



Putting Egypt Back on Your Location Radar – The View from the Frontline of Operations

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Introduction

The Egyptian offshore global services industry (which includes contact center, business processes, knowledge services, and IT services) showed its mettle during the country's political turmoil of 2011-2013. Displaying steely determination, the industry continued to deliver services to its clients with minimum disruption. In the process it learnt valuable lessons in business continuity, as it put theory into practice. The establishment of a stable government, along with existing players' experience of smooth and uninterrupted service delivery, has helped Egypt's return to the location decision radar of global players. The size of its offshore global services industry has doubled in scale over the last four years to reach ~50,000 FTEs. This has largely been due to increase in investments in existing service delivery operations by Global In-house Centers (GICs) as well as by service providers.

In this report, we evaluate the current global services delivery landscape in Egypt, and also discuss the on-ground experiences of companies there. The report also offers perspectives on the drivers and challenges for the global services industry in Egypt and its future outlook as a global delivery location.

In compiling this report, we leveraged the following sources of information:

- Interviews with key stakeholders in the market (service providers, buyer organizations, Information Technology Industry Development Agency, Egypt (ITIDA), and recruiters)
- Proprietary databases of Global In-house Centers (GICs) and service provider delivery centers
- Proprietary databases of operating costs and talent pool

Executive Summary

Egypt offers a unique value proposition of a large pool of English-speaking university graduates, with good language availability across many other European languages (French, Italian, German, and Spanish) and among the lowest-cost of service delivery in time zones similar to Europe. Egypt also offers one of the best quality and scalable infrastructure for service delivery to the Middle East and Africa. Egypt's rich cultural diversity, geographic proximity to Europe and Asia and its role as the gateway to Middle East and Africa is a major strategic advantage and a key driver for investments in Egypt.

Egypt has a sizeable outsourcing and shared services industry employing approximately 90,000 personnel, of which approximately 50,000 are offshore-focused, and support customers outside of Egypt.

Changes in the political environment have somewhat increased the perceived location risk as compared to five years ago, however, companies in Egypt have not faced challenges to their operations and have continued uninterrupted service delivery. Going forward, the risk profile of Egypt is expected to improve, and the upgrading of Egypt's risk outlook to stable by leading risk rating agencies is representative of this view.

In spite of the changing political dynamics, Egypt's value proposition of low cost of delivery, multi-lingual and multi-skilled talent, and a robust supporting infrastructure continue to make the location a viable and attractive destination for IT, Business Process (BP) and Knowledge Process (KP) global services delivery. Given Egypt's value proposition, the location can play the following roles in the global services supply chain:

- Similar time zone hub for English language voice and non-voice processes at a substantially lower cost than Central and Eastern Europe (CEE) location options
- Scalable alternative/complementary location to India and Philippines for English language BPO, to serve as a risk diversification option
- Low-cost, multi-lingual operations for pan-European corporations across multiple service areas (higher scalability for French and Italian languages and relatively lower scalability for German and Spanish languages). Currently, services operations in the country support over 20 languages across more than 100 countries
- Gateway to the Middle East and North Africa for the European investors. Egypt is being increasingly leveraged as a platform to enter and serve the growing Middle-Eastern (e.g., K.S.A and U.A.E) and African (e.g., Kenya, Algeria, Morocco, Tunisia, Iraq, Libya, and Sudan) markets across a wide range of IT and BPO services

Current State of Play in the Egyptian Global Services Industry

The Egyptian global services industry, which was poised for a boom pre-2011, has recovered from stagnancy caused by intermittent periods of political uncertainty, and is once again growing at a fast pace

Till the year 2011, Egypt was a fast-growing delivery geography primarily focused on servicing clients in Europe and the Middle East, while also serving the business continuity location planning needs for clients in the United States and Asia. In the years 2011 and 2012 the country witnessed intermittent periods of civilian protests but these were largely localized to few areas in the country and had less impact than generally perceived on delivery of global services. In reality, the service disruptions were partial and limited to two to four days with many service operations recuperating even faster due to robust disaster recovery processes.

In the past four years, the growth of Egypt's offshore services industry has been driven by increase in scale at pre-existing Europe servicing centers and by increase in business from the Middle Eastern and North African regions.

The offshore global services industry has doubled in scale over the last four years, since the advent of the political crisis, to reach ~50,000 FTEs. The increase in offshore delivery is evident across all functions (contact center, business process, knowledge process, and IT services) and different types of operations (GICs as well as service providers). Multiple players across segments (contact center players such as Raya and Teleperformance, large IT services players such as EMC, and large GICs such as HSBC and Vodafone International Services) have all reported growth of more than 2x in the period 2011-2014.

“The resilience of the Egyptian professionals who continued to display high service delivery performance, and the uninterrupted incentives and logistical support from ITIDA convinced us to increase our investment.
– Leading global service provider”

Across service providers interviewed by Everest Group, almost all reported that operations were not scaled down by clients in 2011-2014, except in cases where the buyer organization was affecting such changes globally, independent of Egypt. Existing customers continued their contracts as they realized that disruption to service delivery was minimal, and since then have also significantly increased their leverage of operations in Egypt. However, new clients from Europe and United States remained somewhat wary of the political instability and as a result, net new customer business has grown at a slower pace. Realizing buyer perceptions and challenges in Europe and United States, Egypt-based service providers have been quick to reorient their target client geography and have gained immensely by focusing on adding capabilities to serve businesses in Middle East and Africa.

Among the GICs interviewed, most reported that the parent organization was easily able to monitor the service delivery situation. Most of these companies have continued their investments in Egypt and even grown in scale after realizing that the centers were delivering at expected service delivery levels, and operational interruptions were minimal.

Egypt's location risk profile is stabilizing and on ground operations have further optimized service delivery risk by ensuring implementation of robust disaster recovery plans

Moody's and Fitch have both upgraded Egypt's outlook to stable in Q4-2014, based on stabilized political and security situation, the launch of government initiatives toward fiscal consolidation, signs of a growth recovery, and an improvement in macroeconomic stability.

The country's political environment is stabilizing with the election of a steady government. Moody's upgraded Egypt's outlook to stable in October 2014, based on stabilized political and security situation, the launch of government initiatives toward fiscal consolidation, signs of a growth recovery, and an improvement in macroeconomic stability. Fitch too upgraded Egypt's credit rating to B while keeping the Egyptian economy's outlook "stable" based on implemented financial and structural reforms that would achieve economic stability and financial sustainability, as well as large growth prospects of the Egyptian economy on short and medium term, due to recovery of security and political stability.

The country's political leadership has changed four times in the past four years, however, Egypt has been on an uninterrupted path towards stability with a wide domestic acceptance of the current government and parliament elections round the corner. The government also has the political backing of key Western allies and the Gulf monarchies. Risks associated with violence mostly affect the Sinai region (Eastern Egypt) which is distant from Cairo, the hub of the global services industry.

Operations in Egypt, of global as well as local players, have significantly robust Disaster Recovery (DR) frameworks and processes. While delivery centers in other leading locations also have DR processes, Egypt's has stood the test of effectiveness to ensure continuity of live operations. Since the political situation has stabilized, the global service players in Egypt have been actively improving their business continuity plans. Players have set up effective back-ups of technology infrastructure such as telecommunication, and have enabled work-from-home policies to prepare for risk scenarios.

Some of the leading players have even gone to the extent of setting up fully equipped centers in alternate facilities to be used in case of potential complexities.

Egypt Offers a Strong Value Proposition for Delivery of Services to Europe, Middle East, and Africa

Large multi-lingual talent pool

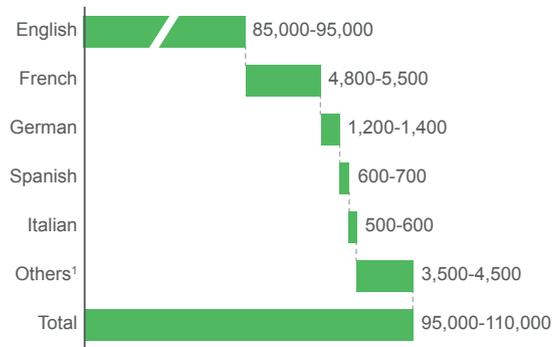
Egypt is among the few locations that can support an English-language offshore delivery center of meaningful scale, outside of the traditional offshore locations (India and Philippines). In addition, the rich cultural diversity of Egypt also provides a large pool of many other European languages (see Exhibit 1). There are multiple examples of GICs and service providers delivering business processes, knowledge processes, contact center, and IT helpdesk services in English, French, Italian, German, and Spanish languages.

EXHIBIT 1

Multi-lingual talent pool availability

Source: ITIDA, Everest Group (2014 estimates)

Annual university graduates by language of study
FTEs; 2014E



¹ Other languages include Persian, Russian, Urdu, Hebrew, Siamese, Chinese, Turkish, Japanese, Greek, Korean, and Czech

Qualified talent pool for IT and business process services

With a quarter of the country’s population between the ages of 15 to 28, one of the youngest populations globally, Egypt has a high number of students graduating its universities every year. Out of the annual talent pool of 460,000 university graduates, nearly 50,000 have IT-related degrees, and nearly 220,000 have degrees suitable for business process services (commerce, business administration, education, economics, and arts). This specialized talent pool creates a substantial depth of skills to work in processes beyond the traditional contact center and transactional BPO services. Companies in Egypt are currently leveraging this talent to service a wide variety of processes such as:

- Customer service
- Technical support
- IT services (e.g., application development, systems integration, and testing)
- Software R&D
- Back-office business process services such as HRO (e.g., payroll benefits processing, and recruitment), and FAO (e.g., AP/AR)
- Knowledge process outsourcing

Low cost of operations

Egypt provides an arbitrage of over 60% of service delivery costs when compared to source destinations in Europe. Even amongst competing offshore destinations

EXHIBIT 2

Operating cost comparisons with competing destinations

Source: Everest Group (2015)

Direct annual operating cost per FTE for multi-lingual contact center
2015; US\$ '000



in Europe and Africa, Egypt has significantly lower operating costs (see Exhibit 2). The difference in operating costs is primarily driven by lower compensation costs, though costs of facilities and technology have also been reported to be significantly lower than in the competing CEE locations.

While global services delivery operations have so far been mostly concentrated in Cairo, other large cities such as Mansoura, Asyut, Alexandria, and Luxor, also have well-developed local economies and provide access to a large talent pools. Players considering alternate locations in Egypt will benefit from an early mover advantage, as well as even lower cost of operations than Cairo.

Conducive business environment and government support

Egypt is strategically located between Europe, Middle East, and Africa. It has a time zone similarity with Europe (Eastern European Time) and is well connected through direct flights with major cities in Europe, Middle East, Africa and the United States.

Egypt’s Information Technology Industry Development Agency (ITIDA) provides effective support to the global services (IT, BP, and KP) sector. ITIDA provides financial incentives for telecom costs and for training on language as well as technical skills. ITIDA also provides logistical support on site selection and set-up of operations, and liaisons with government bodies to facilitate clearances, work permits and technical approvals.

Other than the role of an enabler and facilitator, ITIDA also plays an active role in improving the talent pool availability through training programs such as “Train for Hire” and other programs to promote internationally accepted certification for the local talent. Multiple initiatives have also been undertaken over the last three years to enable enterprise competitiveness, funding access, enabling innovation, and industry promotion. Such initiatives are expected to further increase in the coming years.

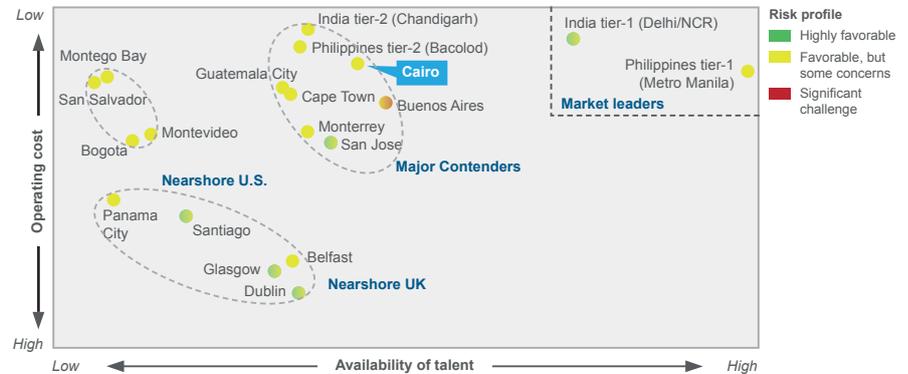
Several steps have been taken to improve the telecom infrastructure with planned up gradation of copper cabling to fiber optic. The existing eighteen marine cables provide good connectivity to more than sixty countries particularly on the Euro-Asian route. There exist some issues with high telecom costs for delivery to the Middle East, if these are resolved the growth of the industry could see acceleration and higher market penetration.

“ITIDA’s mandate encompasses creating the right and proper environment within which local players can thrive, multinational companies can utilize the competitive advantages of the country and better serve their global clients, the huge talent pool of the country can be equipped with the right set of skills needed to work in this vibrant sector and have a well-defined career path.”
– CEO, ITIDA

EXHIBIT 3

Leading English contact center services delivery locations

Source: MAP Matrix™, Everest Group (2014)



Moving Forward, Egypt has the Potential to Play Multiple Roles in the Location Portfolio of Global Players

- Scalable English language operations for companies diversifying beyond India and Philippines; or desiring time zone similarity to Europe
- Mid-sized hub for multi-lingual delivery in European languages
- Regional IT and business process services sourcing hub for Middle East and Africa
- KPO and digital services delivery to Middle East and Africa
- Large domestic market opportunity

Companies evaluating Egypt as a service delivery location can look to leverage its lower cost of operations and high availability of talent pool with a diverse set of technical and language skills in many different ways:

- With over 90,000 annual English-speaking graduates, Egypt is a scalable location option for English language BPO. Companies looking to diversify their location portfolio beyond India and Philippines, or preferring a similar time delivery location for Europe, will find Egypt providing higher scalability and substantially lower operating costs than most of the other location options globally
- With a large presence of French, Italian, German, and Spanish speakers, Egypt can easily fit the role of a mid-sized hub for pan-European corporations across multiple functional areas such as customer service, business processes, knowledge processes and IT helpdesk
- A large opportunity exists in the role of a regional hub for the Middle Eastern and North African markets. With high quality Arabic and English-speaking skills, Egypt can serve these markets across a wide range of IT and BPO services. There are multiple examples of Egypt hosting centralized shared services for business operations in KSA, UAE, Kenya, Algeria, Morocco, Tunisia, Iraq, Libya, and Sudan
- There are already many examples of Egypt-based companies servicing the Arabic-speaking countries (Middle East and Africa) for high value-add services such as knowledge services and digital services (cloud, social media, and mobility). With increased adoption, the potential opportunity is in significant multiples of the current market size
- Egypt has a large opportunity of service delivery to the domestic market, where the current outsourcing penetration is quite low. Many service providers are already starting to develop a case of hosting large domestic client accounts along with offshore ones

Conclusion

The Egyptian offshore global services industry has stood the test of time and political turmoil. There are diverse services being delivered from Egypt such as contact center, IT services, knowledge processes and back-office business processes.

The industry's proven resilience, combined with Egypt's location, its skilled workforce, and low costs provide it with a prodigious opportunity to become a major regional hub for business operations in EMEA. Improvements to the country's infrastructure would accelerate achievement of this ambition.

While the growth of the offshore services industry will be mostly driven by increased investment from existing players, we expect many new investors to set up their global and regional service delivery centers in Egypt as the ongoing stability reduces the perceptions of risk to service delivery.

About Everest Group

Everest Group is an advisor to business leaders on next generation global services with a worldwide reputation for helping Global 1000 firms dramatically improve their performance by optimizing their back- and middle-office business services. With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of global services in their pursuits to balance short-term needs with long-term goals. Through its practical consulting, original research and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies and management approaches. Established in 1991, Everest Group serves users of global services, providers of services, country organizations, and private equity firms, in six continents across all industry categories. For more information, please visit www.everestgrp.com and research.everestgrp.com.

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