egypton.com

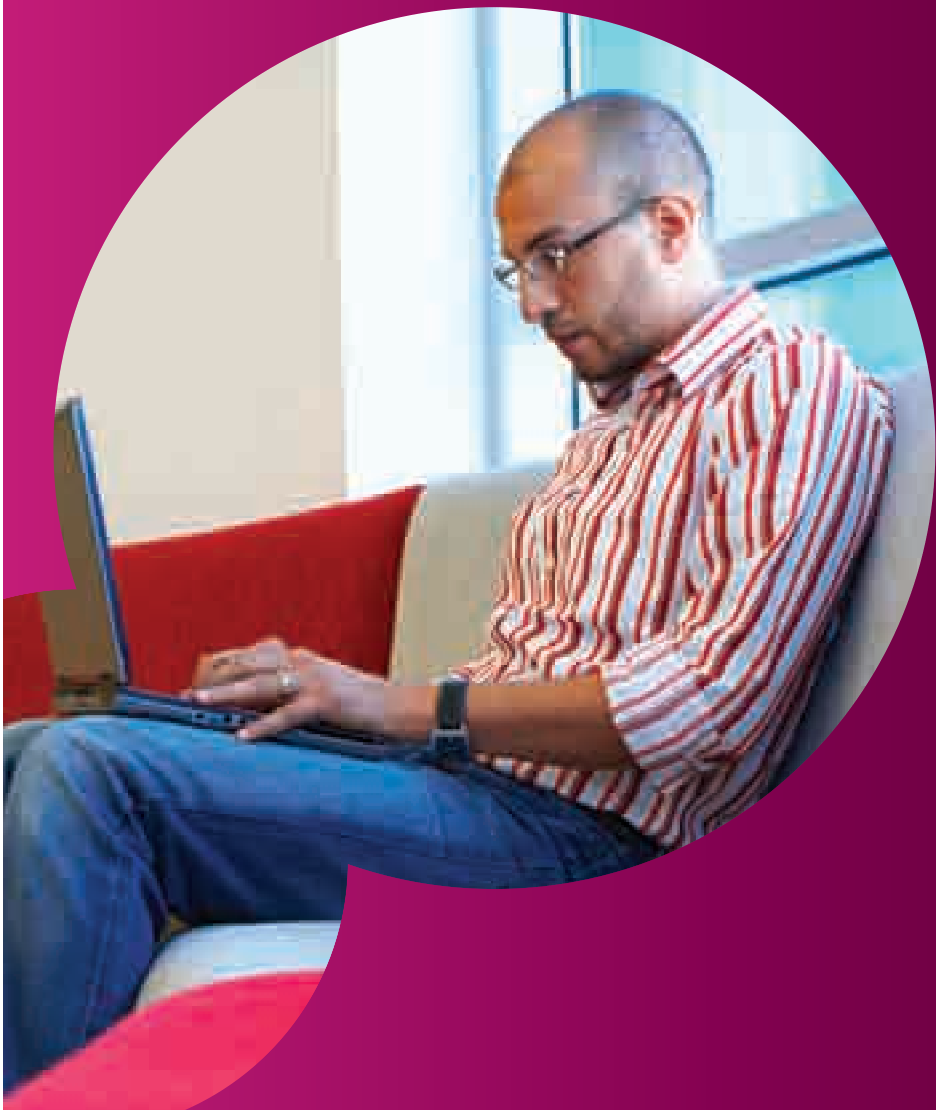
itida
Developing
IT in Egypt

Beyond BRIC: Executive summary

Offshoring in non-BRIC countries:
Egypt – a new growth market

An LSE Outsourcing Unit report
January 2009

Authors
Professor Leslie Willcocks
Catherine Griffiths
Dr Julia Kotlarsky



EgyptOn

Executive summary

1. Beyond BRIC: an independently-researched LSE study

This report has been commissioned as an independently researched report by Hill & Knowlton, which is acting for the Information Technology Industry Development Agency (ITIDA) of Egypt.

2. Scope of research and methodology

The work has been undertaken using the people, resources, knowledge and case studies of the Outsourcing Unit at the London School of Economics, as well as independent interviews, analyst discussions, and research, both in Egypt and internationally. The Outsourcing Unit was invited to research the potential of outsourcing in non-BRIC (Brazil, Russia, India, China) countries and to set Egypt within the context of these, with special reference to global outsourcing trends. It did this by:

- Comparing Egypt with 13 non-BRIC countries: Romania, Bulgaria, Poland, Slovakia, Czech Republic, Belarus, Morocco, Tunisia, Costa Rica, Mexico, Venezuela, Vietnam and the Philippines
- Using the Outsourcing Unit's longitudinal case database of 1,000-plus global sourcing IT, BPO and offshoring studies from 1993 to 2009
- Including a survey of 18 senior global sourcing analysts
- Interviewing 50-plus client organisations, suppliers and analysts experienced in global sourcing and expert in business and IT service location attractiveness (September 2008–January 2009).

3. An offshoring destination of choice

Egypt has become an outsourcing destination of choice for call centre work, and it is now seeking to extend this capability into back office, BPO, software development, and longer term into R&D. Despite more limited resources, it is hungry to join the BRIC country categorisation, and its current focus is aimed at achieving this. This report has found that Egypt:

- Offers one of the most attractive cost bases for outsourcing work
- Has scalability of high-quality technology graduate numbers, especially qualified in languages. This has made it attractive for call centre work
- Has started to address the environmental issues and has implemented new laws on copyright and intellectual property. It has also been cutting the bureaucracy for business and established a 'one-stop shop'
- Has scored lower on infrastructure issues than some of its competitors, particularly due to its traffic problems and the incomplete ring road in Cairo. The government is establishing Smart Villages, which are attractive for some companies and get around many of the infrastructure problems
- Is still perceived as a higher-risk destination than some other non-BRIC countries, due to its high inflation, plus a misplaced perception of its terrorism record
- Provides the highest market potential of any country studied in this report, due to:
  - Its cultural fit with Western European countries
  - Its strong language fluency and capability
  - Its convenience for cost-effective 'nearshoring' for European business
  - Its positioning as both a partner to other countries (e.g. India), and as a gateway to the Arabic world.

4. Responding to the challenges

All the non-BRIC countries studied are experiencing challenges, made more complex by the recessionary climate. Depth and range of investment in future location attractiveness is a key issue:

- Egypt is competing for its own good quality graduates and this position will become more severe as the market grows. The real sign of a mature market will be its capacity to convert its growing labour pools into ITO/BPO skilled staff and register high retention rates for senior staff. The ability to train, attract and retain good middle managers, which is currently a problem, will ensure the ability to build on the foundations already established

- Egypt's government provides an attractive tax regime that helps keep start-up costs low and is key to attracting new international companies and investment. In Egypt, these policies are working, providing the government does not unilaterally reverse the trends based on tactical economic needs

- Egypt is making large strides with the development of its Smart Villages and this trend will overcome critical problems in the cities

- Egypt has taken a stand on introducing laws to protect intellectual property and copyright. Its ability to police and enforce these laws is being monitored by businesses as some start to establish new innovation and R&D labs in the country

- Egypt has an opportunity to position itself as a nearshore country of choice, providing it can maintain the momentum of infrastructure upgrades

- Egypt has adopted an approach of partnering and cooperation that means it may be able to leverage its strengths and open up new markets with third parties

- Egypt can offer a good base for captives and, as the market matures, it will be possible to harness more local companies to work with these overseas units more effectively.

5. Future opportunities and growth

Offshoring and outsourcing will retain their criticality through recessionary as well as growth periods.
A highly competitive global services market presents opportunities and revenues for non-BRIC countries able to offer the right mix of strong cost, reliable service, and secure location(s).