4%). Salaries in Canada's BPO industry are also relatively high compared to other sourcing destinations; though they still offer significant cost-saving potential over onshore locations.

BRAZIL

Brazil's ITO salaries are the lowest among the Latin American destinations and it offers the US almost a saving of 80% on salaries across all experience levels. An average entry level IT programmer earns \$8,000-\$10,000. Brazil, like all other Latin American offshore locations has enjoyed from the climbing demand for language-specific BPO. It happens to be most cost efficient among the key Latin American destinations, 20-30% cheaper than Costa Rica and Mexico. The starting salary for an entry level call center agent is \$6,500 and a team lead with 3-5 years of experience could earn up to \$14,800.

MEXICO

The average entry-level ITO salary in Mexico is \$13,176, though the average salary level is lower in Tier-2 cities like Monterrey and Guadalajara and can be as much as 30% lower in Tier-3 cities. Strong trade relations with the US, liberal visa policy makes Mexico a competitor in the BPO race against India. The huge Spanish speaking population acts as an accelerator for the growth of specific language based BPO work. The average salary for an

entry level BPO staff in the US is more than 70% that of a Mexican employee which reveals the mammoth cost differential and hence an opportunity for employee cost arbitrage. To maintain its cost-saving potential, Mexico must enhance its education system to maintain a large pool of high-quality labor.

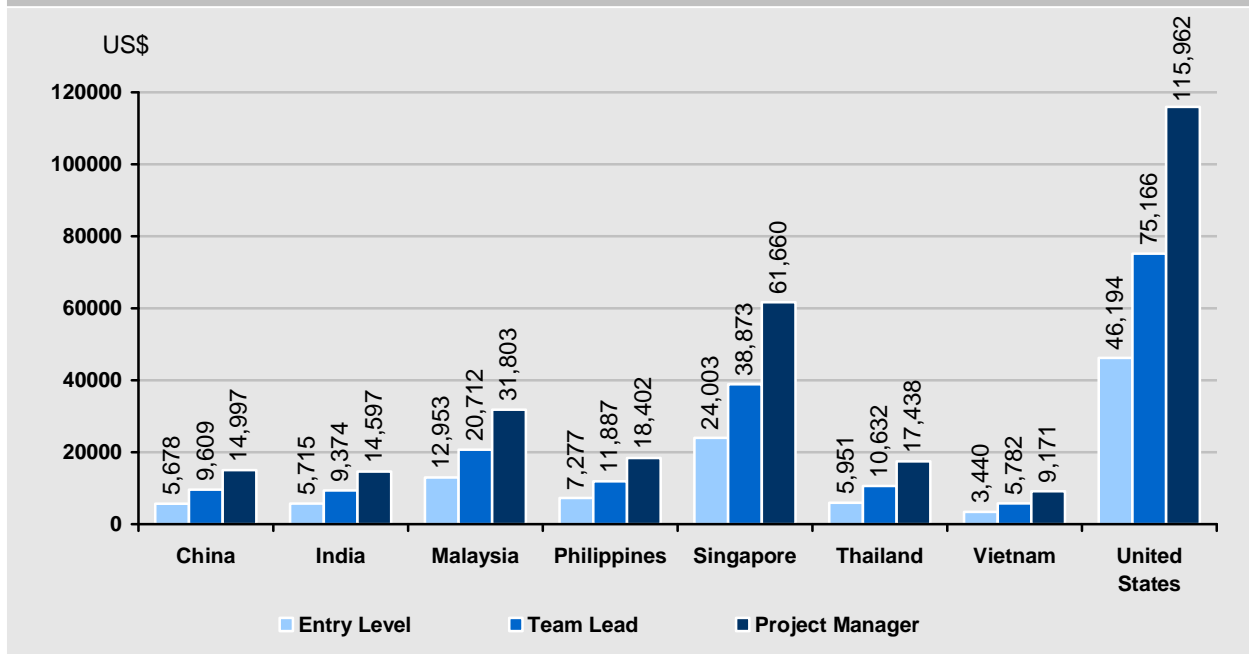
COSTA RICA

The average entry-level ITO salary is roughly 75% lower in Costa Rica than in the U.S., though ITO salaries in Costa Rica grew 5% in 2005 over 2004 (compared to 2% in the U.S.). Costa Rica offers similar labor cost advantages in BPO. With a relatively small labor force, however, Costa Rica may quickly find that demand for ITO and BPO professionals outpaces supply, forcing labor costs upward.

SALARIES IN THE APAC REGION

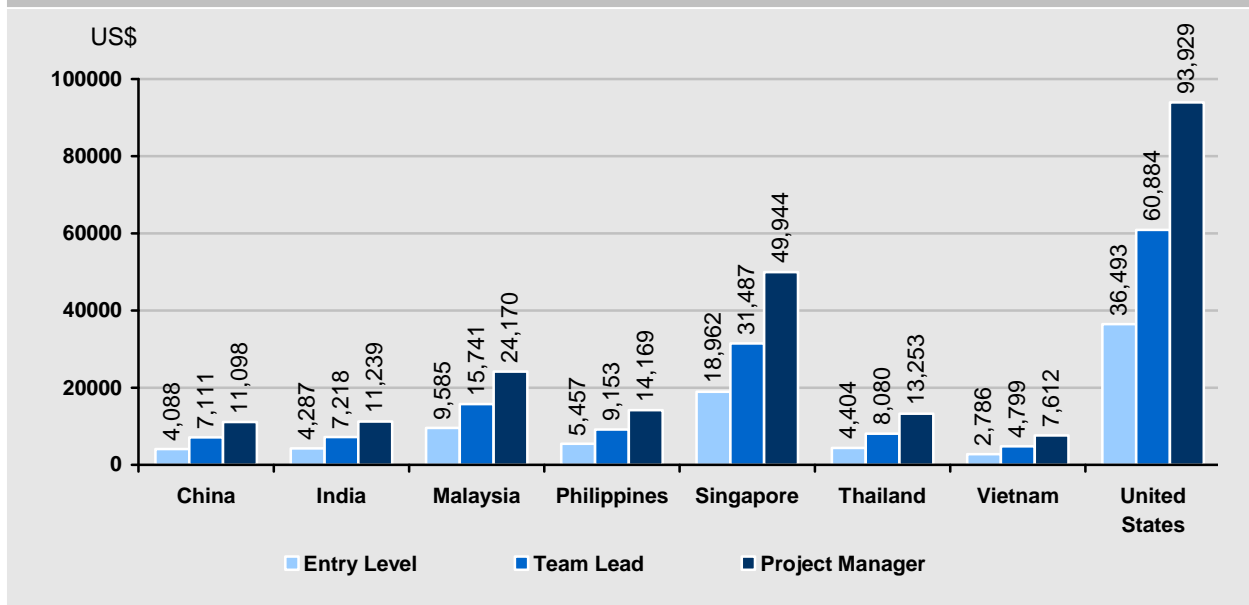
Home to the world's most successful global sourcing destination – India – the APAC region also encompasses several other successful and emerging sourcing destinations, including the Philippines and China. Overall, the APAC region offers significant cost-saving potential to firms in the U.S. and Western Europe. Because of the region's success and continuing popularity, however, salary levels have risen steadily there in the last year. In fact, the APAC region had the largest increase in salary levels of the three regions we analyzed. The following figures highlight average salaries across three levels of experience for the ITO, voice-based BPO, and non-voice BPO industries.

Figure 11: Average ITO Salaries in the APAC Region in 2005, by Level of Experience



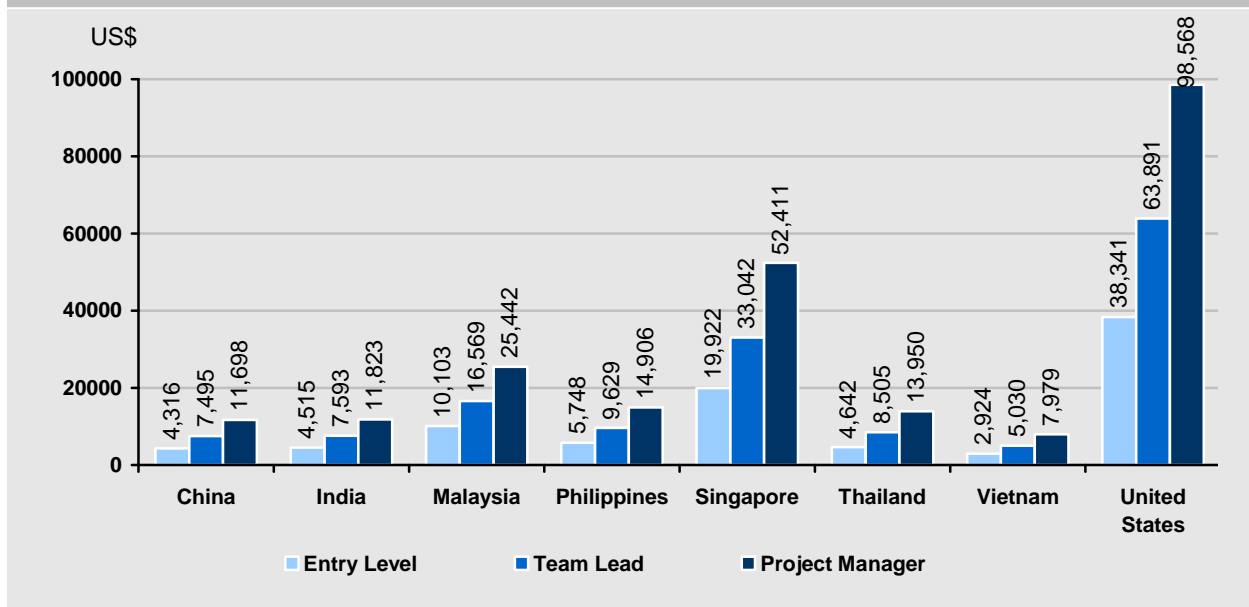
Source: neoIT

Figure 12: Average Voice BPO Salaries in the APAC Region in 2005, by Level of Experience



Source: neoIT

Figure 13: Average Non-Voice BPO Salaries in the APAC Region in 2005, by Level of Experience



Source: neoIT

CHINA

The rapid growth of China's ITO industry has pushed ITO salaries levels above salary levels in other Chinese industries, though they're still relatively low compared to other destinations in the APAC region. A relatively small supply of IT professionals with English-language proficiency allows those employees to command relatively higher salaries. IT professionals with 7 years of experience or more and skills in project management and domain knowledge and expertise are also in relatively short supply.

The rate of appreciation or depreciation of a country's currency is another significant determinant of the growth rate of a country's wages. The Yuan has been gradually appreciating, but if the currency is revalued – as the U.S. government would like it to be – it will appreciate more rapidly, in turn increasing the relative cost of skilled labor in China. Currently, the wage differential between professionals in China's ITO and BPO industries and the U.S.' is about 88%.

China's BPO industry is still at a stage of growing and maturing. There is a giant market potential in China for the BPO market. Talent was a big challenge which they are overcoming as we see more and more educated professionals being produced with improved English language skills. An entry level BPO employee earns an average of \$4,100 yearly. Most yearly raises are performance based which means not necessarily every employee gets a raise. Attrition levels at China within the BPO industry ranges from 10-15%. The salaries in China will continue to grow within the IT and BPO industries but will in no ways hinder its growth.

INDIA

Salaries in India's ITO and BPO industries are rising rapidly, as the industries continue to mature. In 2004, salaries in the ITO industry increased 10-15%. We will see the eight fold difference drop in the wage differential between India and the US. With an average entry level programmer earning a salary of \$5,700 a year, India still continues to offer the Western economies a significant wage differential packed with the right experience. High attrition rates – 45-50% in voice-based BPO and 15-20% in non-voice BPO – have, and will continue to force BPO salary levels upward. A non-voice BPO team lead earns an annual salary of close to \$7,600. An entry level employee in the same space makes a little over \$4,500. The salary levels are soaring with companies having to retain their employees by offering high salaries and attractive tax friendly compensation packages.

Although India offers a difference of over 85% in salaries to the US and other onshore countries, it may lose some market share because of the rising wages. We have also seen the value of the US dollar drop over the last couple of years that resulted in the rising wages, but the gap is wide enough and there are many other compelling reasons for countries like the US, UK etc. to continue looking at India as an important option.

VIETNAM

ITO salaries in Vietnam are the lowest among the APAC destinations discussed here – approximately 40% lower than in China and India and 86% lower than in Singapore – though Vietnamese suppliers cannot offer the same level of complexity that Indian suppliers can. A shortage of qualified software engineers in Vietnam suggests that wage rates will rise if demand for Vietnamese ITO increases substantially. In 2005, salaries for entry-level

ITO professionals grew 5% over 2004, while salaries for more experienced ITO professional grew 7% over 2004. A shortage of skilled labor also affects Vietnam's BPO industry. Increasing demand for BPO services will likely lead to increasing salaries, though we expect Vietnam to remain a cost-competitive destination.

SINGAPORE

Singapore is not considered a low-cost sourcing destination. IT salaries in Singapore continued to rise last year which maybe attributed to the strong economic growth. In 2005, average salaries for entry level programmer grew by 2% over 2004 with an average salary of \$24,003 while salaries of IT professionals with higher levels of experience like team leads and project managers have experienced a growth of 2.5%. Singapore's strengths substantially offset the higher wage levels.

Salaries in Singapore are the highest among the APAC destinations discussed here. This not only holds true to IT, but also to voice and non voice based BPO. Singapore offers a wage differential of a little over 45% to an onshore country like the US where as other countries in the APAC offer a minimum of 75%.

MALAYSIA

Though approximately 50% lower than in Singapore, salary levels in Malaysia are relatively high (56% higher than India's and 44% higher than the Philippines'). One reason for Malaysia's relatively high wage rates is its small population: with only 20 million people inhabiting the country, it is difficult for Malaysian companies to achieve economies of scale. BPO employees also earn relatively high wages in Malaysia compared to other destinations. Nevertheless, Malaysia offers a wage differential of about 70% over the U.S.

PHILIPPINES

Despite a relatively high unemployment rate of about 8%, ITO and BPO firms in the Philippines find it difficult to recruit English-speaking employees. An entry level call center employee earns an average of \$5,457 yearly while an employee with higher expertise level such as a team lead earns an average of \$9,153 yearly offering the US will labor cost savings of over 80%. But salary levels in the Philippines are still competitive with other APAC countries, though they are slightly higher than China and India.

THAILAND

The outsourcing industry in Thailand is in an embryonic stage. However there is a significant level of activities being witnessed in this country making it one of the emerging destinations within the APAC region. IT salaries in 2005 grew at 3% which was a shade lower than its neighbors like Philippines and Vietnam. Average salary at the entry level for IT is very similar to India and China at \$5,951. BPO salaries in Thailand offer the US a wage differential of over 85%.

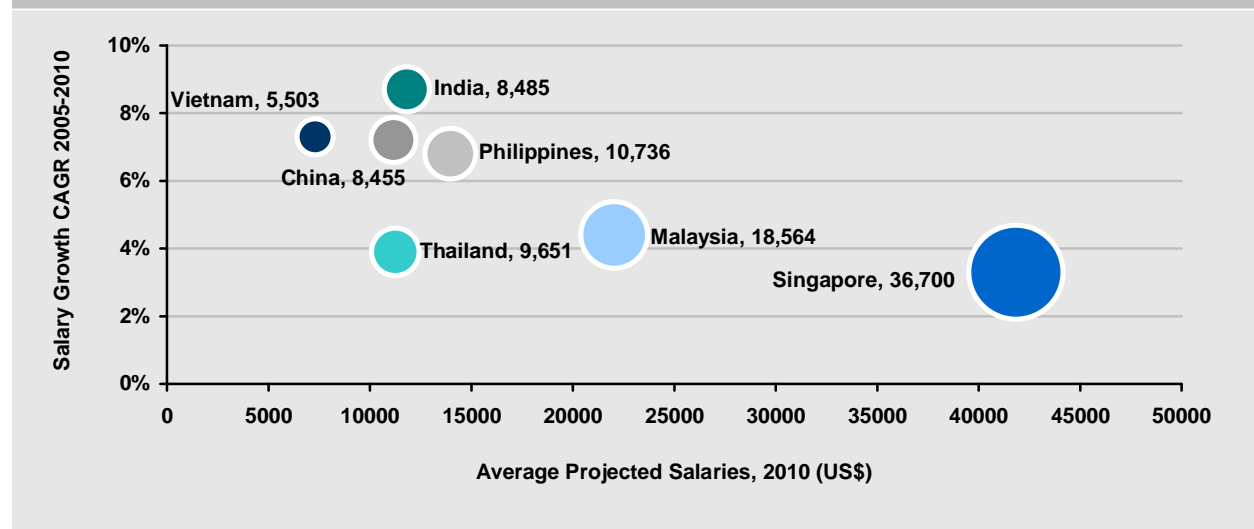
Salary Projections through 2010

Client organizations are experiencing a paradigm shift in their approach towards sourcing. A well diversified global sourcing portfolio that maximizes returns and minimizes risk is what most companies are aiming for today. This involves leveraging the strengths of different locations to optimize services delivery. The sourcing decision goes much beyond just choosing the right type of work to send to the right type of location. The two most important considerations that lead to a successful sourcing relationship are ones that give importance to cost savings and quality improvement. Client organizations must understand what benefits they seek from their sourcing portfolio. Benefits range from lower

costs of labor, infrastructure or economies of scale to higher quality standards that result from more talented and educated labor pool, increased productivity etc.

Figures 14 to 16 depict average salary forecast for 2010 in IT and BPO across the 20 sourcing destinations. The size of the bubble represents the average salaries in 2005 and the placement of the bubble on the x and y-axis denotes the average projected salaries in 2010 and salary growth rate (CAGR from 2005-2010) respectively. The average salaries presented are the arithmetic mean of salaries across the three experience categories and across ITO/ BPO.

Figure 14: Projected Salary Growth in the APAC Region



Source: neoIT

Over the forecast period, ITO/BPO salaries in India are expected to experience the most significant growth compared to all other geographic markets. Industry maturity, increasing competition, increasing complexity

of outsourced projects, stable demand, and exponential scaling plans of local as well as multinational IT service providers would be the key drivers of this wage increase.

The other mature destinations in the region like China and Philippines are expected to maintain very healthy growth in salaries due to continuous demand for skilled manpower. China is yet to develop a substantial English speaking labor pool that can cater to rapidly increasing demand from US and European clients. The Chinese service providers also face challenges in getting experienced and skilled IT professionals with project management skills. The Philippines BPO industry is also beginning to feel resource shortage as the demand is outpacing the supply. As a mature BPO destination it continues to attract service providers and clients alike, but scaling up with the right skill set is an emerging issue for the outsourcing industry in Philippines. Also, the labor movement to US is expected to fuel the sharp salary growth in The Philippines.

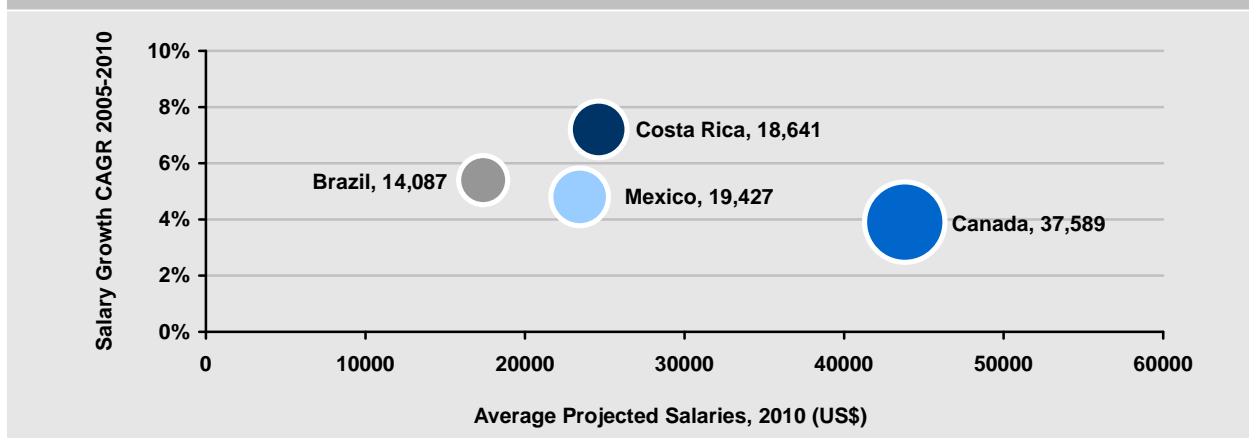
The two south-east Asian nations – Thailand and Vietnam are emerging frontiers for services globalization. Both the countries are expected to witness increasing activities in near future and subsequently the demand for

skilled manpower will go up. The increasing demand is expected to reflect on the salary of the IT and BPO workforce. Also, the salary increments are tied to the prevailing inflation rates in these two countries. Thus Vietnamese outsourcing industry is expected to witness a greater growth in workforce compensation than Thailand.

Malaysia is witnessing a healthy growth for its ITO and BPO industry and the growth relevant labor pool is lagging behind the growth in demand. Thus the growth in workforce compensation looks very positive. But the growth will not match the growth in other mature destinations as it is tied to the prevailing inflation rate in Malaysia, which is very low.

Singapore will witness low salary increments for its ITO and BPO workforce in next 5 years. The growth of the industry is not as high as other emerging destinations in the region and the inflation is remains very low.

Figure 15: Projected Salary Growth in the Americas



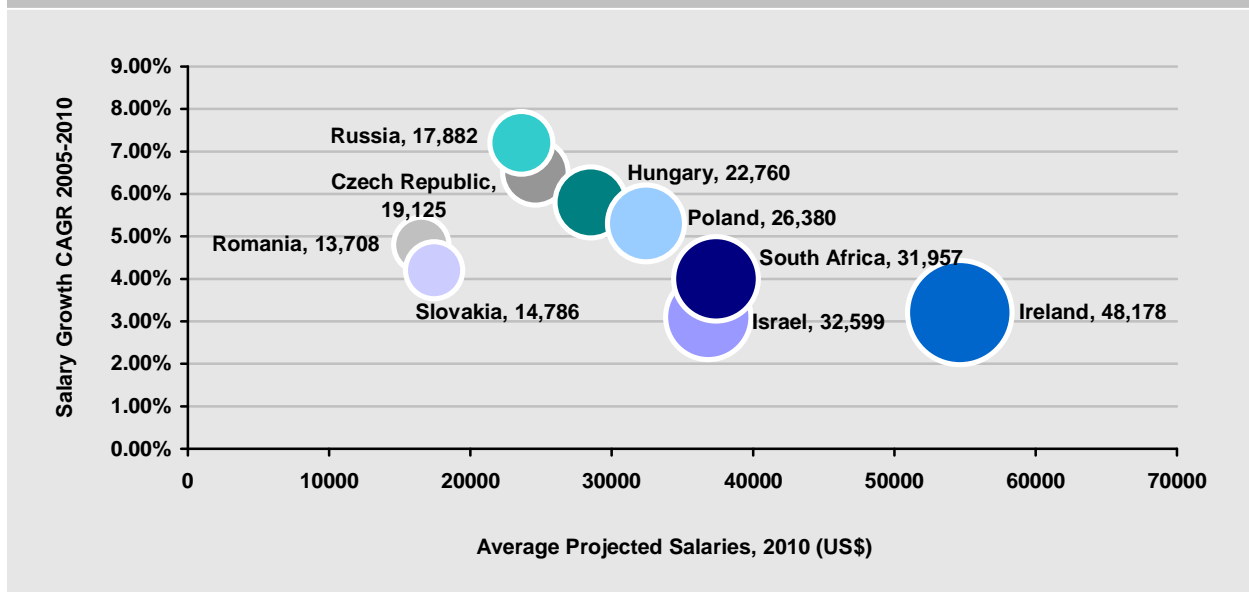
Source: neoIT

Costa Rica is expected to witness a very high growth in ITO/BPO salary rates, primarily due to supply-demand imbalance in the workforce. A fully utilized current workforce coupled with small additional inflow of relevant labor pool each year fuel the increase in salary rates. The high inflation rates also act as drivers for high growth in salaries. The two Latin American countries – Mexico and Brazil will also witness healthy growth, riding on their rising attractiveness as nearshore language specific BPO destinations. The increase in salary levels

are a reflection of heightened activities in the ITO and BPO domain.

As a mature destination and developed nation, Canada will not witness the high growth which some of the low cost offshore destinations are witnessing. But it'll maintain its attractiveness for geographic proximity to US and mature service capabilities. The increment in wage rates will also factor in the inflation level, which is quite low.

Figure 16: Projected Salary Growth in the EMEA Region



Source: neoIT

The growing level of activities in ITO and BPO domain is reflected in the growth of salary rates for Russia and CEE countries like Czech Republic, Hungary and Poland. This region is witnessing very high growth in recent times and the IT and BPO worker is increasingly becoming a valued resource. Also, migration of skilled workforce to higher paying nations in Western Europe and US is beginning to create a supply-demand gap for IT and BPO workforce. This scenario is expected to drive a very healthy rise in workforce compensation in

the region. The integration of the CEE countries into EU is also acting as catalyst for greater salary hikes.

Romania and Slovakia are two new entrants in the supply side of services globalization domain. Though the growth of the industry is expected to be healthy in next half decade, service providers might face resource constraints to scale up as the available labor pool is very low. But a healthy growth in the salary levels is expected.

South Africa is an attractive destination for BPO work and is a successful service provider to Western European countries. But the existing salary levels are much higher than other emerging low cost destinations. Moderate growth of the outsourcing industry and the prevailing low inflation rate in the country is expected to drive a moderate but health growth in the salary levels.

Both Ireland and Israel exhibit good service maturity. But the already existing high wage rates leaves little scope for a high increment in

next five years. Also, the outsourcing industry in these two countries is not witnessing the high level of growth vis-à-vis other emerging low cost destinations. Thus the less than spectacular growth of the industry will be reflected in the salary increments.

The following table summarizes the expected trend in the growth in salary levels for next 5 years. It also provides the relative index of the salary levels of the twenty offshore/nearshore destinations vis-à-vis the salary levels in US.

Table 2: Salary Average and Salary Index of 2005 Salaries and the expected Salary Average and Salary Index in 2010

Country	Salary Average (\$/p.a.) - 2005	Index 2005	CAGR 2005-2010	Salary Average (\$/p.a.) - 2010	Forecast Index 2010
Vietnam	5,503	8	7.3%	7,827	9
China	8,455	12	7.2%	11,970	14
India	8,485	12	8.7%	12,877	15
Thailand	9,651	14	3.9%	11,686	14
Philippines	10,736	15	6.8%	14,918	18
Malaysia	18,564	27	4.4%	23,024	28
Singapore	36,700	52	3.3%	43,169	52
Czech Republic	19,125	27	6.5%	26,203	31
Hungary	22,760	33	5.8%	30,172	36
Poland	26,380	38	5.3%	34,152	41
Slovakia	14,786	21	4.2%	18,163	22
Romania	13,708	20	4.8%	17,329	21
Ireland	48,178	69	3.2%	56,396	68
Russia	17,882	26	7.2%	25,316	30
Israel	32,599	47	3.1%	37,975	45
South Africa	31,957	46	4.0%	38,881	47
Brazil	14,087	20	5.4%	18,324	22
Costa Rica	18,641	27	7.2%	26,390	32
Mexico	19,427	28	4.8%	24,559	29
Canada	37,589	54	3.9%	45,513	55
United States	69,936	100	3.6%	83,464	100

Index has been calculated using US salary as base. e.g: (Salary in country x / Salary in US) * 100

Source: neoIT

The above table clearly indicates that the growth of salaries in more mature and established destinations like India, China, Philippines, and Czech Republic etc. will continue to be very healthy in the medium term. The reasons might vary from destination to destination. In destinations with established ITO and BPO industries, scalability may be an issue if the labor pool is already nearly tapped for relevant talent. As demand for skilled and experienced labor in the country grows, prices increase if supply remains the same. Also, as service maturity and supplier competency grow in these destinations, employees can demand higher salaries for the more value-added work.

This scenario creates concerns about the cost competitiveness and attractiveness of more mature offshore destinations like India, China, Philippines, and Czech Republic etc. But a closer look at the index will reveal that both the relative and absolute salary levels are still expected to maintain a very healthy differential with US in the medium term (till 2010). This can be attributed to the low base on which the salaries of these countries are growing and the huge differential in the absolute salaries vis-à-vis US workers. Even a smaller growth in the salary level of US workers (at a very high base) can match the high growth in salary levels of established offshore destinations. Thus in the short term, salary growth in established offshore/nearshore destinations may not negate the potential benefits of outsourcing to these countries. However, disproportionate salary increases will certainly impact firms' outsourcing decisions as well as the competitiveness of these offshore/nearshore destinations vis-à-vis other emerging low cost destinations.

Conclusion

As organizations continue to refine their global sourcing strategies and engage the concept of the portfolio approach, understanding each potential destination becomes increasingly important – especially as the number of potentially attractive sourcing destinations continues to increase. An important component of that understanding is to know what labor costs are in each destination, and how those labor costs are likely to change into the future.

As we've highlighted, destinations in the APAC region remain the least costly in terms of salaries, even as the most popular sourcing destinations – India and the Philippines – are there. But as those destinations' industries mature, labor costs will rise. Destinations in the EMEA region – especially in Central and Eastern Europe are relatively more expensive than those in the APAC region but still offer dramatic cost-saving potential and may offer other advantages (including, for example, language competencies and cultural affinities) that APAC destinations do not. Finally, destinations in the Americas region may offer unique nearshore advantages for U.S. firms even though they are more costly than offshore destinations in the APAC region.

Ultimately, to craft a successful services globalization plan, an organization must gather an immense amount of information about each potential destination. Armed with that information, the organization must compare each destination on the factors that are most important to its particular needs.

More information about the offshore outsourcing industry can be found within neoIT's research center at www.neoOffshore.com. For more details about neoIT's offshore advisory and management services, please contact:

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